



COLLEGE OF BUSINESS AND ECONOMICS

Effect of mergers and acquisitions on organizational performance

A case of Development Bank of Rwanda

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DECLARATION

I, Uwizeye Estelle, 216366593, hereby declare that this work submitted to the University of Rwanda for the degree of Master in Business Administration is my original work. I hereby state that this thesis doesn't contain any plagiarism or forgery and that all sources enclosed therein have been fully recognized and that this thesis has not been submitted before by me or someone else for a degree at UR or any other university.

Signature of the STUDENT:

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ABSTRACT

This research was about determining the main effect of mergers on the performance of Development Bank of Rwanda, by critically analyzing the key factors that drive the mergers and acquisitions on a global perspective with the research examining the impact of mergers and acquisition on employees' satisfaction. The specific objectives were established if mergers and acquisitions in the banking sector increased the profitability of BRD after its merger, the impact it had on employee satisfaction as well as the effect of this merger on non-performing loans of the bank.

Data was gathered from financial statements and annual reports for the period of three years before the merger and 3 years after the merger, in addition interviews were conducted, a sample of all former BHR employees was taken.

The findings were on average there was a higher employee satisfaction at BRD compared to BHR especially on Job security, mission and vision, payments, motivation and compensation as well as low turnover of employees, the research further highlighted that BHR had better performance on ROA in the three years compared to BRD with an ROA of 3.3% compared to 2.3% of BRD. Regarding the ROE, BRD outcompeted BHR as it had on average 7.6% in the three years as opposed to 6.3% of BHR as for the net profit margin, these were almost the same on average for the three years, as BRD slightly had a bigger percentage of 44.3% compared to 43.3% of BHR. The findings on NPL, BRD was performing badly on its NPL ratios compared to BHR before the merger, while after the merger, BRD improved its NPL as it had 6.6% on average for the three years after the merger compared to 9.6% average before the merger, hence an indication of improvement in performance as well as profitability due to higher recovery of the non – performing loans as opposed to the situation before the merging.

Recommendations in this research were BRD should improve its key variables on job satisfaction like promotions and career development factors, training and capacity development, also BRD has to improve its ROA ratios, as well as its NPM as they indicated lower rates as compared to BHR as all of these are below required standards for profitability, efficiency and effectiveness.

Keywords:

Rwanda, Rwanda Development Bank, Mergers and Acquisitions, Job Satisfaction, Rate of return on Assets (ROA), Rate of return on Equity (ROE) and Non-Performing Loans (NPL).

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LIST OF ABBREVIATIONS

BHR: Banque de l' Habitat du Rwanda

BRD: Banque Rwandaise de Development

EPS: Earning Per Share

M&As: Mergers and Acquisitions

NPM: Net Profit Margin

NPL: Non Performing Loan

ROA: Return on Assets

ROE: Return on Equity

CHAPTER 1 : INTRODUCTION

1.1 Background

Business transformations in many emerging economies has seen the rise of growth drivers that includes the search for new markets, higher competition in local markets, and new venture capitalists' interest in developing markets.

Improving such development and overcoming competition, mergers and acquisitions have become an auspicious strategy that many companies in recent years have built on, to safeguard fast penetration of new market places while reducing costs and entry risks (Adjei-Benin, 2011). Corporate combinations – the merger of separate entities into one firm or the acquisition of one firm by another entity – have become an increasingly common reality of organizational life. These mergers and acquisitions are used by firms to strengthen and increase shareholder value, boost their revenues while reducing the cost of capital through larger economies of scale, higher market share and more tax gains.

It's however noted that, mergers and acquisitions (M&As) failure range from a pessimistic 80% to a more optimistic, but still disappointing, 50% (Cartwright, 1994).

Contrary, major empirical research evidence indicate that, mergers and acquisition portray a neutral effect on profitability and a positive indicator on cost efficiency (Behr, 2008) rather than the norm of higher efficiency and higher profitability.

From the year 1980 in the banking sector, major reforms have been a continuous phenomenon but it has been more strengthened recently because of the influence of globalization which has caused incessant integrations in the world and economies. Banking improvements consist of numerous elements that are distinctive to each country based on their economy, history and institutional rules (Uchendu, 2005).

Mergers and acquisitions are considered to be the best competitive way to put together strengths and capabilities in order to well compete in the market. The biggest and the wealthiest companies also agree that for a company to be successful, it needs new skills, resources, technology and capabilities than they can gather and run with (Hamel, 2002).

Companies in Rwanda, have consented that mergers can improve and enhance their financial performance. With the success of other mergers in the world as a result of higher synergies created due to mergers and greater integration strategies, mergers and acquisitions yield better profitability, efficiency and greater economies of scale, (Salama, 2003).

The Government of Rwanda as the majority shareholder of Development Bank of Rwanda and Banque de l' habitat du Rwanda decided to merger them as part of a plan to boost mortgage lending in the East African country, form a strong competitive base (Efficiency, effectiveness, cost minimization and profit maximization) and gain a competitive advantage in the Eastern Africa banking industry. The merged operations of the two state-owned institutions gave an asset value of 72 billion Rwandan francs (\$120 million), a change in

organizational structures, defining new work roles, cultural change and other challenges that usually come with mergers and acquisition.

Well-known studies thrive in the writings which classify the following factors affecting challenges to the merger procedures those comprise technological change, cultural integration, managing the change process, the regulatory and compliance requirements, financial management as well as the human element (Salama, 2003).

1.2 Problem Definition

Business organizations are recently seeing consolidation (merger and acquisitions) as an alternative means of recapitalizing. During the past decade, the banking industry has undergone rapid transformations (Pilloff, 1998). The fundamental forces behind these unprecedented movements are as a result of changes in economic and regulatory environments (Berger A.N., 1999).

Mergers and acquisitions are presently being used by major firms to strengthen and increase shareholder value, boost their revenues while reducing the cost of capital through larger economies of scale, higher market share and more tax gains. It's however noted that, mergers and acquisitions (M&As) failure range from a pessimistic 80% to a more optimistic, but still disappointing, 50% (Cartwright, 1994).

Contrary, major empirical research evidence indicate that, mergers and acquisition portray a neutral effect on profitability and a positive indicator on cost efficiency (Behr, 2008) rather than the norm of higher efficiency and higher profitability.

Government of Rwanda as the majority of BRD and former BHR decided to merger them, the researcher need to find out if that merger had an impact on the performance of BRD, find out problems in that merger and recommend possible solutions for these problems.

1.3 Research Objective

The main objective of this study was to identify the main effect of mergers on the performance of Development Bank of Rwanda.

1.4 Specific objectives

1. To examine the impact of mergers and acquisition on BHR employees' satisfaction ;
2. To determine if mergers and acquisitions increased BRD profitability ;
3. To determine the effect of mergers and acquisitions on non-performing loans of BRD.

1.5 Research questions

1.5.1 Major research question:

What is the main effect of merger on the performance of Development Bank of Rwanda?

1.5.2 Minor research questions:

1. What is the impact of mergers and acquisitions on employees' satisfaction?
2. Do mergers and acquisitions in the banking sector increase bank profitability?
3. What is the effect of mergers and acquisitions on the non-performing loans of banks?

1.6 Research design

This study is significant since it has enlightened the general public on the impact of mergers and acquisitions on bank's performance in Rwanda and also the challenges related to profitability, non-performing loans and employee satisfaction. It has established the key effects of mergers and acquisitions on the financial performance of banks.

The research has benefited a number of stakeholders that includes the managers, the customers, shareholders, the employees and the Board of Directors among others in many aspects including, Bank management using the research findings to foster their understanding on the effects of M&Es on the financial performance of banks, increasing awareness to both management of bank and its employees on the key variables that affect the financial performance of organization through M&Es.

The research strategy was therefore based on secondary data from BRD whereby comparative balance sheets and financial statements were analyzed in a period of six years with three years (2008, 2009 & 2010) before merger and three years after the merger (2011, 2012 & 2013) being compared and critically examined to find the true impact of merger on the financial performance of Development Bank of Rwanda.

To ensure reliable, accurate, valid and measurable data, the research was done in good collaboration with BRD, where reliable tools and quality information is received from BRD and additional data were collected from its employees through the use of a clear and understandable template that was filled by current employees of BRD that were even employees of BHR before merger. This is further emphasized by retaliating the confidentiality and safety of the information provided.

The data analysis was done using the standard statistical software's of excel and SPSS where qualitative analysis and interpretations of financial ratios were used on the other side to analyze profitability and non-performing loans before and after the merger.

1.7 Organization of the research

The research is composed of five chapters described as follows: Chapter one being the introduction part, which gives the research background, its objectives, the problem statement, major and minor research questions, the research methodology and how the entire research will be organized.

Chapter two exploits the literature review, basing on all relevant regarding the research topic, essential concepts and researches done by other scholars will be referred and examined in this study.

Chapter three will discuss and elaborate the research methodology and its theoretical framework, it will detail all the methodological process of the research including sampling design and sample size, method of data collection and data processing, data interpretation and finally highlighting the key limitations of the research.

Chapter four with entail analysis of the presented data based on secondary data of the study in Development Bank of Rwanda. More emphasis will be on evaluating balance sheet and income statements for six years, three years before the merger and three after the merger. This study is aimed at answering the problem statement by showing and demonstrating the impact of merger on the performance of Development Bank of Rwanda.

Finally chapter five basing on the research findings, it will draw relevant conclusions and offers practical recommendations as well as giving possible suggestions for the future research.

CHAPTER 2 : LITERATURE REVIEW

2.1 Introduction

This part gives the relevant literature on this research topic, and goes to re-analyze and examines the major findings that have been put in place by other publishers and researchers in the concept of mergers and acquisitions, this part therefore gives a background foundation for the entire research to be conducted and works as the main component on which this research is based.

The researcher borrows some critical insights from arrange of relevant existing literature by other researchers and draws some theoretical findings from this literature as a bench mark for this research.

The first component highlights the theoretical concept of mergers and acquisitions in general, the second part concentrates on the role of mergers and acquisitions on the performance of major banks, the third part studies the impact of mergers and acquisitions on the profitability of acquiring companies, the fourth component looks at the employee satisfaction due to mergers and acquisitions and finally a conclusion is drawn from the entire chapter.

2.2 Theoretical concept of mergers and acquisitions

The merger of two separate entities into one firm or the acquisition of one firm by another have increasingly become a common phenomenon in the organizational life especially in the 21st century.

These mergers and acquisitions are presently being used by major firms to strengthen and increase shareholder value, boost their revenues while reducing the cost of capital through larger economies of scale, higher market share and more tax gains. It's however noted that, mergers and acquisitions (M&As) failure range from a pessimistic 80% to a more optimistic, but still disappointing, 50% (Cartwright, 1994).

On the other side, empirical research evidence indicate that, mergers and acquisition portray a neutral effect on profitability and a positive indicator on cost efficiency, this is mainly attributed to restructuring costs that usually comes with mergers and acquisitions in the short-run hence affecting its profitability prospects, but in the long-run as a result of improved cost efficiency, long-term profitability prevail, this paradox of mergers and acquisitions is further envisaged when comparing merging banks and non-merging banks, (Behr, 2008) ,where on average the value of mergers and acquisitions is not economically viable and statistically significant although these mergers and acquisitions continue to prevail and happen, the answer only lies on the fundamental challenge of examining the underlying factors that influence the propensity of banks to merge and their correlation to bank's efficiency and profitability.

From the year 1980 in the banking sector, major reforms have been a continuous phenomenon but it has been more strengthened recently because of the influence of globalization which has caused incessant integrations in the world and economies. Banking improvements consist of numerous elements that are distinctive to each country based on their economy, history and institutional rules (Uchendu, 2005).

Mergers and acquisitions are considered to be the best competitive way to put together strengths and capabilities in order to well compete in the market. The biggest and the wealthiest companies also agree that for a company to be successful, it needs new skills, resources, technology and capabilities than they can gather and run with (Hamel, 2002).

Companies in Rwanda, have consented that mergers can improve and enhance their financial performance. With the success of other mergers in the world as a result of higher synergies created due to mergers and greater integration strategies, mergers and acquisitions yield better profitability, efficiency and greater economies of scale, (Salama, 2003). Well-known studies thrive in the writings which classify the following factors affecting challenges to the merger procedures those comprise technological change, cultural integration, managing the change process, the regulatory and compliance requirements, financial management as well as the human element (Salama, 2003). This is largely because the key synergies created would yield to better financial services, a case that was evident in the German G bank and American A bank which emerged as one of the most successful merger in the world, while this successful merger came as a result of many combining factors like integration strategies, cultural mix and market opportunities that led to success of this eminent merger strategy hence concluding the fact that while some mergers and acquisitions may in short-run not yield the expected profitability and cost efficiency, in long-run profitability and efficiency may be a reality as a result of mergers and acquisitions.

2.3 The role of mergers and acquisitions on the performance of financial institutions.

Mergers and acquisitions are defined according to Hax and majiluf (Kithitu, 2012) as a means of establishing the organizational purpose in terms of its long-term objectives, that includes its resource allocations and programs, this is usually done in order to maximize its long-term profitability credentials, while the author continues to envisage mergers and acquisitions as a process that usually happen two organizations of almost equal size come together to form one company hence, this happens on friendly grounds when two organizations in this case two banks restructure their assets and even resources by pulling together their existing markets, technology, products and management with a core objective of strengthening all the possible opportunities hence leveraging their competencies and capabilities to increase shareholder's value.

The researcher, (Kithitu, 2012) examines the role of mergers and acquisitions on the commercial banks by undertaking a ratio analysis of major commercial banks, while this study indicated improved performance in many scenarios due to mergers and acquisitions, this impact wasn't significant as a result of little improvement in profitability and efficiency in the short-run, though greater impact was envisaged on the cost efficiency in the long-run as banks crave for greater competitiveness through bigger market share, accumulating more portfolios by reducing the entire business risks, new market opportunities, large scale economies, increasing shareholder's value and management efficiency that all come with mergers and acquisitions.

While the role of mergers and acquisitions continue to show mixed signals in this literature, many of them continue to happen in financial institutions, (Pawaskar, 2001) despite the fact that, these mergers and acquisitions portray no significant differences after merging and before merging prospects as financial

characteristics seem to be almost the same, but only considering the financial synergies and at times growth, these mergers and acquisitions in the financial sector continue to prevail with the core hopes of profitability, shareholder's value and greater bank's efficiency, this is further linked to day's globalization and first changing market environment where mergers are associated with benefits of scale and scope as the accounting ratios used to determine the profitability clearly indicates where key profitability performance indicators of ROE, ROA and EPS were used to examine the role of these acquisitions and mergers on both post-merger and pre-merger acquisitions of financial institutions with the core findings elaborating that, these mergers and acquisitions fail to create value on an average of two-thirds of medium and larger merger deals an existing literature on these financial sector acquisitions indicate in the findings of Reshcke and Alga, (Kithitu, 2012). In connection to the above, the author further emphasizes that, the mergers in the financial sector usually registers gains of mergers in terms of share-price that portrays good positive returns prior to the announcements of mergers and less portfolios immediately after merger period. While banks and other merging firms aim at increasing both operating and financial synergy through large economies of scale, market power, management skills, diversification and efficiency as a result of liberalization and globalization by merging firms both in volume and value, various studies indicate that some banks, (Leepsa, 1996) either perform better or even worse after M&A with greater sense of variance in many variables and parameters like liquidity, solvency and profitability showing greater changes in many aspects, with greater evidence indicating that, in a period of around 5 years the firm neither preforms better or worse after M&A and only its break-even is registered after this period, and usually the firm shows poor performance in the first two to three years after the merger and later experiences abnormal returns of merger in the long-run as benefits outweigh costs hence the better effects of merger becoming economically and statistically significant after a long period of time. The literature also indicate that, a considerable and positive cumulative average abnormal returns (CAARs) of mergers and acquisitions are evidenced in a period of ten days prior to merger announcements, (Liargovas, 2011), where significant results are received upon the announcement of diversifying and horizontal bank deals, it is however noted that these results have no greater impact and eventually does not create wealth by the merged banks as the operating performance of these mergers doesn't increase at all. This literature theory categorize three components of mergers and acquisitions as efficiency or synergy, hubris and total value created or decreased as a result of mergers and acquisitions, using the accounting ratios to determine if any of these three categories is created after mergers and acquisitions, this author concludes that there is increased efficiency as a result of mergers as a measurable significant findings show higher returns on assets, better asset utilization and some positive returns on equity especially on the domestic mergers and acquisitions regarding the equal-sized banks, while by examining the larger banks, it showed a negative trend in the post-merger period in relation to its technical efficiency and total factor productivity.

2.4 Impact of mergers on profitability of acquiring companies

Available evidence from the literature shows that, profitability declines after mergers, it however indicate that mergers are successful by showing only positive indicators on size and leverage (Singh, 2008), where by the size and relative interest coverage ratio improved significantly after the mergers as this supports the growth maximization theory of mergers, but this does not support the performance theory as profitability and liquidity tend to decline due to mergers, most profoundly is the decline in profitability and yet liquidity indicating

insignificant decline, the decline in profitability is manifested in the current ratio, size and even the debt equity ratio that possess a negative impact on profitability as only interest coverage ratio contributing towards profitability especially in the future. This decline in profitability is forecasted for a period of five years after merger and therefore no significant improvement in performance is expected in the short-run, while this may not only be attributed to the merger characteristics only but even the economy itself, though in the future prospects of improvements in profitability is expected as interest coverage predicts profitability than the debt-equity ratio.

Therefore in the long-run profitability may be envisaged due to larger interest coverage of the merger firms due to positive coefficients in size and interest coverage ratio, this analysis indicates that current ratio, debt equity ratio and size portray a negative relationship to profitability, while on the other hand interest coverage ratio and age do affect profitability in the positive manner hence performance of mergers is better realized in a long period of time.

Due to the recent globalization, privatization and liberalization of the economies in the 21st century that has come as a result of higher competition on a global, international and domestic scale, many firms and banks are turning to mergers and acquisitions as the only possible way to find out competitive their rivals and remain relevant to today's global challenges that come with stiff competition, looking at countries like India in the research that was conducted by Zaidi in 2007 (Singh, 2008), where the total value of all mergers and acquisitions have grown tremendously at an annual rate of 28% for the period between 2002 and 2006, with only the value of merger deals accumulating to 7.5bn in 2004 to 21.4bn in 2006, while these merged firms expect higher profitability due to enhanced efficiency and monopoly, the findings from this research shows a huge decline in ROA of the merged firms in the period of five years after the merger and a decrease in profitability due to managerial theory of the firm hence a strong evidence that, the operating efficiency and profitability of merging firms are entirely affected as the performance of merged firms continue to decline shortly after mergers.

Also in examining the knowledge of mergers and acquisitions in relation to profitability, the research findings (Clodt, 2006), shows that making a proper use of merged knowledge and skills have greater contributions to firms post-merger innovative performance which in the future yield to higher profits, this is evident especially when comparing high-tech and non-high tech firms, with non-tech M&A making a less significant and additional technological learning hence creating lower innovative performances that yields to lower profits and efficiencies due to negative and disruptive effects on a given range of viable activities established in the firm's routine integration processes that require additional resources that would have been indeed invested in the innovative projects of the firm in the long-run , and on the other hand high-tech firms, the size and level of acquired knowledge has positive indications and effects during a given period of time, shortly after mergers and acquisitions, and it tends to be lower after some couple of years when it again turns around and only a negative trend in the performance indicators is envisaged hence affecting profitability and efficiency of these merged firms in the long-run, which therefore calls for only M&A's to target their partners that are neither very much unrelated nor very similar in relation to their knowledge infrastructure so as to avoid risks of lower performance indicators that eventually affect their profitability, efficiency and economies of scale.

It is also examined from the literature on the performance of merged companies regarding their profitability and productivity after mergers and acquisitions, and relevant available research on this matter clearly indicate

that, most merged firms portray a better and significant improvements in asset productivity compared with pre-merger situation (Healy, 1990), this therefore brings higher operating cash flows as there is improved and better correlation between cash flows and abnormal stock returns at the M&A announcements, propelling the fact that profitability and better economic outlook is most significant in the long-run after the merger due to equity revaluations of the merged companies.

The literature further reveal that, vertical integration of mergers and acquisitions strongly affect the post-merger company's profitability and efficiency with available evidence indicating a negative impact on profits in relation to mergers and acquisitions as a result of failure to bring and create differential advantages like cost savings for merged firms, (Bhuyan, 2002).

2.5 Employee satisfaction as a result of mergers and acquisitions

In the recent years, due to high competition that has attracted mergers and acquisitions in many leading firms, corporations and financial institutions, the issue of employee satisfaction and benefits due to mergers and acquisitions have become a key contentious issue among many merging companies as employee benefit component and its compensation programs are very critical sources of the economic security of the employees, while employees expect high rates of protection from the employer especially on the risks of illness, disability, death and at times loss of income at retirement, these benefits are greatly taken as a matter of employer's own choice, most research findings, (Sloan, 1988) indicate that as a result of mergers and acquisitions, many firms tend to experience termination, reduction or substantial changes in employee benefits hence affecting diversely on the employee satisfaction to these corporate mergers, this is well supported by the argument that, employee benefits should more be looked at as more of a clinical situation than a mere analytical one, (Pelinen, 1996).

The researcher further emphasize that, absence of clear policies and absence of employee benefit and pensions plans as well as their compensation programs among merging firms hinders the level of employee satisfaction as expected welfare benefits contain certain elements that are hidden costs of the acquiring firms, the failure to analyze and examine these expected benefits of employees in the merging firms leads to key facets in the benefit plans, legal impact and expected financial obligations to employees hence eminent employee dissatisfaction and labour unrest are envisaged in this case. This is also evidenced in the literature where the mergers and acquisitions look at the rational approach of employee benefits with more research findings indicating that employee benefits due diligence and liability exposers are most important in the merger and acquisitions process, (Nelson, 2008).

The acquiring firms usually tend to have plans that replace employees, reduce number of employees, layoffs and usually early retirements that are of significant concern to employees and eventually affecting their productivity, on the other hand, the literature in this research indicate that, many companies and financial institutions put in place growth strategies, restructuring strategies, strategies for cost efficiency and strategies to improve the corporate financial positions of the firm, while these strategies may affect employees negatively especially the restructuring strategies, others encourage employee benefits hence encouraging employee

productivity, creativity and morale that all boost employee satisfaction and which in long-run lead to profitability and efficiency of the merged firms.

Literature on employee satisfaction and behavior after mergers and acquisitions, is further evidenced and discussed, when the merging corporate companies put in place measures to maintain and increase the morale of surviving staff and key managers after an M&A, this is done in order to accelerate the success of ownership after changeover of the companies, while layoffs and downsizing and their associated effects may on one hand affect employees especially those being laid off, on the other hand, it may have a clear positive impact on the remaining staff, (Gutknecht, 1993), through creativity, flexibility and morale that is usually greeted with the new arrangements after merging where by communication and very articulate strategic plans help the remaining and surviving employees to be fully integrated in the system, this coupled with better investments in development and retraining of the employees after this merger brings productivity that later increases efficiency and profitability of the merging companies.

The researcher further articulates how considerable debate has been in place regarding stakeholders and stockholders after mergers and acquisitions, where employee morale is the core element of every success in mergers and acquisitions, though adjusting psychological and divergent organizational structures, climates and values remain critical in effective implementation of mergers and acquisitions due to heavy workload as this increases with M&A, eminent downsizing especially on managerial and professional employees impose a higher risk due to mergers and acquisitions as these jobs are only distributed among lower level employees.

Although the employees feel a sense of relief when merging is complete, this feeling usually fades as downsizing and high cost cutting measures follow, this negative environment that often results in higher employee turnover brings anger and anguish among affected employees and those remaining feel the sense of guilt, anger and though some feel a great sense of relief, the ultimate sense of future dismissals remain alive in their work activities, and therefore the possibility of a better peaceful and positive work relationships among employees after an M&A grows narrower which affects their productivity and hence negatively impacting the profitability of the merged company, this however can be on the other hand looked as a better chance for improved workload, job satisfaction, better opportunities for advancement and all lead to higher productivity and employee retention and job security in long-run after successful mergers and acquisitions.

The literature further examines the impact of mergers and acquisitions on ownership among minority and female workers, as some scholars have argued that, these mergers and acquisitions have negative effects on minority and female workers among corporate companies, (Marsh, 2007), the argument is that, these minority and female workers are usually not catered for when mergers and acquisitions are being made, hence leaving them vulnerable for layoffs and dismissals, as these vulnerable groups especially female have been active in findings of labor participation rates and some attaining her education that makes them very relevant and competitive to the labor market demands, the findings in this literature overall conclude that, ownership change does not directly change the relative earnings and employment status of these vulnerable groups hence no direct impact on mergers and acquisitions on the employment and wages of these groups of people.

Further literature on job satisfaction in relation to mergers and acquisitions, clearly point to the fact that, the normative as well as affective commitments in mergers and acquisitions are negatively correlated with turnover issues, it is understood in this theoretical literature that most of mergers and acquisition's failure were based on financial and strategic explanations (Kyei-Poku, 1996), and human capital issues only being left out which

has drawn more attention in the recent past, that indeed human capital issues are equally significant in as far as merger and acquisitions failure or success is concerned, these human resource issues range from organizational commitment, employees performance, decreases in job satisfaction and employees level of motivation. The most profound reasons as to the failure of these mergers and acquisitions are entirely on macro and micro levels, whereby on macro level, the issue of culture compatibility is the most significant among the mergers and acquisitions, these include the values, ideologies, symbols and their related assumptions that determine the organizational cohesiveness as culture is most relevant to the institution so is personality is to an individual person, therefore organizational culture is as important as its strategic fit and all these are correlated to mergers and acquisitions success, also equally important is on macro level where by individuals themselves are at the center stage of mergers and acquisitions, as only more concern has been on the financial and synergy point of view such as the organizational performance hence leading to high rates of job dissatisfaction, unproductive behavior, higher employee turnover, larger case of employee absenteeism, more strikes as well as low morale among employees that all alter the profitability and efficiency of the merged companies.

The recent competition and globe changes that have attracted many companies and banks to be relevant to today's world challenges through mergers and acquisitions in order to gain new investors, new markets and outcompete the local competitors by entering in new markets so as to lower the entry costs and risks, while in the past many merging companies and financial institutions have only drawn attention to the legal, operational and financial components of mergers and acquisitions and only ignoring the human component of it, the prevailing literature shows that, indeed human resource considerations are crucial to better performance and success of mergers and acquisitions, especially on the culture integration, technological, business and regulatory requirements as well as management of the change process (Sanda, 2011), these challenges if not clearly put in consideration during merger process, significant social costs are incurred that involve lost jobs, incomes and lost taxes, this neglect of human capital issues that are aligned to merger-induced organizational process severely have negative impact on productivity and company performance as employees are dissatisfied and stressed due to poor handling from merger and acquisition processes, the researcher further elaborates on critical issues that need to be addressed in order for the mergers and acquisitions to be successful on the human capital point of view, these underling factors when addressed, have seen profound success in the post-merger periods, these involve encouraging the employees to actively participate in their job re-design activities, encouraging multiculturalism and intercultural trainings and learnings, facilitating the employees to adjust to new job changes and capacity building so as to meet the required standards in their new roles and responsibilities, and the most important of all is to encourage and increase communication and accountability on a timely manner in as far as employee needs is concerned, this drastically reduces anxiety and stress in the merger process and hence leads to efficiency, better performance and profitability of the merged firms in the long-run.

2.6. Conclusion

Key lessons and ideas were learnt on the literature discussed on the empirical concept of mergers and acquisitions, starting with theoretical concept of mergers and acquisition's literature by different writers and authors on many topical issues regarding this research, it was further articulated and shown that different scholarly writers elaborated and argued differently on this topic of mergers and acquisitions, ranging from the role of mergers and acquisitions on the performance of financial institutions, the impact of mergers and acquisitions on profitability of acquiring companies as well as the effect on employee satisfaction as a result of mergers and acquisitions.

Finally, the key concepts and theories discussed in this chapter will be used to better understand and examine the effect of mergers and acquisitions on organizational performance, a case of development bank of Rwanda and therefore will act as a bench mark in undertaking this research where by the key findings will be addressed based on this literature review and empirical results will offer the opportunity to the researcher to propose the key possible and relevant recommendations.

CHAPTER 3 : METHODOLOGY AND THEORETICAL FRAMEWORK

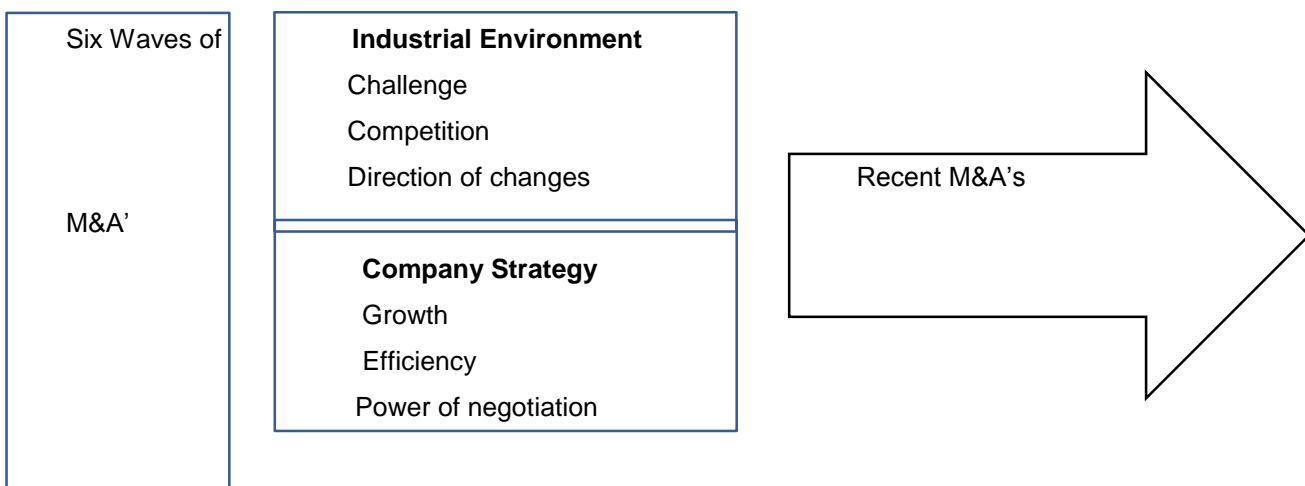
3.1 Introduction

This chapter looks at the methodology and theoretical framework being used to examine the effect of mergers and acquisitions on organizational performance, by analyzing the financial position and management of BRD before the merger and compare it with those realized after the merger, it begins by having a brief review of statement of the problem, the research objectives and key research questions are highlighted, the theoretical framework is then examined, which is based on key factors that drive merger and acquisitions in the global market. The next section summaries the research methodology by highlighting the research type, the sources of data and data analysis, and finally the research limitations and conclusions are looked at.

3.2 Area of the research

The area of this research is in Kigali City where BRD office is located

3.3 Analytical Framework



Source: (Chand, 2009)

The above conceptual/theoretical was carried out by Dr. Ganesh Chand in 2009, (Chand, 2009), This research investigated the underlying factors that drive mergers and acquisitions on the global context, where by key primary factors are studied that has led to mergers and acquisitions becoming the reality in the 21st century, these factors are categorized as industrial environmental factors and strategic factors, where by in the industrial factors, the challenge, competition and the direction of change are looked at, while on the strategic factors, efficiency, growth and the power of negotiation are clearly studied in this research,

In examining these two factors that influence mergers and acquisitions, key categorized factors were looked at, these include, the degree of oligopoly in the industry, the level of excess production capacity, the degree of deregulation, the extent of customer relation, separation of the production and product design as well as research and development, (Chand, 2009), the prominent factors that stand out of these, to have influenced the recent mergers and acquisitions on the global scene are both the level of excess production capacity and

oligopolistic factors, these two factors have been exhibited highly among the banking, telecommunication, oil, steel and even the automobile industries. It is further noted that, deregulation is also a major factor that influences mergers and acquisitions recently, where the research findings indicate that, the rate of mergers and acquisitions have almost doubled in the recent years when regulations are weak or even abandoned in many leading companies.

It is also examined that, customer relationships and service characteristics tend to influence mergers and acquisitions, this is largely evident in service industries where by key companies merge and acquire others so as to get their customers rather than establishing new market bases as they intend to benefit from the long-term customer relationships from those merging companies, it is further noted that the research and development cost as well as functional specialization have no key significant impact on mergers and acquisitions irrespective of the fact that, these are some of the factors that are considered to be among the driving factors for the recent mergers and acquisitions on the global context, as no bigger correlation was evidenced between R&D costs to the recent broader mergers and acquisitions.

Another underlying factor that drives the recent mergers and acquisitions is the growth strategy, due to the recent competitions many growing companies and corporate organizations have resorted to mergers and acquisitions as a way to achieve growth, globalization and oligopoly, this is entirely because, these mergers and acquisitions bring greater market shares and high growth levels with the specific goals of enjoying higher advantages in rapidly growing markets, reducing the high uncertainty in R&D investments as well as obtaining the relevant human capital, knowledge and technology as well as the experience that can't easily be realized in the alliances and FDI.

While these two major factors help the research in understanding the key factors that drive the recent mergers and acquisitions on the global scene, the core rationale for this research is to examine the effect of mergers and acquisitions on the organizational performance in relation to the organizational profitability and employee satisfaction,

It is therefore from the above framework that will guide the research in examining the key underlying factors that influence the recent mergers and acquisitions and their relevancy to the organizational performance after mergers and acquisitions on profitability, efficiency, cost minimization, employee satisfaction as a result of higher growth and industrial factors that all bring higher market share and in the long-run brings the larger economies of scale, higher company productivity and company global networks.

3.4 Research design

The key objective of this research was to carry out a deductive study that entirely based on Chand's framework that studies the key factors that drive the recent mergers and acquisitions where both the industrial and strategic factors are clearly examined, this is therefore used to understand the effect of mergers and acquisitions on the organizational performance especially on profitability, cost effectiveness and efficiency.

This research examined two major components of the financials, as the financials of the Rwanda Development Bank were examined and analyzed for the period of six years, where by only three years from 2008,2009 and 2010 will be independently examined to see how the bank was performing with the merger and then were compared with the financials of other three years of 2011, 2012 and 2013, this was the financials and other

annual reports after the merger, this was done to entirely look at the banks performance after the merger in relation to profitability, efficiency and employee satisfaction.

The research found out, if the bank achieved its objective after the merger or if the merger brought more challenges and no tangible profits were made, and those employees that were working in BHR and later BRD will be asked, how the merger affected them by answering a closed questionnaire regarding their satisfaction after the merger and before the merger to ascertain the key findings on how the merger affected the employee morale, motivation, benefits and other related variables that characterize employee satisfaction standards.

3.5 Study population and sample size

Financial reports for BRD and BHR three years before the merger 2008, 2009 and 2010 were examined and financial reports of BRD three years after the merger were examined. The study involved all former employees of BHR.

3.6 Sampling procedure

Since all 13 former employees of BHR were included in the study, the procedure used was the census approach.

3.7 Data Collection and Source

The data collection was based on collecting quantitative statistics on financials especially the financial statements and annual reports for the period of six years about the bank's performance both after and before the merger, this data were collected as secondary data from the existing financials from BRD on one hand and information on employee satisfaction is got by filling the template as primary data was collected from the key employees that were before merger the employees of BHR and later joined BRD after mergers.

Also the qualitative information were used, where by the existing annual reports for the period of six years from 2009 to 2013 were examined to find out the organizational performance over this period.

In boosting the confidence of data given, a copy of the research results were availed to these people of BRD that became part of this research so that they can use them for their organizational improvement or even understanding of the prevailing organizational outlook, this therefore improved and increased the accessibility of data and even its discipline.

3.5.3 Data analysis method and techniques

Data analysis was based on content analysis method, as both pre-and post-merger periods were independently analyzed, with pre-merger period being studied where the bank's performance was investigated in the period 2009, 2010 and 2010 on one hand and the post-merger performance was also studied in the period of 2011, 2012 and 2013 with more emphasis on profitability and non-performing loans.

Also in this analysis the employee satisfaction was measured, as pre and post-merger employees were asked key questions through the use of a closed questionnaire in order to find out the employees satisfaction levels in relation to the effect of this merger.

Analysis of data was conducted using content analysis method where demand was analyzed, supply was analyzed and the variance between the two sides was analyzed in the following methods financial ratios and SPSS software.

This type of analysis yields better and well accurate findings as the data to be efficiently analysed include a time-series data for the six years quantitatively and qualitatively in form of financial data and statistics as well as qualitative annual reports and newsletters, so analysing it yields a very accurate and tangible results.

Therefore this triangulation kind of research involved both quantitative and qualitative components, as quantitative tools with the use of financial ratios and SPSS software's in analysing and disseminating the results, the qualitative component was only analysed by interpreting the annual reports in relation to the organisational performance and profitability.

Finally, after the quantitative and qualitative analysis as well as formal interpretations of this research, the key findings were ascertained and it was through this analysis that both major and minor research questions were clearly answered and relevant recommendations drawn.

3.5.4 Research Limitations and Challenges

- ❖ Delay from the respondents was the key challenge.

3.6 Summary

The chapter initially summarized the research problem that makes this research happen, it highlighted the key research objectives, both main and specific objectives, it then defines major research questions and minor ones, and it further elaborates the theoretical framework that hinges on the key factors that drive mergers and acquisitions on the global context. It then looks on the methodology of this research by exploring the research design, data collection techniques, methods and data sources, the chapter ends by addressing the data analysis tools and highlighting some of the research challenges that surfaced in the entire research process.

CHAPTER 4 : DATA PRESENTATION, ANALYSIS AND FINDINGS

4.1 Introduction

The chapter entails data presentation with the objective of answering the research questions by analyzing the effect of merger on the performance of Development Bank of Rwanda as the main research question, while finding out the impact of mergers and acquisitions on employees satisfaction, whether mergers and acquisitions increased the bank profitability and the effect of mergers and acquisitions on non-performing loans being the minor research questions that have to be clearly analyzed and answered entirely in this chapter.

This chapter begins by empirically and descriptively analyzing the key findings on the employee satisfaction before and after the merger, the next section carries a quantitative descriptive analysis of the findings on bank's profitability before and after the merger, this section analyzed in detail using the profitability ratios such as the Return on Asset (ROA) ratio, Return on Equity (ROE) and Net Profit Margin (NPM) ratios to find out, the performance of BRD before the merger, its profitability performance after the merger, the profitability of BHR before the merger as well as comparing these ratios of two banks before the merger.

The third component of this chapter was to analyze the performance of these two banks in relation to their non-performing loans, before and after the merger, while the final section draws the conclusions and theoretical as well as qualitative interpretations from the whole chapter.

4.2 Empirical analysis and Descriptive findings on employee satisfaction before and after the merger

This section starts by analyzing the key statistical findings on the employee satisfaction before and after the merger, in this section, a component of all employees that were working at BHR and later went to BRD were asked key questions regarding their job satisfaction levels, these employees were a combination of senior, middle and junior level managers currently at BRD, and some of the critical questions that were asked, which are going to be analyzed in this chapter, was to find out if the mission and vision as well as organizational brand of BRD were better than that of BHR, How these employees feel about their job security at BRD compared to BHR, if BRD have better compensation and benefit policies including rewards, wages and benefits than BHR, if these employees have a higher chance of promotions and career development factors including training and capacity development at BRD than BHR, whether they are satisfied with their roles and if they feel making a valuable contribution at BRD than BHR, also asked questions were if they enjoyed people they are working with, including their bosses at BRD than BHR, were they fairly being paid at BRD than BHR, as they experiencing better working conditions including working methods, working environment, tools and equipment's at BRD than BHR, the employee turnover at BRD compared to BHR and finally if these employees are satisfied with the future of BRD including its financial soundness, human capital and organizational autonomy.

The above questions were addressed to 13 staff members of BRD who were previously working at BHR and the scale of these questions ranged from A to E, with A at one hand showing the highest mark in terms of

agreeing to the asked questions while E showing the disagreement to the asked questions, on the other hand in relation to the level of satisfaction, E represents highest rate of satisfaction while A shows the lowest rate of dissatisfaction.

4.2.1 Descriptive findings on employee level, mission and vision, compensation and benefits, promotions and career development factors.

This part looks at the level of employees by status of their positions, their belief in relation to mission and vision of BRD compared to BHR, their job security, compensation and benefits policies, the chances of promotions and career development factors between BRD and BHR.

Table 1. Percentages of employees by their status

	Frequency	Percentage
a	2	15.4%
b	9	69.2%
c	2	15.4%
Total	13	100%

Source: Primary data

From the table above, it is indicated that, out of total 13 employees who responded to the questionnaire, 69.2% of them are middle level managers, while senior level and lower level managers are each represented by 15.4% respectively. This therefore shows that majority of employees at BRD that were formally at BHR are middle level managers.

Table 2. Percentage of employees in relation to their mission and vision, compensation and benefits, promotions and career development factors.

	Frequency	Percentage
a	7	53.8%
b	4	30.8%
c	2	15.4%
Total	13	100%

Source: Primary data

From the table above, it is clearly indicated that, of all these employees that were asked in this survey, a higher percentage of them highly agreed that, BRD's mission and vision, organizational brand and its potential for development were better than that of BHR, where 53.8% strongly agreed with it and 30.8% agreed.

Table 3. Percentage of Employees in relation to their belief on Compensation and benefits

	Frequency	Percentage
a	9	69.2%
b	3	23.1%
c	1	7.7%
Total	13	100%

Source: Primary data

In the above table, In relation to compensation and benefit policies including rewards, wages and benefits, these employees also significantly showed that 69.2% of them strongly agree that BRD is better than BHR in relation to these attributes.

Table 4. Percentage of Employees in relation to their belief on Promotions and Career Development factors

	Frequency	Percentage
a	1	7.7%
b	6	46.2%
c	5	38.5%
d	1	7.7%
Total	13	100%

Source: Primary data

From the above table , it is however noted that, the respondents in this researcher showed that, majorly of them don't strongly believe that BRD have higher chances of promotions and career development factors including training and capacity development than BHR, where 46.2% believe that BRD is better than BHR on these variables but only 7.7% have a strong believe that BRD is better than BHR, a percentage that is same as of those that disagree that BRD have better chances of promotions and career development than BHR hence showing that, though majority believe that BRD is better than BHR, the findings are not significant as those who don't believe in this, are exactly same as those who strongly believe that BRD is better than BHR at 7.7%

4.2.2 Descriptive findings on job security, employees' role and contribution, working relationships with their bosses and their satisfaction with the future financial soundness, human capital and organizational autonomy at BRD compared to BHR.

This section analyses the findings about job security for these employees at BRD compared to BHR, their satisfaction regarding their roles and contribution, level at which they enjoy their superiors as well as their opinions on how satisfied they are in relation to the future of BRD including its human capital, organizational autonomy and its financial soundness.

The tables below shows the percentage of employees in relation to their job security, working relationships with their bosses and their satisfaction with the future financial soundness, human capital and organizational autonomy

Table 5. Percentage of Employees feelings on Job Security

	Frequency	Percentage
b	4	30.8%
c	5	38.5%
d	3	23.1%
e	1	7.7%
Total	13	100%

Source: Primary data

From the tables above, the findings indicate that, only 7.7% of these employees showed the highest level of job security with BRD compared to BHR, though 38.5% indicate that they are as well satisfied with BRD as opposed to BHR, another relatively bigger percentage of 30.8% are somewhat satisfied with their job security at BRD compared to BHR a figure that is not very impressive in terms of their job security at BRD.

Table 6. Percentage of Employees satisfaction with their bosses.

	Frequency	Percentage
b	5	38.5%
c	1	7.7%
d	6	46.2%
e	1	7.7%
Total	13	100%

Source: Primary data

Also as indicated above, the findings give a higher percentage to employees that are very satisfied with their superiors in BRD compared to BHR as 46.2% of them being very satisfied, while on the other hand 38.5% show that, they are somewhat satisfied and out of all these employees only 7.7% record the highest scores as they are the only extremely satisfied employees in relation to their bosses.

Table 7. Percentage of Employees satisfaction in relation to future financial soundness, human capital and organizational autonomy

	Frequency	Percentage
b	4	30.8%
c	1	7.7%
d	7	53.8%
e	1	7.7%
Total	13	100%

Source: Primary data

Finally in as far as the employees' satisfaction with the future of BRD's financial soundness, human capital and its organizational autonomy, only 7.7% extremely believed in this, and the majority at 53.8% are very satisfied while 30.8% are somewhat satisfied, a level that is not good compared to all ranking criteria used in this survey.

4.2.3 Descriptive findings on Employees payments, working conditions and Employee turnover at BRD compared to BHR.

The section investigates employees' payments at BRD compared to BHR, their working conditions including their working environment, tools and equipment's as well as their turnover.

Table 8. Percentage of Employees satisfaction with their Payments

	Frequency	Percentage
a	4	30.8%
b	6	46.2%
c	3	23.1%
Total	13	100%

Source: Primary data

From the three tables above, it is indicated that, employees are satisfied with their payments at BRD compared to BHR with 46.2% indicate that they are satisfied, while 30.8% strongly agree that payments at BRD are much higher than that of BHR hence showing that, BRD pays more than BHR.

Table 9. Percentage of Employees satisfaction with their working conditions

	Frequency	Percentage
a	5	38.5%
b	4	30.8%
c	4	30.8%
Total	13	100%

Source: Primary data

It also indicated is the findings on the working conditions at BRD compared to BHR, in this a higher percentage shows that employees strongly agree that, BRD have better working conditions than BHR where 38.5% believe so, though on average almost the same percentages have equal proportion as 30.8% strongly agree that BRD's condition are better than those of BHR, while the percentage of those that agree and are undecided are 30.8% each, hence showing almost equal percentages on this variable.

Table 10. Percentage of Employees turnover

	Frequency	Percentage
a	1	7.7%
c	1	7.7%
d	4	30.8%
e	7	53.8%
Total	13	100%

Source: Primary data

Finally, on the employee turnover, BRD showed the lowest rates of employee turnover as 53.8% agree that, there is lowest rates of employee turnover at BRD compared to BHR, while 7.7% only believe that BRD has a higher employee turnover compared to BHR.

4.3 Quantitative analysis and Descriptive findings on bank's profitability before and after the merger

This part carries a quantitative descriptive analysis of the findings on bank's profitability before and after the merger, it analyzed in detail this section using the profitability ratios, these ratios are commonly used in comparing firms or companies in the same industry as profits do vary from one industry to another, they show how the company will make profits for every dollar of its sales, some of these ratios include, the return on asset (ROA) ratio, this ratio is obtained by dividing the net income over the total assets, the higher the ratio, the better for the company, another ratio is the Return on Equity (ROE), which is the ratio that is gotten by dividing net income over the shareholders equity, this ratio is mostly used to measure the firm's efficiency and profitability of the firm in relation to their ownership.

Another most important ratio is the Net Profit Margin (NPM), this ratio is obtained by dividing net income over the net sales, these three major ratios are going to be used in this section to analyze and find out the financial performance of BRD before the merger, its profitability performance after the merger, the profitability of BHR before the merger as well as comparing these ratios of two banks before the merger.

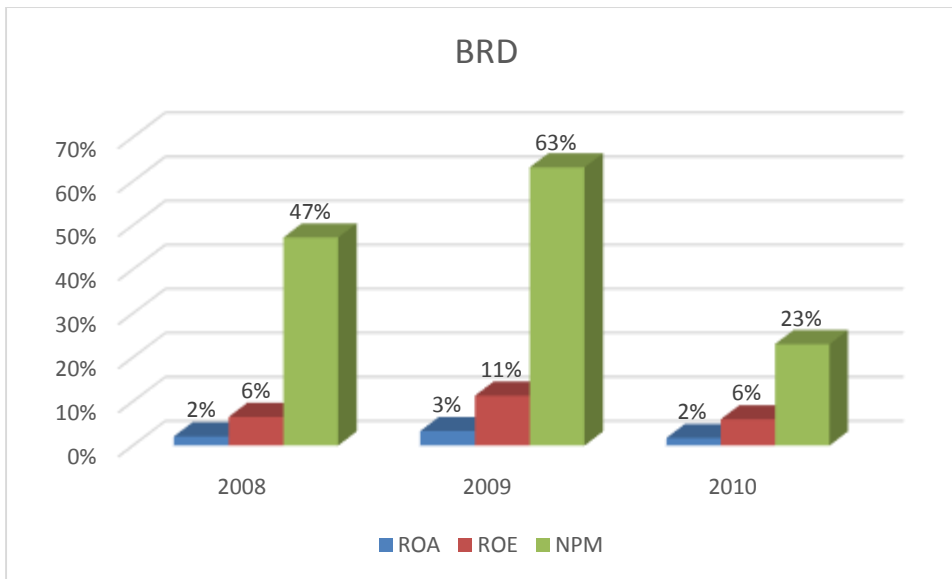
4.3.1 Analysis of Profitability ratios of BRD before the merger

This subsection analyses the performance of BRD for the period of three years before the merger and this is 2008, 2009 and 2010, where the above mentioned profitability ratios of ROA, ROE and NPM are going to be used in analyzing in this part.

Table 14. ROA, ROE and NPM for BRD for the years 2008, 2009 and 2010

BRD	2008	2009	2010
ROA	2%	3%	2%
ROE	6%	11%	6%
NPM	47%	63%	23%

Source: Secondary data



Source: Secondary data

From the table and graph above, the return on assets for BRD in the period of three years before the merger, of 2008, 2009 and 2010 are 2%, 3% and 2% respectively, these results were found by dividing the net income of each year by its respective total assets.

The higher the ratio, the good for the company or bank in utilizing its assets in generating income, this ratio further indicates the bank's reliability on its assets to generate more profits, a high ratio therefore shows the efficiency of management in maximally utilizing its asset base.

Since most companies and industries prefer an ROA of not less than 5%, banks however try to reach their ROA at least 1.5% and above, from the above findings therefore, the ROA of BRD in the respective three years are relatively good, and specifically in 2009, where it recorded an ROA of 3% which is better than that of 2008 and 2009.

Regarding the ROE, that indicates profitability in terms of ownership, for the three years under this study, BRD recorded an ROE of 6%, 11% and 6% respectively, this ROE helps in determining the bank's efficiency towards its profit making through the shareholder's equity, and preferably any ROE that is between 15% to 20% is regarded as very good for the company as this indicates a very good investment quality standards, it is therefore noted that only in 2009, BRD indicated a good indicator of ROE where it registered 11% as its ROE, hence a good boost for investors in relation to their shares.

It is however noted that, this ROE ratio needs to be analyzed critically, especially by analyzing the bank's debt-equity ratios, as ROE may be higher or lesser depending on many variables as any amount of bank's debt in its capital structure may eventually lead to a smaller equity base, therefore analyzing this concept require a holistic approach of all relevant variables, but all in all any range between 15-20% indicates better ROE for the company's performance and its shareholders.

Finally, another profitability ratio that was analyzed in this section was the net profit margin, this ratio is obtained by dividing the net income over its sales, in this part, BRD's net profit margin for the three years of 2008, 2009 and 2010, are 47%, 63% and 23% respectively, since this ratio portray how good the bank can convert its sales into relevant profits especially in relevant industries, therefore any company that generates higher profits

per franc of its sales is regarded as more relevant and very efficient in its profitability ratios, this therefore indicates that, in 2009, BRD was more efficient in its performance levels as the percentage was higher at 63% compared to 23% and 47% of 2010 and 2008 respectively.

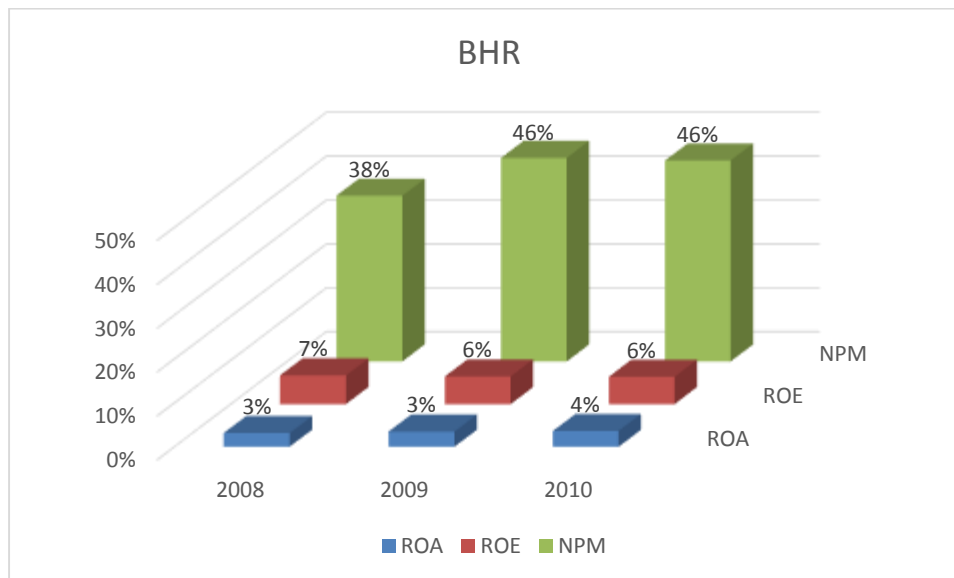
4.3.2 Analysis of Profitability ratios of BHR before the merger

This subsection analyses the performance of BHR for the period of three years before the merger and this is 2008, 2009 and 2010, where the above mentioned profitability ratios of ROA, ROE and NPM are going to be used in analyzing in this part.

Table 15. ROA, ROE and NPM for BHR for the years 2008, 2009 and 2010

BHR	2008	2009	2010
ROA	3%	3%	4%
ROE	7%	6%	6%
NPM	38%	46%	46%

Source: Secondary data



Source: Secondary data

From the above profitability ratios, BHR indicate that, for the three years before the merger, which is 2008, 2009 and 2010, its ROA, ROE and NPM are each on average have the same percentages, for example its ROA almost remained the same as it was at 3% in 2008 and 2009 while it increased to 4% in 2010, though this ratio is good as it is above 1.5%, it is not very favorable enough as it is still below 5%, but in 2009, BHR performed better as it reached 4% growth and indicator for profitability as the bank had enough capacity to generate enough cash internally.

This is the same with the ROE and NPM, though its ROE was in the range of 7% in 2008 and 6% for the period 2009 and 2010, and its NPM steadily increased from 38% in 2008 to 46% for the period 2009 and 2010, as the higher ROE ratio of 15-20% are the most admirable, the range of 7% was also positive though not very attractive to its shareholders, in relation to its NPM, the higher the better and since it increased from 38% to 46%, it indicated a higher performance, but again this performance remained constant from 2009 to 2010.

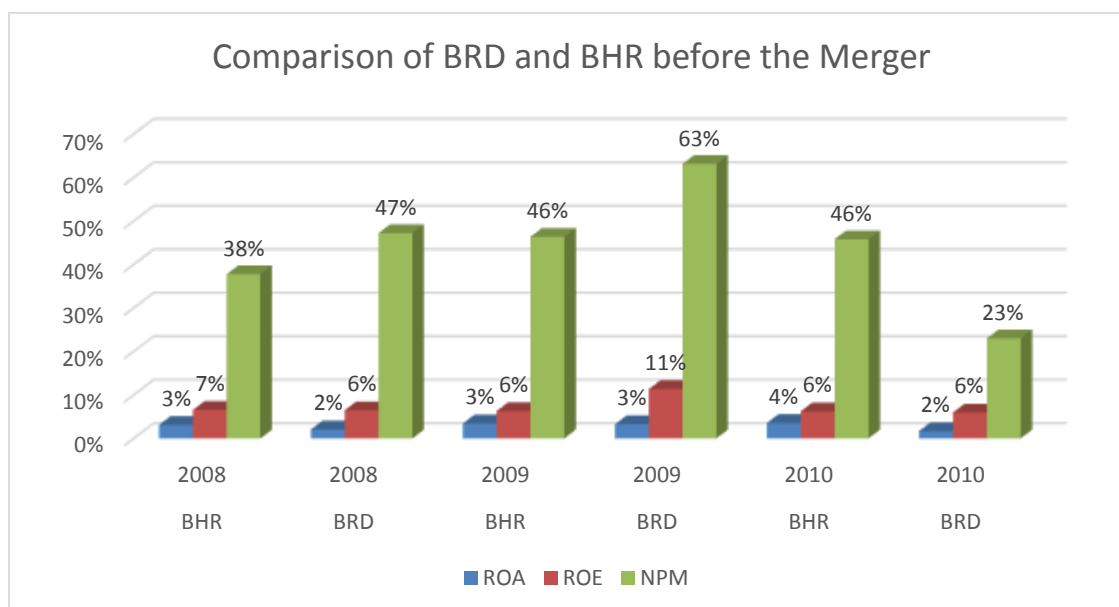
4.3.3 Comparison of Profitability ratios of both BRD and BHR before the merger

This part compares the profitability ratios of both BRD and BHR to find out, how each Bank was performing individually before the merger so as to ascertain their performance levels as well as understanding the effect of this merger to the future performance of BRD after this period.

Table 16. ROA, ROE and NPM for BHR and BRD for the years 2008, 2009 and 2010

BANKS	BHR	BRD	BHR	BRD	BHR	BRD
Profit Ratios	2008	2008	2009	2009	2010	2010
ROA	3%	2%	3%	3%	4%	2%
ROE	7%	6%	6%	11%	6%	6%
NPM	38%	47%	46%	63%	46%	23%

Source: Secondary data



Source: Secondary data

From the above table and graph that compares the profitability ratios for the two banks before the merger, as earlier discussed that, the higher the ratio, the better for the bank in efficiently utilizing its assets for income generation, therefore by analyzing the bank findings, it is evident that in the year 2008, BHR performed better

than BRD as its ROA was at 3% compared to 2% of BRD, also its ROE was at 7% a ratio that was greater than that of BRD at 6%, since the higher the ratio, the better for the bank, a 3% and 7% ratios for BHR are steadily better than those of BRD with a 2% and 6% respectively.

In 2009, however, BRD improved its ROA to 3% from 2% while BHR remained at the same rate of 2%, it is further indicated that in terms of ROE, BRD outmatched BHR in 2009 as BRD scored 11% compared to 6% of BHR that dropped from 7% to 6%.

While in 2010, BHR again increased its ROA to 4% as BRD's dropped to 2%, also dropped for BRD is its ROE as it again reduced to 6% compared to that of BHR that remained constant from 2009 to 2010 at 6% growth rate.

By looking at their net profit margin, BRD showed better performance for the years 2008 and 2009 as its net profit margin stood at 47% and 63% respectively compared to 38% and 46% of BHR, it is however noted that, in 2010 the net profit margin of BRD drastically reduced to 23% as that of BHR remained constant at 46%.

From the above analysis, it is therefore found out that, on average BHR had better performance on ROA in the three years compared to BRD, where by BHR had an ROA of 3.3% compared to 2.3% of BRD on average of three years hence showing good performance of the bank in utilizing its assets in generating income, while on the other hand BRD outcompeted BHR in terms of ROE, as on average it had 7.6% in the three years as opposed to 6.3% of BHR, an indication that BRD had advantage over BHR in terms of efficiency in determining its profit making through the shareholder's equity, though this ratio is below the range of 15-20%, BRD on average performed better than BHR.

Finally when looking at their Net profit margin, the findings are almost the same on average for the three years, as BRD slightly had a bigger percentage of 44.3% compared to 43.3% of BHR, though the difference is not very significant, and overall this finding was good for both the banks as the higher the NPM the better for the two banks in achieving its performance goals.

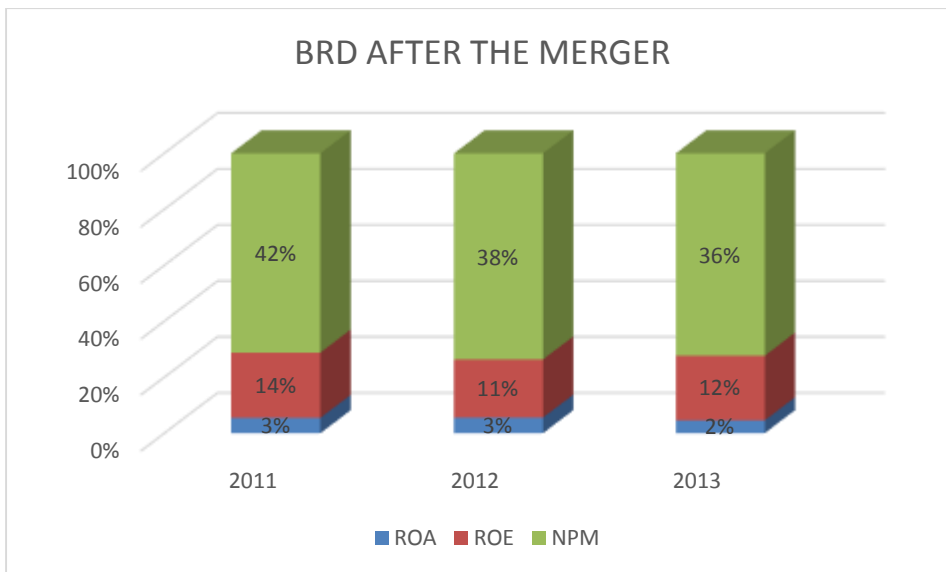
4.3.4 Analysis of profitability ratios of BRD after the merger

This subsection analyses the performance of BRD for the period of three years after the merger and this is 2011, 2012 and 2013, where the profitability ratios of ROA, ROE and NPM are going to be used in analyzing this part in order to understand the effect of this merger to the organizational performance, human capital and its financial adequacy.

Table 17.ROA, ROE and NPM for BRD after the Merger in the years 2011, 2012 and 2013

BRD	2011	2012	2013
ROA	3%	3%	2%
ROE	14%	11%	12%
NPM	42%	38%	36%

Source: Secondary data



Source: Secondary data

By analyzing the findings of Profitability ratios of BRD after the merger, and by comparing it with the same profitability indicators of BRD before the merger, the findings show that, BRD as a result of merger, performed very well on ROE ratios, as its percentage almost doubled from 7.6% before the merger compared to 12.3% average for the three years after the merger, this showed a great indicator of performance as this ratio was almost reaching the most desired ratio of 15-20%, also BRD performed slightly better on its ROA after the merger on average as it had 2.6% compared to 2.3% before the merger.

It is however noted that, its net profit margin reduced after the merger on average as, it declined from 44.3% before the merger to 38.6% after the merger, a ratio that shows slow performance in terms of its net profit margin after the merger as opposed to better performance before the merger on variable.

But all in all, BRD showed a significant performance on average after the merger compared to the same period before the merger, hence indicating better bank's efficiency towards its profit making through the shareholder's equity as well as a very health indication of good investment quality standards as shown by higher ROE of 12.3% on average for three years after the merger.

4.4 Statistical analysis on the non-performing loans of the Bank before and after the merger, NPL

This section analyses the performance of BRD and BHR in relation to their non-performing loans, this is in the three years before the merger and three years after the merger where BRD is only analyzed in this case.

The non-performing loans are usually those kind of loans where the debtor has not met his loan obligations for at least 90 days, this can be in form of default or near default, as long as this loan is considered to be a non-performing loan, there is a higher probability that, the loan payment in full is very low.

This non-performing loan ceases to be regarded as a non-performing loan when the debtor again starts paying it, in this case it becomes a performing loan.

These loans may be sold to other companies, if they wish so, this is usually done so that banks can transfer their risks to others and hence becoming good for them in order to clean their financial records especially their balance sheets.

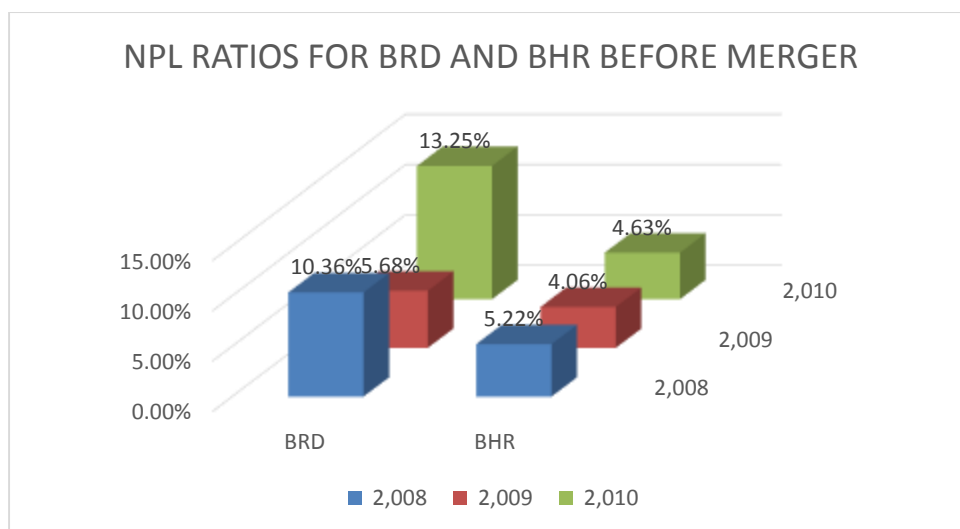
with the specific rules of the Rwandan central bank, where by the non-performing loans should at least be at 5% or otherwise be below that, in this analysis, it is going to be found out if, indeed these two banks fulfilled the central banks regulations and rules.

4.4.1 Analysis on Non-performing loans by BRD and BHR before the merger

Table 18. NPL for BRD and BHR before Merger

NPL	2,008	2,009	2,010
BRD	10.36%	5.68%	13.25%
BHR	5.22%	4.06%	4.63%

Source: Secondary data



Source: Secondary data

From the above table and graph, its analyzed found out that, when two banks are compared in relation to their NPL, it is clear and evident that, BHR has better NPL ratios compared to BRD for the whole three years under this study, this is because BHR retained its NPL ratios in the range that is required by the central bank, which also indicate how health the bank is, in as far as recovering its loans are concerned, for example during these three years, it is only in 2008 that BHR violated this rule when its NPL ratio was slightly above 5% at 5.22%, a figure that is not bad as well, while other two years of 2009 and 2010, these figures were very good at a ratio below the required 5%, where by it had 4.06% and 4.63% respectively, this is on the other hand contrary to those ratios of BRD, where its figures were far beyond the BNR's requirements as it had 10.36% in 2008 and 5.6% in 2009 while in 2010, these figures were worse at 13.25%, these figures therefore shows that BRD performed poorly on its loans obligations, as this figure was far above the standard rate of 5% and below.

4.4.2 Analysis on Non-Performing loans by BRD after the merger

Table 19. NPL for BRD after the Merger

NPL	2,011	2,012	2,013
BRD	8.40%	5.60%	5.90%

Source: Secondary data



Source: Secondary data

The chart above, indicate that, non-performing loans for BRD after the merger drastically improved compared to the ratios before the merger, this entirely because in the year 2011, 2012 and 2013, these ratios improved significantly, with 8.40% in 2011, 5.60% in 2012 and finally 5.90% in 2013, these figures are quite different from those before the merger, where by it had 10.36%, 5.6% and 13% in the period of 2008, 2009 and 2010. This is therefore understood that, although BRD's ratios are still not impressive since the central bank requires a maximum of 5%, these findings after the merger indicate that, BRD has improved as on average it has 6.6% for the three years after the merger compared to 9.6% average after the merger, hence an indication of improvement in performance as well as profitability due to higher recovery of these non-performing loans as opposed to before merging.

4.5 Summary

This chapter undertook empirical analysis to determine the effects of merger on the performance of BRD and BHR before the merger, and BRD after the merger, where it began by analyzing the key findings on the employee satisfaction before and after the merger, where on average there was a higher employee satisfaction at BRD compared to BHR as the research findings indicated, especially on Job security, mission and vision,

payments, motivation and compensation as well as low turnover of employees all indicating better working conditions and well satisfied employees.

The second component carried out a quantitative descriptive analysis of the findings on bank's profitability before and after the merger, this section detailed and analyzed profitability ratios such as the return on asset (RAO) ratio, Return on Equity (ROE) and Net Profit Margin (NPM) ratios, by comparing these two banks before the merger, it was found out that on average BHR had better performance on ROA in the three years compared to BRD, where by BHR had an ROA of 3.3% compared to 2.3% of BRD.

Also in analyzing the ROE, it was indicated that BRD outcompeted BHR as it had on average 7.6% in the three years as opposed to 6.3% of BHR, an indication that BRD had advantage over BHR in terms of efficiency in determining its profit making through the shareholder's equity.

Findings from the Net profit margin were almost the same on average for the three years, as BRD slightly had a bigger percentage of 44.3% compared to 43.3% of BHR, also findings of Profitability ratios of BRD after the merger indicated that, it performed very well on ROE ratios, as its percentage almost doubled from 7.6% before the merger compared to 12.3% average for the three years after the merger, this showed a great indicator of performance as this ratio was almost reaching the most desired ratio of 15-20%, also BRD performed slightly better on its ROA after the merger on average as it had 2.6% compared to 2.3% before the merger, it was however noted that, its net profit margin reduced after the merger on average as, it declined from 44.3% before the merger to 38.6% after the merger, a ratio that shows slow performance in terms of its net profit margin after the merger as opposed to better performance before the merger on average.

Regarding the findings on the performance on Non-performing loans, BHR had better NPL ratios compared to BRD for the whole three years before the merger, as it had 5.22% in 2008, while in 2009 and 2010, it got 4.06% and 4.63% respectively, while BRD performed badly due to the fact that, its ratios were far above the central bank's requirements of 5%, where it had 10.36% in 2008 and 5.6% in 2009 while in 2010 it was even worse at 13.25%.

This therefore indicate that BRD was performing badly on its NPL ratios compared to BHR before the merger, while after the merger, BRD improved its NPL as it had 6.6% on average for the three years after the merger compared to 9.6% average before the merger, hence an indication of improvement in performance as well as profitability due to higher recovery of these non-performing loans as opposed to the situation before merging. Finally, the concrete conclusions, recommendations and how the challenges found in the research will be dealt with in the next chapter.

CHAPTER 5 : SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This research intended to identify and find out the key effect of mergers on the performance of development bank of Rwanda, by critically analyzing the key factors that drive the mergers and acquisitions on a global perspective, where by the research examined the impact of mergers and acquisition on employees' satisfaction with a major target being those employees that were previously employed by BHR and later shifted to BRD, also studied was if mergers and acquisitions in the banking sector increased the bank profitability of BRD after its merger as well as the effect of this merger on non-performing loans of the bank.

These key research questions were critically analyzed and diagnosed by looking at both financial reports for the period of six years, with three years before the merger and three years after the merger as well as other annual reports, as a combination of quantitative and qualitative information were used and guided the entire research where the key findings were based on how the key research questions were being answered and therefore, policy recommendations drawn from this evidence based findings.

5.2 Conclusions

The key conclusions from this research are majorly based on how major and minor research questions were answered, with the empirical analysis to determine the effects of merger on the performance of BRD being undertaken where by, these key conclusions were drawn;

Objective number one was to examine the impact of mergers and acquisition on employees' satisfaction and the findings were that, on average there was a higher employee satisfaction at BRD compared to BHR as the research findings indicated, especially on Job security, mission and vision, payments, motivation and compensation as well as low turnover of employees all indicating better working conditions and well satisfied employees at BRD compared to BHR.

Objective number two was to determine if mergers and acquisitions in the banking sector increase the bank profitability, profitability ratios were used such as the return on asset (RAO) ratio, Return on Equity (ROE) and Net Profit Margin (NPM) ratios and the findings were on average BHR had better performance on ROA in the three years compared to BRD, where by BHR had an ROA of 3.3% compared to 2.3% of BRD. In relation to ROE, it was indicated that BRD outcompeted BHR as it had on overage 7.6% in the three years as opposed to 6.3% of BHR, an indication that BRD had advantage over BHR in terms of efficiency in determining its profit making through the shareholder's equity. While on Net profit margin, the conclusion was that, these were almost the same on average for the three years, as BRD slightly had a bigger percentage of 44.3% compared to 43.3% of BHR, also findings of Profitability ratios of BRD after the merger indicated that, it performed very well on ROE ratios, as its percentage almost doubled from 7.6% before the merger compared to 12.3% average for the three years after the merger, this showed a great indicator of performance as this ratio was

almost reaching the most desired ratio of 15-20%, also BRD performed slightly better on its ROA after the merger on average as it had 2.6% compared to 2.3% before the merger, it was however noted that, its net profit margin reduced after the merger on average as, it declined from 44.3% before the merger to 38.6% after the merger, a ratio that shows slow performance in terms of its net profit margin after the merger as opposed to better performance before the merger on average.

Objective number three was to determine the effect of mergers and acquisitions on non-performing loans of the Bank and the findings were that BHR had better NPL ratios compared to BRD for the whole three years before the merger, as it had 5.22% in 2008, while in 2009 and 2010, it got 4.06% and 4.63% respectively, while BRD performed badly due to the fact that, its ratios were far above the central bank's requirements of 5%, where it had 10.36% in 2008 and 5.6% in 2009 while in 2010 it was even worse at 13.25%.

This therefore indicated that BRD was performing badly on its NPL ratios compared to BHR before the merger, while after the merger, BRD improved its NPL as it had 6.6% on average for the three years after the merger compared to 9.6% average after the merger, hence an indication of improvement in performance as well as profitability due to higher recovery of these non-performing loans as opposed to the situation before merging.

5.3 Recommendations

❖ The first recommendation is for BRD to improve on some of its key variables on job satisfaction, as some respondents in this researcher showed that, majorly of them don't strongly believe that BRD have higher chances of promotions and career development factors including training and capacity development than BHR, where 46.2% believe that BRD is better than BHR an indication that some employees are not satisfied on this component hence a challenge to their job satisfaction.

❖ Also BRD need to devise means of how to improve its ROA ratios as the research found out that on average BHR had better performance on ROA in the three years compared to BRD, where by BHR had an ROA of 3.3% compared to 2.3% of BRD, a ratio that was wanting and needs more attention by BRD.

❖ Another recommendation was for BRD to improve its NPM, it was noted that its net profit margin reduced after the merger on average as, it declined from 44.3% before the merger to 38.6% after the merger, a ratio that shows slow performance in terms of its net profit margin after the merger as opposed to better performance before the merger on average

❖ Another observation that needed a more recommendation was on BRD's NPL performance, the findings indicated that BRD was performing badly on its NPL ratios compared to BHR before the merger, while after the merger, BRD improved its NPL as it had 6.6% on average for the three years after the merger compared to 9.6% average after the merger, hence an indication of improvement in performance as well as profitability due to higher recovery of these non-performing loans as opposed to the situation before merging, but all in all this performance was still lacking and therefore required more attention and improved by BRD to reach the required ratios.

5.4 Future research

The future research, will be based on how firms and companies can improve their profitability and competitiveness without necessarily engaging themselves in the recent common mergers and acquisitions that have engulfed many businesses in the 21century.

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APPENDIX 1. QUESTIONNAIRE



COLLEGE OF BUSINESS AND ECONOMICS

Beloved Coworker,

I am pursuing an MBA Program in Finance at the University of Rwanda.

Being an employee of Development Bank of Rwanda (BRD), I have picked interest in researching about the main effect of mergers on the performance of the organizations, a case of BRD and BHR.

This research will diagnose and examine the impact of mergers and acquisitions on employee satisfaction, determine if mergers and acquisitions indeed increase bank profitability in the banking sector and analyze the effect of mergers and acquisitions on non-performing loans.

I hereby requesting your cooperation in answering the attached questionnaire since the answers from this questionnaire will be essential to this research as well as to the Bank. Your responses will be preserved with a high level of confidentiality.

For any inquiries regarding the template, don't hesitate to contact me

Thank you very much,

Estelle Uwizeye

University of Rwanda/College of Business and Economics Campus

Email: Uwestab@yahoo.com

The Template

A. Institution's Profile

1. Name of the institution
.....

2. Location of the institution (Headquarters)
 - a) Kigali City -----
 - b) Northern province
 - c) Eastern province
 - d) Southern province
 - e) Western province

3. Type of the Institution;
 - a) Public
 - b) Private
 - c) Co-owned

4. Total number of the employees in the institution;
.....

B. Employee's profile

5. Name of the employee
.....

6. Level of the employee
 - a) Senior level
 - b) Middle level
 - c) Junior level

7. Do you believe in the BRD's mission and vision, organizational brand and its potential for development than BHR?
 - a) Strongly Agree,
 - b) Agree,
 - c) Undecided,

- d) Disagree,
- e) Strongly Disagree.

8. How do you feel about job security at BRD compared to BHR?

- a) *Not Satisfied*
- b) *Somewhat Satisfied*
- c) *Satisfied*
- d) *Very Satisfied*
- e) *Extremely Satisfied*

9. Does BRD have better compensation and benefit policies including rewards, wages and benefits than BHR?

- a) Strongly Agree,
- b) Agree,
- c) Undecided,
- d) Disagree,
- e) Strongly Disagree.

10. Do you have a higher chance of promotions and career development factors including training and capacity development at BRD than BHR?

- a) Strongly Agree,
- b) Agree,
- c) Undecided,
- d) Disagree,
- e) Strongly Disagree.

11. Are you satisfied with your role and do you feel making a valuable contribution at BRD than BHR?

- a) *Not Satisfied*
- b) *Somewhat Satisfied*
- c) *Satisfied*
- d) *Very Satisfied*
- e) *Extremely Satisfied*

12. Do you enjoy people you are working with, including your bosses at BRD than BHR?

- a) *Not Satisfied*
- b) *Somewhat Satisfied*
- c) *Satisfied*
- d) *Very Satisfied*
- e) *Extremely Satisfied*

13. Are you fairly being paid at BRD than BHR?

- a) Strongly Agree,
- b) Agree,
- c) Undecided,
- d) Disagree,
- e) Strongly Disagree.

14. Do you experience better working conditions including working methods, working environment, tools and equipment at BRD than BHR?

- a) Strongly Agree,
- b) Agree,
- c) Undecided,
- d) Disagree,
- e) Strongly Disagree.

15. According to you, does BRD experience higher employee turnover than BHR?

- a) Strongly Agree,
- b) Agree,
- c) Undecided,
- d) Disagree,
- e) Strongly Disagree.

16. In your opinion, are you satisfied with the future of BRD including its financial soundness, human capital and organizational autonomy?

- a) *Not Satisfied*
- b) *Somewhat Satisfied*
- c) *Satisfied*
- d) *Very Satisfied*
- e) *Extremely Satisfied*

APPENDIX 2. BRD COMPREHENSIVE INCOME STATEMENT 2008 – 2013

	2008 (Rwf '000)	2009(Rwf '000)	2010 (Rwf '000)	11(Rwf '000)	2012(Rwf'000)	2013(Rwf '000)
Interest income	3,171,926	4,348,716	6,013,914	8,387,360	11,158,603	15,721,339
Income on lease contracts	1,011	6,067	-	-	-	-
Interest expense	(1,353,103)	(1,718,783)	(1,683,336)	(1,762,019)	(2,418,950)	(4,839,254)
Loss on credit risks	(29,003)	(125,814)	-	-	-	-
Net Interest Income	1,790,831	2,501,186	4,330,578	6,625,341	8,739,653	10,882,085
Fees and commission income	64,450	158,895	44,910	(121,916)	390,623	706,611
Fees ad commission expense	(63,774)	(40,672)	(45,444)	(4,868)	(153,523)	(275,800)
Income from shareholdings	406,926	24,604	701,421	-	-	-
Exchange difference	41,475	24,543	5,031,465	(1,568,174)	(616,097)	267,674
Other income and banking operating expense	42,352	(12,153)	(761,760)	3,838,877	4,853,446	-
Net Non Interest Income	491,431	155,253				
Net Banking income	2,282,262	2,665,439	4,269,705	8,769,259	13,214,102	11,580,569
Staff costs	(888,467)	(1,110,266)	(1,620,884)	(2,262,180)	(3,633,208)	(3,922,062)
Other operating expenses	(531,668)	(637,532)	(1,066,694)	(364,500)	(237,292)	(2,365,042)
Depreciation of property and equipment	(136,301)	(158,402)	(182,706)	(2,236,974)	(4,604,467)	(285,451)
Other non banking income	93,544	51,222	-	-	61,760	6,254
Transfer to SME guarantee fund	-	-	-	(1,171,682)	(1,421,741)	(1,504,281)
Operating profit	819,370	810,461	972,022	2,795,683	3,317,395	5,014,269
Income from sale of fixed assets and equity	26,436	774,855	-	-	-	-
Profit before tax	845,806	1,585,316	972,022	2,795,683	3,317,395	3,509,987
Corporate tax	-	-	-	-	-	-
Profit of the year	845,806	1,585,316	972,022	2,795,683	3,317,395	3,509,987

Source: BRD annual reports 2008 to 2013

APPENDIX 3. BRD COMPREHENSIVE BALANCE SHEET 2008 – 2013

	2008(Rwf '000)	2009(Rwf '000)	2010(Rwf '000)	2011(Rwf'000)	2012 (Rwf'000)	2013 (Rwf'000)
ASSETS						
Treasury operations and operations with banks and other financial institutions	9,805,863	6,834,769	6,104,357	6,203,024	6,004,756	35,634,983
Operations with clients	25,821,861	36,090,759	44,227,280	65,538,845	86,729,528	119,790,273
Financial instruments	3,567,500	3,745,757	6,770,144	11,241,776	19,145,315	7,011,365
Property , equipment and other assets	1,309,675	1,461,512	1,439,157	3,465,240	3,450,271	14,830,736
TOTAL ASSETS	40,504,899	48,132,797	58,540,938	86,448,885	115,329,870	177,267,357
LIABILITIES						
Treasury operations and operations with banks and other financial institutions	5,790,373	7,540,674	1,641,605	17,278,376	5,781,563	49,670,302
Operations with clients	11,963,339	13,300,760	21,291,123	7,250,186	9,847,936	7,949,276
Other liabilities	1,069,947	1,420,210	7,035,207	19,094,395	27,431,300	42,550,742
Provision for contingent liabilities and enquiry	8,643,686	11,891,665	11,834,966	34,143,062	29,740,284	32,197,122
TOTAL LIABILITIES	27,467,345	34,153,309	41,802,901	66,269,206	84,297,862	132,367,442
SHAREHOLDERS' EQUITY	13,037,554	13,979,488	16,738,037	20,179,678	31,031,974	44,403,907
TOTAL LIABILITIES AND SHAREHOLDERS' EQU	40,504,899	48,132,797	58,540,938	86,448,884	115,329,836	177,267,357

Source: BRD annual reports 2008 to 2013

APPENDIX 4. BHR COMPREHENSIVE INCOME STATEMENT 2008 – 2010

	2008 (Rwf '000)	2009(Rwf '000)	2010(Rwf '000)
Interest and other income	960,203	1,088,137	1,146,902
Interest expense and similar expenses	(50,371)	(40,828)	(45,323)
Credit risk cost	328,397	(14,204)	-
Net interest income	1,238,229	1,033,105	1,101,579
Fees and commissions income	163,521	65,039	65,286
Exchange gains and losses	(4,321)	(10,663)	(46,876)
Other income	1,504	359,713	372,450
Net income	1,398,933	1,447,194	1,492,439
Staff costs	(333,891)	(434,905)	(415,011)
Other operating expenses	(252,617)	(263,660)	(283,340)
Depreciation and amortisation	(46,797)	(62,658)	(71,394)
Profit before tax	765,628	685,971	722,694
Income tax expense	(297,891)	(206,610)	(218,014)
NET PROFIT	467,737	479,361	504,680

APPENDIX 5. BHR COMPREHENSIVE BALANCE SHEET 2008 – 2010

	2008 (Rwf '000)	2009(Rwf '000)	2010(Rwf '000)
ASSETS			
Cash & balance with BNR	958,317	622,467	443,559
Placements and balances with other banks and financial institutions	4,207,394	2,521,983	2,523,732
Loans and advances to customers	5,995,921	7,085,566	8,120,276
Equity investments	137,940	137,940	175,683
Houses available for sale	1,447,402	2,128,590	-
Other assets	1,907,214	1,036,480	2,518,251
Property , plant and equipment	279,020	308,855	224,854
TOTAL ASSETS	14,933,208	13,841,881	14,006,355
LIABILITIES			
Customer deposit	4,154,222	2,882,405	2,438,330
Housing financing funds	1,185,571	1,179,653	
Amount due to the Government	923,097	1,017,579	218,014
Other liabilities	1,534,210	1,169,618	3,281,030
TOTAL LIABILITIES	7,797,100	6,249,255	5,937,374
Equity (capital and reserves)	7,136,108	7,592,626	8,068,981
TOTAL EQUITY AND LIABILITIES	14,933,208	13,841,881	14,006,355