

**EFFECT OF MERGERS AND ACQUISITIONS ON THE
FINANCIAL PERFORMANCE OF THE COMPANIES LISTED AT
THE NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

I, the undersigned declare that this is my own work and it has not been presented to any other institution for any degree or examination.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I would like to dedicate this research project to my parents William & Sabina, wife Faith Gesare and sons Nolan & Nathan who have been with me through every step of my life and my family in general.

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ABSTRACT

The objective of this research project was to establish the effect of mergers and acquisitions on the financial performance of the companies listed at the Nairobi securities exchange. It is assumed that mergers and acquisitions improve the financial performance of business entities as a result of synergies and market power. This research focused on the financial performance of companies listed at the Nairobi Securities Exchange and had been involved in mergers and acquisitions between 2009 and 2014. Secondary data for the annual financial statements was collected from NSE and comparative analysis of the companies' pre mergers and acquisitions and post mergers and acquisitions was conducted to establish whether mergers and acquisitions affected the financial performance of the companies listed at the Nairobi Securities. Comparisons were made between the mean of 3 years pre-mergers and acquisitions and 3years of post mergers and acquisitions variables for the six merged and acquired companies listed at the Nairobi Securities Exchange. A paired't' test was conducted at 5% level of significance to determine if the effect was significant or insignificant. From the research findings, mergers and acquisitions have insignificant effect on the financial performance of the companies listed at the Nairobi securities Exchange.

LIST OF ACRONYMS AND ABBREVIATIONS

DPS	-	Dividend Per Share
M&As	-	Mergers and Acquisitions
NSE	-	Nairobi Securities Exchange

ROA - Return on Assets
ROE - Return on Equity
SPSS - Statistical Package for the Social Sciences
UK - United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Mergers and acquisitions are forms of corporate restructuring aimed at retaining competitive advantage. Restructuring of the business entities will enable the companies to achieve risk diversification. Due to the need to increase the shareholders' value, businesses have been forced to change business strategies in this dynamic environment. Management has been forced to rethink how to maximize the shareholders returns and mergers and acquisitions is one such option, this has led to the increased mergers and acquisitions activities in the contemporary business environment (Firth,1979).

Nairobi securities exchange has been on forefront pushing for mergers and acquisitions among the various companies listed. Various benefits are associated with mergers and acquisitions activities and they include financial strength and cost reduction. Firms experiencing cashflow shortages can undergo mergers and acquisitions activities to increase the capital base and improve the financial strength. The ultimate objective for a business entity is to minimize the operational costs and increase the profits by improving the financial performance. This can be achieved by mergers and acquisitions which normally reduce the costs (Lutbaktin, 1987).

According to Falope (2007) mergers and acquisitions will bring about tax savings whereby a company paying high taxes due to high incomes can acquire another company with accumulated losses which after the acquisitions or merger will reduce the overall

taxable income and tax liability. Efficiency which is the better utilization of resources can also be achieved by minimizing wastefulness in terms of money, efforts, energy and materials. The Kenyan industries has experienced rising trends in mergers and acquisitions activities especially for the companies listed at the Nairobi Securities Exchange.

1.1.1 Mergers and Acquisitions

Mergers are business deals of consolidating two or more than two existing companies to form new entities (Manne, 1965). Mergers are broadly divided into three, namely, horizontal mergers, conglomerate mergers and vertical mergers. Horizontal mergers are mergers between two firms in the same line of business for example the merger between smithkline Beecham and Glaxosmith Limited in order to form Glaxomithcline Beecham, one of the largest pharmaceutical firms in the world. The main purpose of horizontal mergers is to increase the market share in order to achieve the economies of scale. Economies of scale are the benefits enjoyed from the overall reduction of the operational costs.

A conglomerate merger is the merger between two firms in unrelated lines of business. The main aim of this type of merger is for risk diversification. The merger between a gas pipeline company and a soft drink manufacturer is an example of conglomerate merger. Vertical merger is a merger between firms in different levels of production of various components of the same end product. For example a merger between a tile manufacturing firm and a car assembly company. The main purpose of vertical merger is to provide a

guaranteed supply of raw materials and eliminate the problems associated with coordination and negotiation with suppliers (Manne,1965).

According to Baldwin (1998) acquisition involves a corporate action in which one business entity buys most, if not all, of another firm's ownership stakes to assume control of it. An acquisition is assuming control of it. An acquisition is normally achieved when a predator company obtains more than 50% ownership in a target firm. The motive for many acquisitions is the creation of synergy. The theory based on operating synergies assumes that economies of scale and scope do exist in the industry and that prior to the acquisition the firms are operating at levels of activity that fall short of achieving the potential for economies (Manne, 1965). Synergy are the additional benefits associated with economies of scale after mergers and acquisitions, it is the criterion of a whole which is greater than the sum of two plus two.

1.1.2 Financial Performance

Financial performance evaluates how firms have been efficient in employing the available resources to earn profits. Financial performance is measured by financial ratios. A ratio is the relationship between two or more things. Ratios are an aid to analysis and interpretation, they help to examine in detail the overall picture portrayed by the financial statements by analysis and comparison to determine whether the financial position of a firm is sound, whether the return on investment is sufficient among others. Generally, ratios are used to test the solvency and the profitability of an entity (Wood,1988).

The most important financial performance measure is the earning per share which is the total earnings per share attributable to ordinary shareholders whether distributed or retained. This ratio shows the profitability of a firm on a per share basis. Earnings per share over years indicate whether or not the company's profitability per share has changed favourably. Other ratios used to measure financial performance include liquidity and solvency ratios (Wood,1988).

1.1.3 Mergers and Acquisitions and Financial Performance

The main goal of mergers and acquisitions is to ensure that the business entities operate smoothly as a result of this restructuring process. There exists a direct relationship between mergers and acquisitions and the financial performance. Firms engaging in mergers and acquisitions will always want value creation for their shareholders. The firms that have failed might be as a result of poor management of the companies that were engaged in the deal (Myers, 1994). The financial performance of the companies is significant in the ultimate success or failure of mergers and acquisitions activities. Business entities normally engage in mergers and acquisitions when they feel the deal will be beneficial. Many theories which have been advanced in the area of mergers and acquisitions have confirmed the existence of the relationship between mergers and acquisitions and financial performance. The theory of economics argues that mergers and acquisitions exist to lower operational costs which will positively affect the financial performance.

1.1.4 Companies listed at the Nairobi Securities Exchange

The Nairobi Securities Exchange is one of the leading Africa exchange based in Kenya. It was founded in 1954, it has a six decade heritage in listing equity and debt securities. It offers trading facility for investment both local and international. At least 10 companies listed at the Nairobi Securities exchange have been formed through mergers and acquisitions. The notable examples include, the acquisition of cooperative merchant limited by co-operative bank of Kenya to form cooperative bank of Kenya Limited, ELF Oil (K) Limited was acquired by Total Kenya to form Total Kenya Limited, Kenol Limited merged with Kobil Petroleum to form Kenol Kobil Limited, CFC Bank Limited merged with Stanbic Bank Limited to form CFC Stanbic Bank, Apollo Insurance Limited was acquired by Pan African General Insurance Limited and formed Pan African insurance holding Limited. Due to mergers and acquisitions, the listed companies have posted impressive financial results compared to the companies which have not undergone mergers and acquisitions

1.2 Research Problem

Mergers and acquisitions have become the contributing factors to the improved financial performance which is the main objective of every company listed on the Nairobi Securities Exchange; this is the critical business strategy for success. There has been a common trend for companies in Kenya especially the listed companies opting for mergers and acquisitions; the companies have opted for mergers and acquisitions as a corporate strategy to remain competitive. All this is at improving the financial performance of the companies. After the mergers and acquisitions, the companies have recorded improved

financial performance this in turn is beneficial to the shareholders who have invested in those companies. Many studies conducted on mergers and acquisitions have been inconsistent. A study by Mwaura (2011) concluded that mergers did not have a positive impact on the financial performance of petroleum marketing companies in Kenya.

Maalim and Mandi (2006) examined 20 food processing companies in the period 1999 to 2007 in the United Kingdom which had merged. They compared pre and post-merger financial performance based on 3 financial performance measures namely earnings per share, dividend per share and profit margin. They used pre-merger period and post-merger period of four years. They concluded that the restructuring through mergers and acquisitions positively affected the financial performance of food processing companies in the UK.

Mwanza (2013) studied the effect of mergers and acquisitions on the financial performance of commercial banks listed on the Nairobi Securities Exchange. He concluded that mergers and acquisitions had insignificant effect on the financial performance of commercial banks. He however noted that the financial performance was dependent on other factors which include good marketing strategies and enjoyment of the competent staff.

Empirical study by (Kinyua, 2012) provided evidence on the positive effect of mergers and acquisitions on the financial performance of selected firms in Kenya between 2006 to 2010. A number of studies have been done on mergers and acquisitions in Kenya,

however, these past studies have resulted into conflicting results on mergers and acquisitions. Therefore, the study will answer whether mergers and acquisitions affect the financial performance of companies listed at the Nairobi Securities Exchange.

1.3 Research Objective

To establish the effect of mergers and acquisitions on the financial performance of the companies listed at the Nairobi Securities Exchange.

1.4 Value of the Study

The management of the companies listed at the Nairobi Securities exchange will be able to make informed choices on the merger and acquisition activities. From the result on the financial performance, they will be able to identify the possible target in case of mergers and acquisitions.

The research will be helpful to the academicians to act as reference for further research in this area of mergers and acquisitions. It will be of great help to the scholars since it will act as a source of literature for research

The research will be helpful to the investors with the insight on mergers and acquisitions to make the decisions on the investment. It will provide them with information to help them make selling or buying choices of the stocks of the profitable listed companies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains the information on various theories of mergers and acquisitions, factors affecting the financial performance of listed companies and ends with the summary of literature review.

2.2 Theoretical Review

The section reviews the theories the scholars have proposed in the area of mergers and acquisitions. Effective mergers and acquisitions is key in ensuring that the financial performance of the companies is greatly improved. The theories of mergers and acquisitions include; the theory of diversification by (Frank,1991) who concluded that mergers are undertaken to diversify the risks, synergy theory(Roll,1986) which states that mergers and acquisitions takes place because they create synergy, the monopoly theory(Lambert, 2001) which states that the motive for mergers and acquisitions is the creation of monopoly power, signaling hypothesis(Fleming, 1980) which states that mergers and acquisitions are motivated by managers with sufficient information and economics theory(Nielsen, 1974) which states that business entities enjoy economies of scale as a result of mergers and acquisitions.

2.2.1 Economics Theory

Business entities enjoy economies of scale as a result of mergers and acquisitions. Companies producing goods in bulk are able to enjoy the reduced costs of production (Nielsen, 1974). Firms will enjoy the marketing economies since they can be able to cover longer geographical areas due to benefits associated with mergers and acquisitions. According to this theory the companies in the mergers and acquisitions deal will enjoy finance economies as a result of reduced costs of transactions. The economics theory is about the benefits associated with minimized costs brought about mergers and acquisitions. The examples include the increased quantity of the output and increased operations. Economics theory will affect the production costs associated with units of the output. For the companies to enjoy economies of scale, they should undergo M&As.

2.2.2 The Theory of Diversification

Frank (1991) defines diversification as the process of reducing the risks for certain returns in given levels or increasing returns for any risk levels. Mergers and acquisitions are undertaken to diversify the risks, this can be done through risk diversification. When the revenues of some companies increase and the other corresponding companies decrease, a decrease in the other companies revenue streams can be offset through the counter movement of returns of other companies in the mergers and acquisitions. The existence of diversification depends on correlation between any two companies revenue. The evaluation of the risks which is achieved by mergers and acquisitions. Risk reduction boosts the earnings of companies which in turn positively affects the financial performance. The listed companies at NSE should diversify to reduce the risks

2.2.3 Synergy Theory

According to this theory, mergers and acquisitions takes place because they create synergy (Roll, 1986). The predators and target will derive the benefits from the synergies and it will increase the value of the companies in the long term. They are the positive gains from the consolidation of companies. The shareholders of the predators and the target will enjoy the benefits of the synergy. The consolidation of the business entities leads to savings on unit costs of production, this will increase the revenues and the operational efficiency of the business entities involved. The listed companies will benefit from financial synergy

2.2.4 The Monopoly Theory

According to monopoly theory the motive for mergers and acquisitions is the criterion of monopoly power (Lambert, 2001). Monopoly power means the market structure is controlled by one seller who sells unique products to its customers and that he faces no competition from other sellers. Under this market, no restrictions or barriers and by mergers and acquisitions, separate companies can be considered to become a bigger company which will own and control all the market. Monopoly power will benefit the listed companies

2.2.5 Signaling Hypothesis

The availability of adequate information in the market plays an important role in the formation of mergers and acquisitions (Fleming, 1980). Managers who have adequate information about the value of the target are advantageous since they have sufficient

information to seal the deal. According to this theory, managers who have sufficient information about the value of the target firm are motivated to spearhead the mergers and acquisitions activities. With sufficient information, shareholders are assured of sound investment decisions by the managers since they understand the target company better, they can estimate the projected returns of the company and any possible risks associated with the company.

2.3 Determinants of Financial Performance

High returns and minimal costs are the major objectives of the business organizations, this is achieved by designing good corporate strategies aimed at improving the financial performance in order to achieve this goal. Financial performance plays a key role in realizing this objective, it will test the strength and weaknesses of the company in monetary terms. The major determinants of financial performance are; the capital structure, company size, external factors, liquidity and corporate governance.

2.3.1 The Capital Structure

Capital structure is the percentage mix of various types of financing components by the company (Modigliani and Miller, 1965). According to Modigliani and Miller the optimal capital structure does not exist. How the companies combine debt and equity will play a key role for the failure or success of such companies, the company can either use high proportion of equity capital and low debt and vice versa. The capital structure mix will affect the financial performance, the use of high debt financing exposes the company to bankruptcy because of high finance charges which the company cannot fully cater for,

high amount of equity capital in the capital structure will help the company mitigate the risks associated with financial distress. Hence companies should strike a balance on the composition of the capital structure so that financial performance can be improved.

2.3.2 Company Size

The size of the company has a direct relationship with the financial performance, the size of the company can influence the financial performance of the company negatively or positively. Large business entities can access most services at reduced costs due to their purchasing power for example finance, production and distribution compared to smaller companies who cannot afford the bulkiness of services. By accessing the services at reduced costs, the companies are able to do risk diversification efficiently. The companies can also be able to respond swiftly to the environmental and operating changes in the market(Myers, 1984).

2.3.3 External Factors

The growth in the gross domestic product increases the revenues generated by the companies. When companies generate high revenue it implies that the financial performance is sound and better. However, the decline in the gross domestic product implies that the revenues are minimal and these adversely affect the financial performance. Inflation on the other hand affects the financial performance negatively or positively, high inflation rates reduce income level, which in turn affects negatively the profits of companies, when the inflation rates are minimal. The purchasing power is high hence the growth in revenue this will have a positive influence on the financial

performance. The interest rates is also a major factor affecting the financial performance. When the interest rates are very high, the profits of the companies are low because high interest rates attract high default rates which negatively affect the income but when the interest rates are low the revenues are maximized due to low default rates(Nielsen, 1974).

2.3.4 Liquidity

The extent to which assets can be bought or sold is the liquidity. The transaction will not affect the price of the assets in the market. It is measured by the quick ratio and current ratio. The quick ratio informs us on the fulfillment of the short term obligations as they fall due using the most liquid cash excluding the inventories. It is the ratio of current assets minus inventory divided by current assets. Current ratio on the other hand tells us more about the assets which will become liquid within 12 months with the liabilities to be settled. Current ratio is the ratio of current assets to the current liabilities. Business entities with greater percentage of liquid assets normally performs better because cash is readily available to cater for the obligations(Wood, 1988).

2.3.5 Corporate Governance

Corporate governance is the practices that shape the behavior of managers of the organizations in achieving the organizational goals. The strategies developed will help the managers in planning, monitoring and evaluating its overall financial performance in the management of risks and any uncertainties. Sound corporate governance activities can improve the financial performance of the companies. Good corporate governance practices aims at creating wealth for the stakeholders of the business entities who include

the suppliers, shareholders, creditors and financial institutions. It will also ensure the rights of the shareholders are protected, shareholders are treated equally, their rights are protected and disclosures on the financial results are fully revealed by the management (Manne, 1965).

2.4 Empirical Review

A number of studies have analysed the effect of mergers and acquisitions and the financial performance of the companies in different settings in the world. The resultant outcomes are different, some studies concluded that mergers and acquisitions have a positive relationship with the financial performance, others confirmed the insignificant relationship from different methodologies.

Laz (2008) investigated the relationship between mergers and financial performance of the companies listed on the Athens Stock Exchange in Greece. He used a sample of 130 companies over the period 2003 to 2007 from the population of 281 companies. He analyzed the data for the premergers and post mergers period for a period of 3 years. The ROE measured the financial performance. The regression analysis used presented a negative relationship between mergers and the financial performance. He concluded that mergers had a negative effect on the financial performance.

Ganesan (2001) analysed the mergers and acquisitions of the companies from the insurance industry in the United States of America a sample of 97 companies which underwent mergers and acquisitions during the study period 1995 to 1999 were selected

for the study. The survey aimed at establishing the profitability of insurance firms after mergers and acquisitions by the use of ratio analysis and t-test statistics. He concluded that the profitability of the insurance companies improved after mergers and acquisitions.

Kimani (2012) did a study to examine whether the mergers of Glaxosmith and Cline merger delivered the value for the shareholders of the company. He analysed the 2 year pre-merger and 2 year post merger financial performance. The analysis of financial performance involved the determination of the return on investment. The linear regression model used in the analysis confirmed the positive relationship between mergers and shareholders return. He concluded that Glaxosmithline performed better financially after the merger.

Sevnam, et al.,(2009) conducted a study on the effect of mergers and acquisitions on the performance of selected corporate firms in India from 2000 to 2005. A total of 356 corporate firms were chosen as the population of the study. A sample of 112 corporate firms which had underwent mergers and acquisitions was selected from 2001 to 2005. The study compared the financial performance of the corporate firms three years before and after the merger and acquisitions by the help of ratio analysis using the secondary data. They concluded that mergers and acquisitions improved the liquidity and profitability of the corporate firms in India.

Marshall and Meckling (2010) conducted a study to assess the price of share after the acquisition announcement in the New York stock exchange in America in 2010. The share price of 200 companies was under observation but they used a sample of 102 companies. They concluded from their observation that share price of the companies posted an upward trend a few days prior to the acquisition announcement.

Falope (2009) used a sample of 60 commercial banks from the population of 137 commercial banks in Nigeria to study the effect of mergers and acquisitions on the financial performance of commercial banks from 2002 to 2006. The study also utilized a regression model to establish the relationship between mergers and acquisitions. He concluded that financial performance of the commercial banks improved greatly after mergers and acquisitions.

Ochiengi (2010) did a study on the effect of mergers on the financial performance of insurance firms in Kenya for a 10-year period from 1997 to 2007. The study employed the regression model to analyse the relationship between mergers and financial performance. From the findings of the study, he concluded that the firms which underwent mergers, their profits had not increased as the result of mergers. The study also concluded that the liquidity and solvency were not affected by mergers and acquisitions activities.

Mwaniki (2011) analysed the mergers and acquisitions of non-listed commercial banks and their effect on the financial performance in Kenya from 2004 to 2008. He examined the relationship between M&As and the financial performance using the regression

analysis and ANOVA analysis. He used a sample of 17 non-listed commercial banks and analysed their return on equity, return on assets, DPS and earnings per share three years before and 3years after mergers and acquisitions. He concluded that mergers and acquisitions had insignificant influence on the financial performance of the non-listed commercial banks in Kenya.

Nash (2009) conducted a study to determine the effect of mergers and acquisitions on the financial performance variables which included return and in India from 2001 to 2005. The sample of the study was 112 companies of 345 pharmaceutical companies in India. The study utilized the linear regression model to establish the degree of the relationship of mergers and acquisitions and return an investment and ROA. He found that the return on investment and return on assets increased after mergers and acquisitions and he concluded that mergers and acquisitions have a significant influence on the financial performance.

2.5 Conceptual Framework

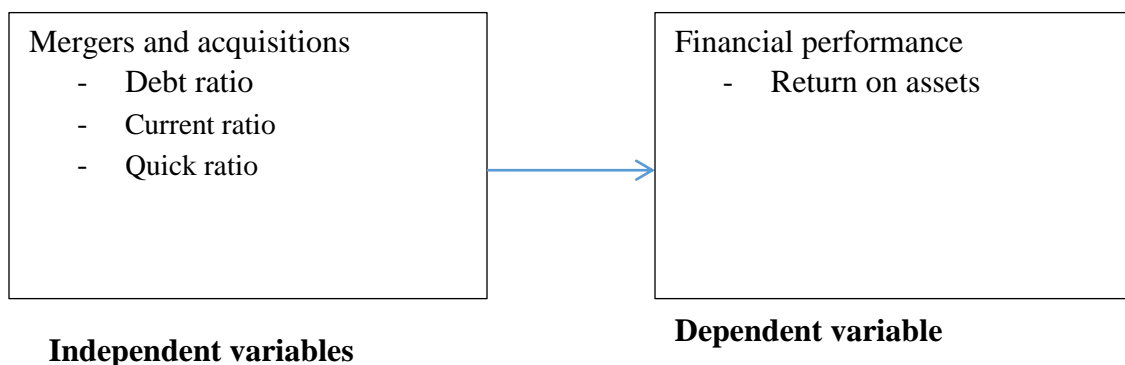


Figure 2.1: Conceptual Framework

2.6 Summary of the Literature Review

The theoretical literature reviewed presented different theories on mergers and acquisitions. From the many empirical works reviewed, i can confirm that mergers and acquisitions have a direct impact on the financial performance. (Kimani, 2012) confirmed a positive effect of mergers on Glaxosmithcline merger which led to the improved financial performance, (Laz, 2008) confirmed a negative effect of mergers on the financial performance of companies listed on the Athens stock exchange. The chapter further analyzed the determinants of financial performance which include the capital structure, company size, external factors, liquidity and corporate governance, finally, regardless of the existing empirical studies, there was need for the current research to determine the effect of mergers and acquisitions to fill the study gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the sources of data, sample selection, research design that was applied, population of the study, data collection and data analysis that was employed.

3.2 Research Design

Research design is the detailed description of the events and situations between people and things (Cooper, 2006). This research employed the descriptive research design to depict the impact of mergers and acquisitions on the financial performance.

3.3 Population

The population of interest in this study was all the companies listed at the Nairobi Securities Exchange. The sample survey was conducted to select the appropriate sample of six companies which represented all the segments on the Nairobi Securities Exchange which have undergone mergers and acquisitions between the years 2009 to 2013. They include; Britam holdings, Saham group limited, Kenya commercial bank limited Kenol Kobil, Co-operative Bank of kenya Limited and Total Kenya limited.

3.4 Sample and Sample Design

A sample is a subset of a population (Mugenda, 2005). The sample for this study was six companies listed at the Nairobi Securities Exchange. A census survey was conducted to arrive at the appropriate sample.

3.5 Data Collection

The study used secondary data which was obtained from the financial statements for the period 2005 to 2016. Data was obtained from the Nairobi Securities Exchange and the respective websites of the companies. Secondary data collected included the total assets, current assets, current liabilities, net income and total liabilities.

3.6 Data Analysis

The study used the debt ratio, return on assets, current ratio and acid test ratio in the analysis. The current ratio tells us the number of times current liabilities will be paid using the current assets, return on assets shows the return of the profit from the employment of total assets, quick ratio which tells us the number of times current liabilities will be paid from the most liquid current assets excluding the inventory. Regression analysis was conducted by the help of SPSS to determine the degree of relationship.

The following model was used

$$Y_i = \beta_0 + \beta_1 x_{i,1} + \beta_2 x_{i,2} + \beta_3 x_{i,3} + \Sigma$$

Where

I=1, 2, 3...k are sample observations

x_i = observation of the dependent variable

Y_i = Observation of the dependent variable which is the financial performance estimated by return on investment.

x_1 = Debt ratio

x_2 = Current ratio

x_3 = Quick ratio

3.6.1 Test of Significance

The study employed a paired t-test which measured the variables under the study at 5% level of significance.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This section highlights the analysis of the data collected. The data analyzed was for the listed company at the Nairobi Securities Exchange which had been formed by mergers and acquisitions. In section 4.2 data was analyzed, section 4.3 discusses the inferential statistics and the last section 4.4 presents discussion of the findings from the analysis done.

4.2 Pre and Post-Mergers and Acquisitions Analysis

In this research, data collected was analyzed on the pre mergers and acquisitions and post mergers and acquisitions for a period of 3 years with an objective of assessing its impact on the financial performance. The variables analyzed included the debt ratio, acid test ratio, current ratio and return on assets. The findings of the study are shown in the graphs and tables below.

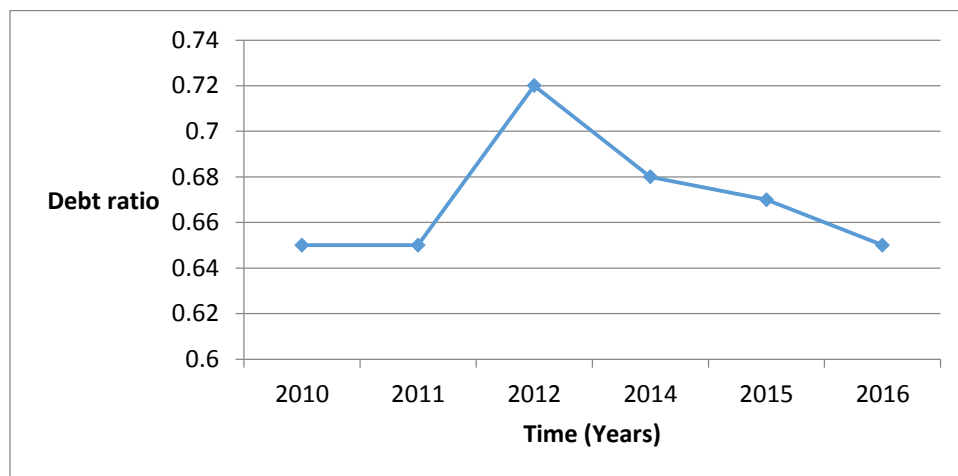


Figure 4.1: Britam Holdings Limited

From the graph above, the debt ratio of British American Insurance company and real Insurance company before the merger to form Britam Insurance Company were 0.65, 0.65 and 0.72 after the merger the debt ratios changed to 0.68, 0.67, 0.65 there was a reduction in the quick ratios.

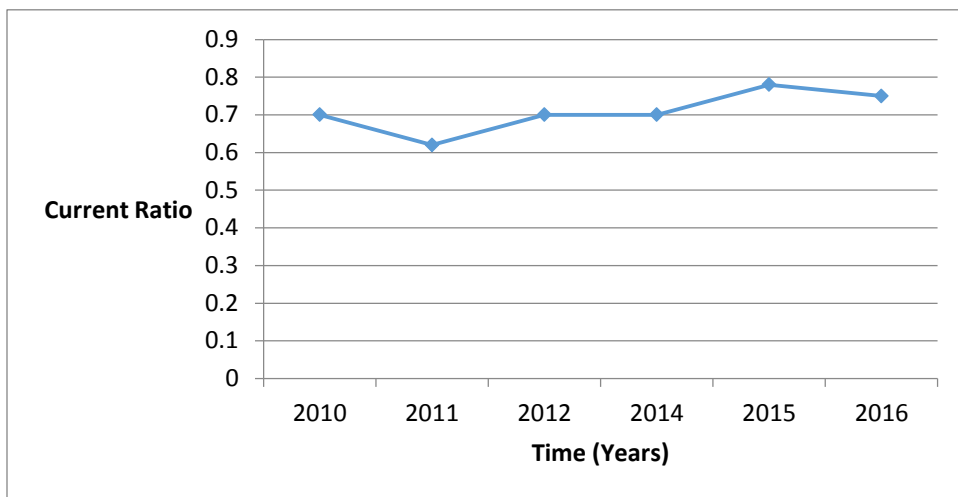


Figure 4.2: Saham Kenya Limited

The average current ratio of mercantile Insurance Company and Saham Group Limited were 0.7, 0.62 and 0.7 after the acquisition the current ratios of Saham group Limited changed to 0.7, 0.78, 0.75 on average, the current ratios increased.

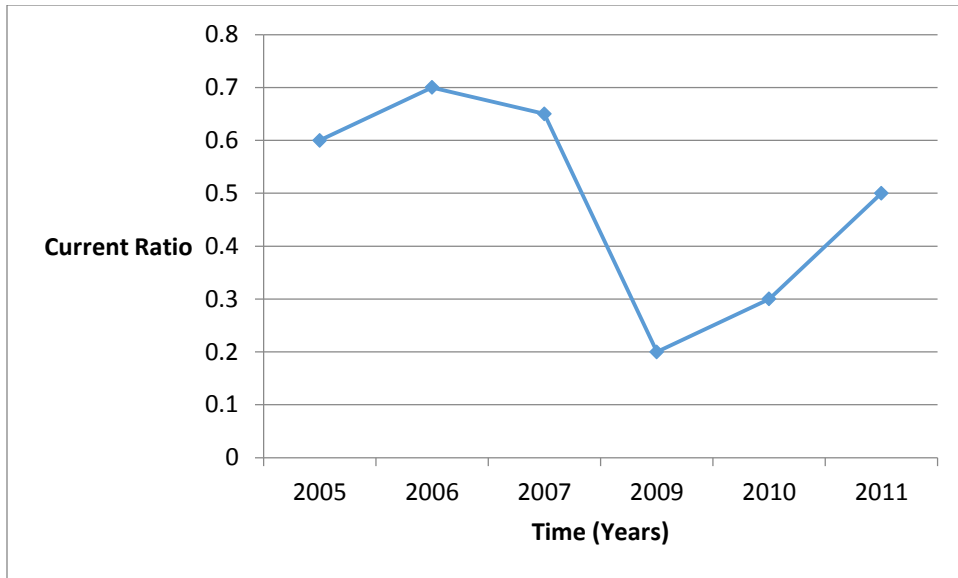


Figure 4.3:Kenol Kobil

The average current ratios of Kenol Limited and Kobil Limited before the merger were 0.6, 0.7 and 0.65 after the merger the companies recorded the declining values of 0.2, 0.3 and 0.5.

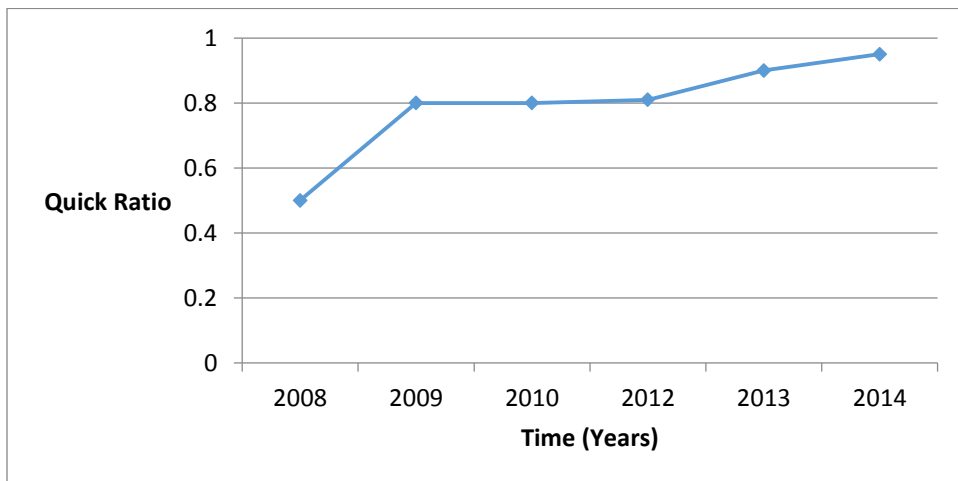


Figure 4.4:Co-operative Bank of Kenya

The average quick ratios of Cooperative Bank of Kenya and Co-operative Merchant Limited were 0.5, 0.8 and 0.8 after the acquisitions, the bank recorded an increased values of the quick ratios and were 0.81, 0.9 and 0.95.

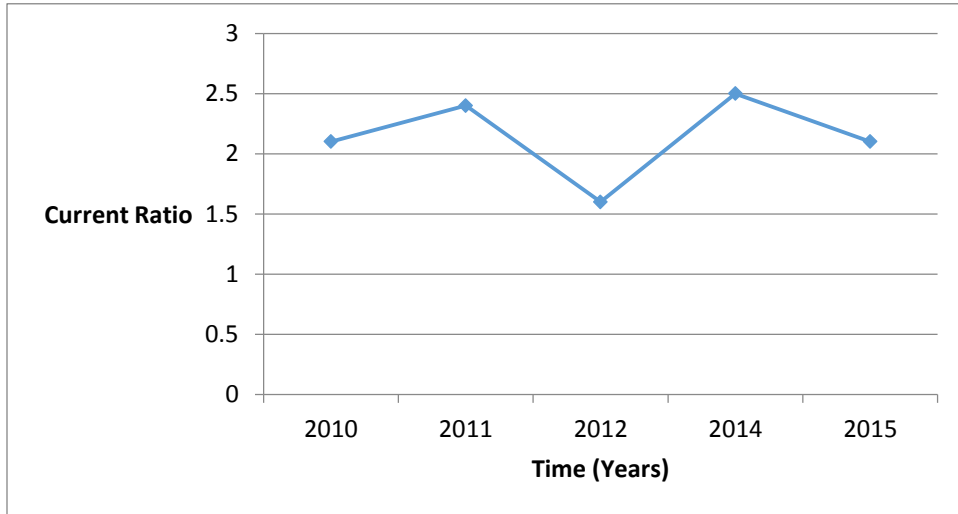


Figure 4.5: Saham Group Limited

Saham Group Limited recorded an improved current ratio after the acquisition of Mercantile Insurance Company as shown in the graph above.

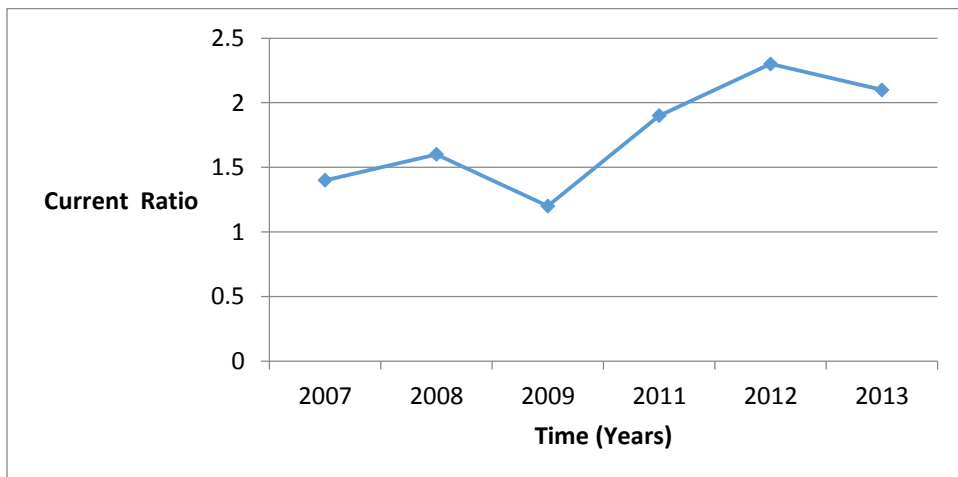


Figure 4.6: Kenya Commercial Bank

Before the acquisition of savings and loans Kenya Limited by Kenya Commercial Bank, the current ratios were low which rose at the acquisition as shown above.

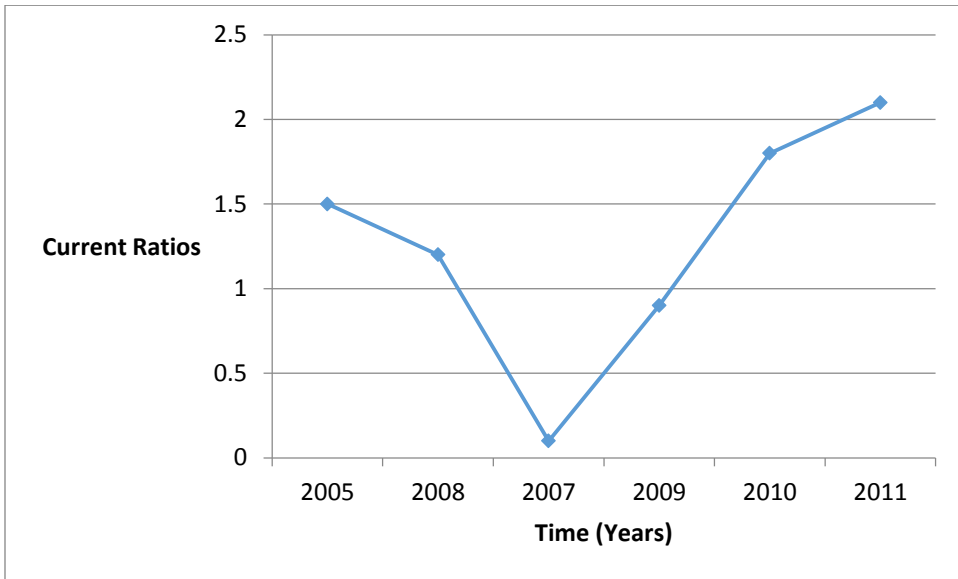


Figure 4.7: Kenol Kobil

The average current ratios of Kenol Limited and Kobil Limited were 1.5, 1.2 and 0.1 before the merger and after the merger they rose to 1.9, 2.3 and 2.1 as shown above.

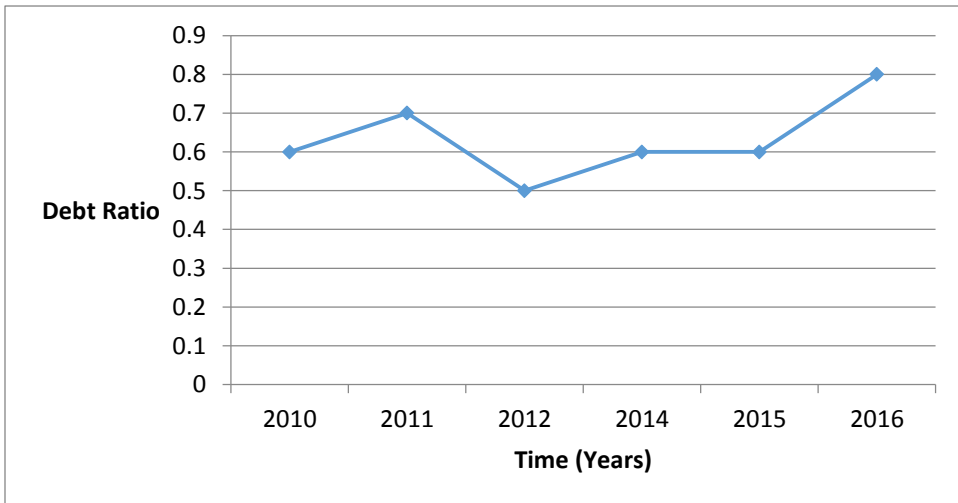


Figure 4.8: Britam Holdings Limited

The debt ratios of British American Insurance Company and real Insurance Company were 0.6, 0.7 and 0.5 after the merger to form Britam Insurance Limited, the debt ratios slightly increased.

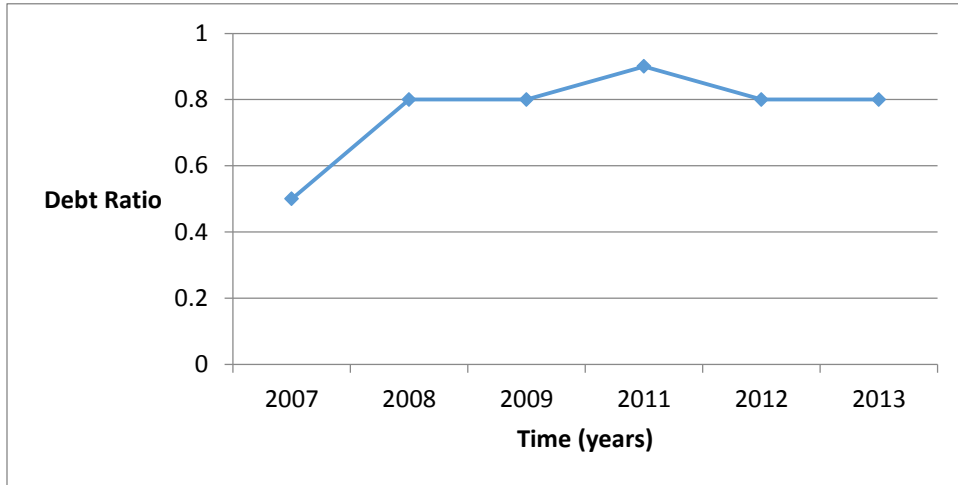


Figure 4.9: Kenya Commercial Bank

On Average, the debt ratios of Kenya Commercial Bank after the acquisition were greater than the debt ratios before acquisition.

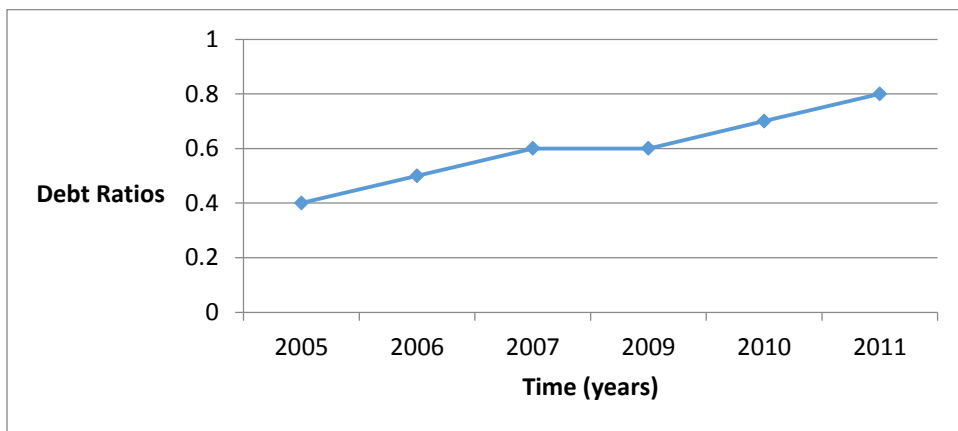


Figure 4.10: Kenol Kobil

The debt ratios of Kenol Limited and Kobil Limited before the mergers were 0.4, 0.5, 0.6 and after the merger it rose to 0.6, 0.7 and 0.8.

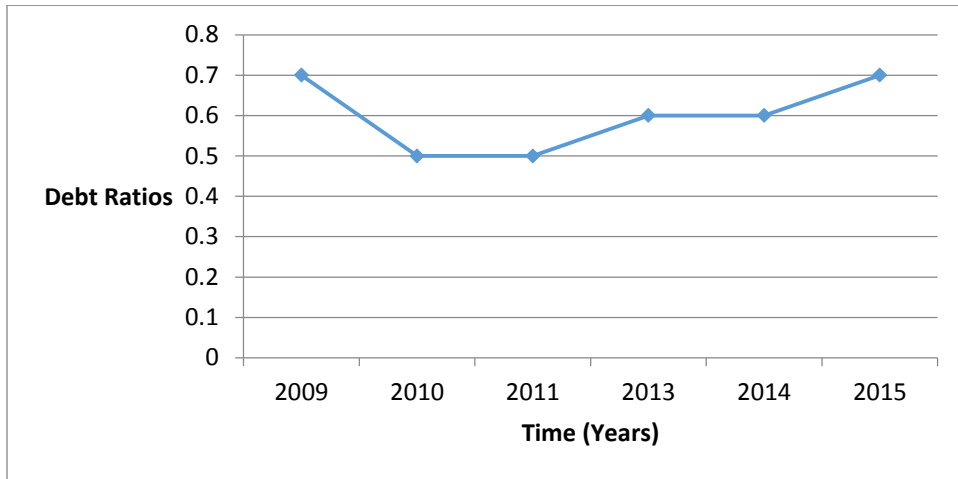


Figure 4.11: Total Kenya Limited

Total Kenya recorded an increased debt ratio after the acquisition as shown in the table above.

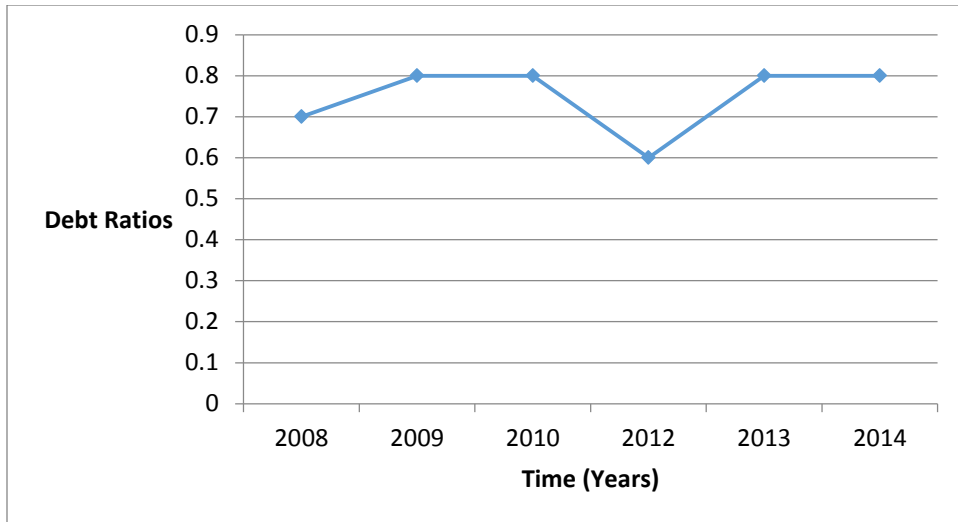


Figure 4.12: Cooperative Bank

Cooperative bank of Kenya recorded a slight increase in the debt ratios after acquiring co-operative merchant limited as shown in the graph above.

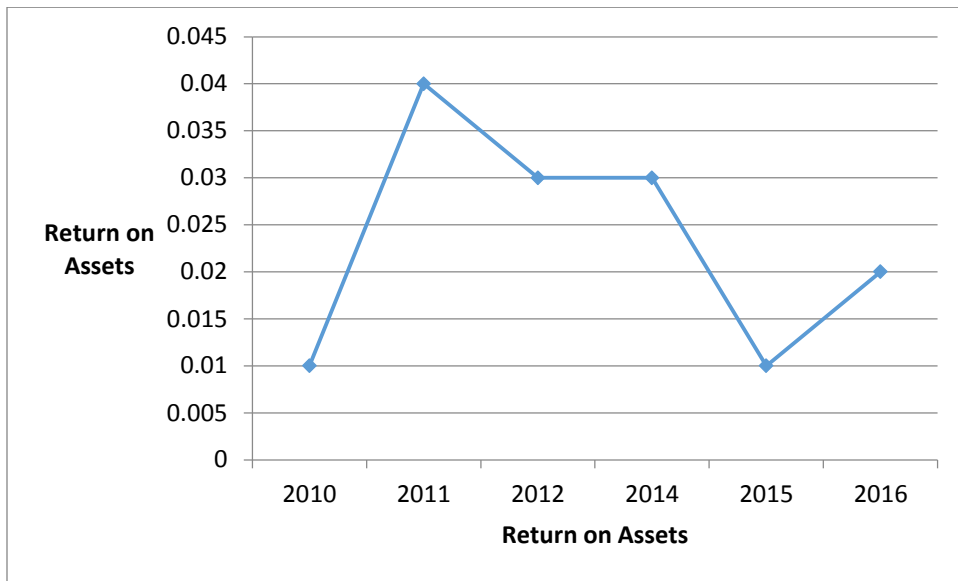


Figure 4.13: Britam Holdings Limited

The mean of the return on assets before the merger were 0.01, 0.04 and 0.03 the values reduced to 0.03, 0.01 and 0.02 after the merger.

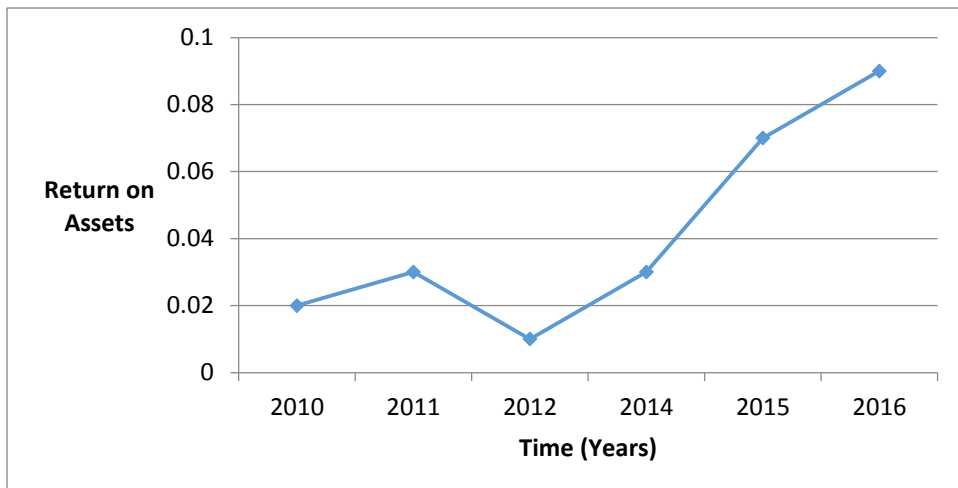


Figure 4.14: Saham Group Limited

Saham Group Limited reported impressive values of the return on assets after the acquisition. The mean average of the pre-acquisitions were 0.02, 0.03 and 0.01 after the acquisition the values rose to 0.03, 0.07 and 0.09.

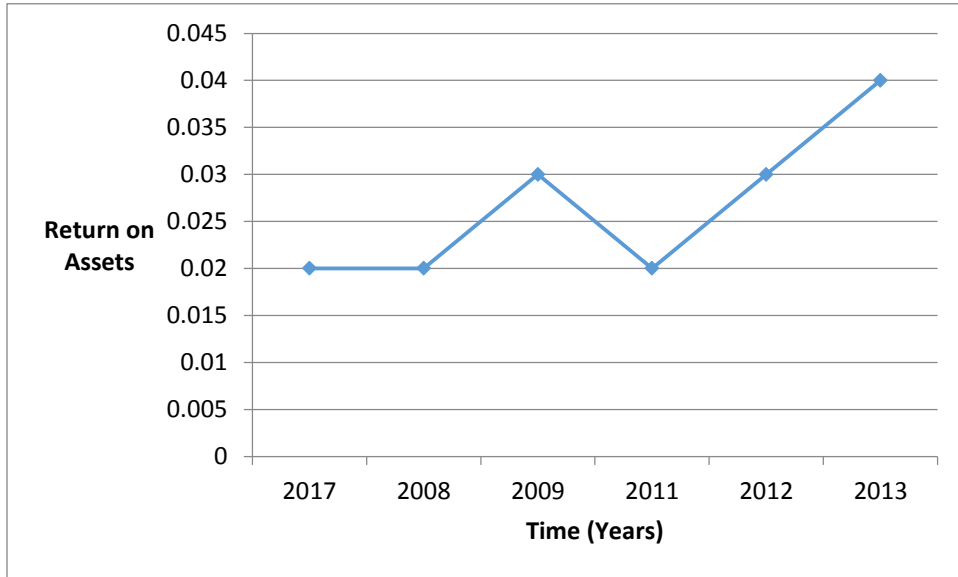


Figure 4.15: Kenol Kobil Limited

The financial performance of Kenol Kobil as measured by the return on assets after the merger were greater than the financial performance before the merger.

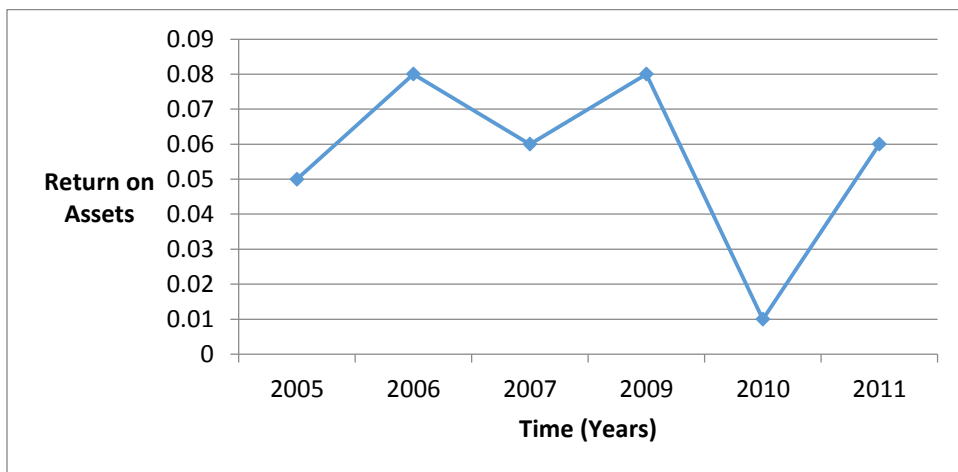


Figure 4.16: Total Kenya Limited

Total Kenya recorded declined values of the return on assets. The return on assets values before the acquisition were 0.05, 0.08 and 0.06 after the acquisition, the values were 0.08,0.01 and 0.06

Table 4.1: Ratio Analysis Table

	Pre-mergers and acquisitions Mean	Post mergers and acquisition mean	T Value
Debt ratio	0.0283	0.0267	0.133
Quick ratio	0.5067	0.4600	0.531
Current ratio	0.5276	0.3741	0.489
ROA	0.6667	0.6833	0.132

From the findings of the table above, the effect of mergers and acquisitions on the financial performance was insignificant. The mean of debt ratio before mergers and acquisitions was 0.0283 and post mergers and acquisition debt ratio mean was 0.0267 and the t value was 0.133 which was insignificant since it is greater than 0.05. The mean of quick ratio before mergers and acquisitions was 0.5067 and after mergers and acquisitions was 0.4600 with the t-value of 0.531. The mean of current ratio before mergers and acquisitions was 0.5276 and the post mean of current ratio was 0.3741 with the t-value of 0.489 which is insignificant and finally the mean of return on assets before mergers and acquisitions was 0.6667 and the post mean of return on assets after mergers and acquisitions was 0.32 which was again insignificant.

4.3 Regression Analysis

Table 4.2: Model Summary

Model 1	R	R Square	Adjusted R Square	Std. Error of the estimate
1	0.979	0.958	0.894	0.0569

The table above provides the summarized form of the regression. The variables in the model explain how effective the regression model accommodates the data. The value of the correlation coefficient was 0.979 which depicts a strong positive correlation among the variables. The value of adjusted R square was 0.894 which implies that 89.4% of the current ratio, a acid test ratio and debt ratio explain the extent of variability of financial performance.

Table 4.3: Summary of One Way ANOVA

Model	Squares	Df	Mean Square	F	Sig.
1 Regression	0.001	3	0.000	15.107	0.063
Residual	0.001	2	0.000		
Total	0.002	5			

From the ANOVA table above it is evident that the independent variables are insignificant in terms of predicting the dependent variable which is the financial performance since the p value of 0.063 is greater than 0.05.

Table 4.4: Regression Coefficients

		Unstandardized Coefficient	Df	Standard Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0.052	0.062	-0.159	-0.842	0.488
	Debt ratio	-0.037	0.050	0.809	-0.744	0.534
	Current Ratio	0.063	0.015	-0.871	4.244	0.051
	Quick ratio	-0.081	0.016	0.347	-4.994	0.038

From the table of the regression coefficients, it is evident that negative relationship between debt ratio and financial performance exists and this relationship is not significant. From the above table the p value is 0.534 which is greater than 0.05. Positive relationship between current ratio and financial performance exists but the relationship is not significant, a negative relationship exists between quick ratio and financial performance and the relationship is significant since the t-value is 0.038 which is less than 0.05.

4.4 Interpretation of Findings

Based on the data analyzed, it can be deduced that debt ratio affects the financial performance and the effect is inverse relationship. It means that for companies to increase their financial performance they must reduce the debt levels in their capital structures by employing more of equity financing since high proportion of debt in a capital structure normally comes with interest charges which can negatively affect the companies. Current

ratio positively influences the financial performance that means that an increase in current ratio leads to an improved financial performance. Current ratio shows the rate at which short term obligations are paid from the most liquid assets on the other hand, quick ratio is inversely related with the financial performance. It means that a reduction in quick ratio will lead to an improved financial performance.

Regression analysis also revealed the existence of strong positive relationship between debt ratio, current ratio, quick ratio and return on assets. This is evident from the correlation coefficient value which is 0.979. Also the adjusted R square was 0.894 which indicates that the mergers and acquisitions variables employed exhaustively explained the financial performance by 89.4% the rest of the percentage of 10.6% is explained by other factors not considered in the analysis. Therefore it can be conclusively agreed that indeed mergers and acquisitions affect the financial performance of the companies listed at the Nairobi Securities Exchange however the effect is not significant. The findings of this research concur with the findings by Laz (2008) who concluded that mergers and acquisitions have insignificant effect on the financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the findings, conclusion, recommendations, limitations of the study and areas for further research

5.2 Summary

Globally, companies seek to improve their financial performance and due to the fact that many listed companies at the Nairobi Securities Exchange contribute immensely into the Kenyan economy, they must up their game of ensuring their financial health to continue the provision of services without interruptions this is aimed at improving the profitability of the companies which in turn improves the financial performance. Companies which have failed to put more emphasis on financial management have always been forced into financial distress and ultimate closure.

This study sought to unearth that truth of mergers and acquisitions and their effect on the financial performance of the companies listed at the Nairobi Securities Exchange. The study used a sample of seven companies which majorly were formed by mergers and acquisitions. The sample was taken from across the segments of the Nairobi securities Exchange. The study involved the collection of data from the financial statements for a period of 10 years from 2006 to 2016. The study also used the regression analysis in its analysis in establishing the effect and significance of mergers and acquisitions and use of the return on assets in measuring the financial performance.

The findings of this study established that the relationship exists between mergers and acquisitions and financial performance however the relationship is insignificant. The regression model used is a strong predictor of the financial performance since it was able to explain the influence of up to 89.4 %.

5.3 Conclusion

From the analysis of the study, it is evident that mergers and acquisitions is a sound strategy for many listed companies at the Nairobi Securities Exchange however, it failed to prove that it is significant. With regard to the analysis of the financial performance, the return on assets as a measure of financial performance slightly increased after mergers and acquisitions. The pre-mergers and acquisitions return on assets was 0.6667 and post mergers and acquisitions value was 0.6833 which shows a slight improvement. Nonetheless, based on the analysis of the paired t test, the research concluded that this effect was indeed insignificant due to the fact that all the p-values for the variables were greater than 0.05.

5.4 Recommendations

The findings of this study have proved that mergers and acquisitions are insignificant on the financial performance of companies listed at the Nairobi Securities Exchange. This means that mergers and acquisitions do not necessarily guarantee improved financial performance. This research therefore makes recommendation that companies should instead work out alternative channels which will improve the financial performance. For

example good marketing strategies which involve proper market segmentation and positioning which will increase the competitive advantage.

The management of companies to initiate sound financial management controls which will be aimed at ensuring good investment decisions are undertaken. This will prevent any losses which will affect the financial performance. The assets of the companies must be prudently utilized. The companies should also ensure the costs are minimized during operations since they will directly affect the financial performance. Training and development is an important component in any organizational performance. Therefore, the management of the companies should encourage training and development since it will improve the financial performance.

5.5 Limitations of the Study

This study suffered the limitations in sampling process. Due to the fact that many mergers and acquisitions have taken place among the listed companies the Nairobi securities Exchange, only a few have documented their data with the capital markets authority. This ensured that the sample for this study was small. This means that generalization might not be made on all listed companies as far as their financial performance is concerned.

Time was not very adequate considering the voluminous amounts of data that was to be collected and analyzed. Data collection alone requires a lot of time to collect enough data

which will be representative of the entire population. Nevertheless, the time that was available was utilized well in the collection and analysis of the data collected.

5.6 Areas for Further Research

This study majorly focused on a three year pre mergers and acquisitions and 3 year post Mergers and acquisitions I suggest that a similar study can be undertaken now using a span of 4 year pre mergers and acquisitions and 4 years post mergers and acquisitions and comparisons be made on the financial performance to determine if it will be the same or not.

A similar study should be undertaken for the private companies. These are the companies which are not listed at the stock exchange. The researcher will then do across analysis of the financial performance to determine how mergers and acquisitions will affect their financial performance.

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**APPENDIX 1: LIST OF MERGERS AND ACQUISITIONS IN
KENYA**

Company	Merged with	Acquired by	Name after merger and acquisition	Year approved
British American Insurance Company	Real Insurance Company		Britam Insurance Limited	2013
Mercantile Insurance Company		Saham Group Limited	Saham Group Limited	2013
Savings and Loans Kenya		Kenya Commercial Bank	Kenya Commercial Bank Limited	2010
Kenol Limited	Kobil Limited		KenolKobil Limited	2008
ELF Oil Limited		Total Kenya	Total Kenya Limited	2012
Co-operative Merchant Limited		Co-operative Bank of Kenya	Co-operative Bank of Kenya Limited	2011

APPENDIX II: RESEARCH DATA

Ratio / Year	Year 1 before M &As	Year 2 before M&As	Year 3 before M&As	Year 1 after M&As	Year 2 after M & As	Year 3 after M&As
Average debt ratio	0.6	0.5	0.4	0.6	0.7	0.5
Average current ratio	1.5	2.2	2.4	1.9	1.5	2.5
Average ROA	0.05	0.01	0.03	0.04	0.02	0.03
Average quick ratio	0.6	0.7	0.4	0.5	0.3	0.9

Source: (Research Findings)