

THE EFFECT OF CORPORATE ACQUISITION ON SHAREHOLDER WEALTH FOR COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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ABSTRACT

An organization creates shareholder value when the shareholder's return exceeds the required rate of return to equity or the cost of equity. If an organization outperforms expectations, shareholder value is created. Creating shareholder value gives organization rewards such as raising the present value of owner's investment leading to an eventual increase in the market value of the organization's securities. A successful acquisition depends upon the strategy of the parent company. The main objective of this study was to determine whether corporate acquisitions affect the shareholders wealth. This was achieved by checking if such acquisitions affect them positively or negatively. Secondary data was used for this research in order to determine the effect of corporate acquisition on shareholder wealth for companies listed at the NSE. Regression analysis was used to determine this effect. From the regression findings, there was an overall strong positive effect on shareholder wealth from corporate acquisitions. This meant that there would be overall growth to the shareholder's funds after the acquisition process. The study revealed that the three factors under consideration positively influence the shareholders wealth for the firms listed at the NSE. When firms increase both their return on investment and return on assets, they are able to buy out loss making and struggling firms. Stock market condition is a major factor to consider when deciding on acquisition. This is mostly because instead of cash, an organization may decide to use stock/securities to settle the acquisition process especially during stock market boom because through mergers and acquisitions, firms to grow externally.