

**THE EFFECT OF MERGERS AND ACQUISITIONS ON  
THE FINANCIAL PERFORMANCE OF OIL FIRMS IN  
KENYA**

**JAMES MUTHENGI MULWA**

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## **DECLARATION**

I declare that this research project is my own work and it has not been submitted for any degree or examination in any other University.

Signature.....

Date.....

**JAMES MUTHENGI MULWA**

**D63/68345/2013**

This Research Project has been submitted for examination with my approval as the University Supervisor

Signed .....

Date.....

**DR. MIRIE MWANGI**

Senior Lecturer

Department of Finance and Accounting

School of Business, University of Nairobi

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## **DEDICATION**

I dedicate this research work to my dear family especially my parents for their dedication and unconditional love and support throughout the Master of Science program. May God continue bless you.

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## ABBREVIATIONS

<b>CR</b>	Current Ratio
<b>ERC</b>	Energy regulatory commission
<b>GPM</b>	Gross Profit Margin
<b>M &amp; A</b>	Mergers and Acquisitions
<b>NSE</b>	Nairobi Securities Exchange
<b>QR</b>	Quick Ratio
<b>ROA</b>	Return on Assets
<b>SPSS</b>	Statistical Package for the Social Sciences
<b>TAR</b>	Total Asset Ratio
<b>TDR</b>	Total Debt Ratio



## ABSTRACT

A Merger refers to the combination of two or more firms, in which the resulting firm maintains the identity of one of the firms, usually the larger. An acquisition, also known as a takeover or a buyout, is the buying of one company (the 'target') by another. The study set out to find the effects of mergers and acquisition on financial performance of oil industry in Kenya. The objective of this research project was to establish the effect of mergers and acquisitions on the financial performance of oil firms in Kenya. This was by conducting an industry analysis of the oil sector in Kenya. The study was limited to a sample of companies in the Kenya market that merged/acquired between the years 2000-2014. Data were collected from the Annual Statement of Accounts and Financial Reports of the firms. Regression analysis was conducted to establish the relationship between financial performance and the independent variables that is the financial leverage, liquidity, capital adequacy, size of the merged/acquired oil companies in Kenya. Comparisons are made between the mean of 5-years pre-merger/acquisition and 5-years post-merger/acquisition financial ratios, while the year of merging/acquisition is exempted. The analysis and results show that petroleum firms performed poorly in the post-merger/acquisition era as compared to the pre-merger/acquisition era. The merger/ acquisition have a negative impact on the financial performance of the oil companies though this is not statistically significant at 5% level. The study therefore concludes that mergers and acquisitions do not have a statistically significant relationship with ROA. The study also found that financial leverage positively affects ROA of firms that merged however effect is not statistically. Liquidity positively affects ROA of the firms, though the effect is not significant. Both Size of the firms and capital adequacy negatively impacts on ROA and the effect is also not statistically significant. The study recommends that management should come up with a sound strategy towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced. Management should put into consideration the degree of transferability and marketability of assets invested in so that these assets can provide liquidity to the firm with ease.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Globally, multinational companies have attributed their growth and dominance in industry to restructuring efforts that have seen them absorb smaller companies with unique ideas into their fold, supported them and grown together. The success of such acquisitions has been attributed to the strong financial base created for innovation and growth which has consequently yielded results for the acquired companies and profits for the acquiring companies. This therefore has meant that for great ideas to grow, there has been a need to consolidate resources for smaller companies a concept that has brought about mergers and acquisitions (Powell, 2005).

Global markets have continuously experienced increased mergers and acquisitions over the last decade. Various reasons have driven firms to undertake Mergers and Acquisitions. Growing business confidence, consumer demand and improving economic conditions in the region have whetted business executives' appetite for firms in the technology, mining and financial services sectors. Mergers and Acquisitions (M&A) are continuously being adopted for progressive company competitiveness by expanding market share. M&A are used to diversify the company's portfolio as a risk management strategy. Additionally, to enable companies penetrate to new geographical markets to support growth by capitalizing on economies of scale and increase on customer base among other reasons (Kemal, 2011). The logic behind any corporate merger is the synergy effect; two is better than one. Companies believe that by either merging or acquiring another company, the performance would be better than a single entity. This is attributed by the fact that shareholder value would effectively be maximized (Sharma, 2009).The reasons

behind mergers and acquisitions are; increased market share and revenues, economies of scale, synergy, taxation, widen geographical areas and among other rationale.

Mergers and acquisitions decisions are critical to the success of corporations and their managers. Many corporations find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. For others, separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, M&A create synergies, gain economies of scale, expand operations and cut costs. Investors may expect mergers to deliver enhanced market power. It is no secret that plenty of mergers do not work. In theory, M&A is great, but in practice, things can go awry. Various empirical results have revealed that many of mergers were disappointed, where the motivations that drive mergers can be flawed and efficiencies from economics of scale may prove elusive.

Corporations are undertaking various strategies in efforts to improve financial performance. Financial performance is paramount to the success of any organization as it reflects the financial health of companies in the market and the performance as compared to other players in the industry. Mergers and Acquisitions have been undertaken in efforts to improve organization performance due to the benefits they are believed to carry along. Improving financial performance through mergers and acquisition is mainly considered a management strategy. Management considers merger and acquisition to reduce costs and expenses and maximize shareholder value (Olusola & Olusola, 2012)

### **1.1.1 Mergers & Acquisition**

A merger is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the

surrender of their stock where one company or both loose entity. A merger can be defined as any transaction that forms one economic unit from two or more previous ones. Mergers have already been around for thousands of years: during the ancient times, countries have formed alliances with their neighbors just so to protect themselves or to conquer another country, and for as early as the fifteenth century, international trading was made possible because of alliances (Freidheim, 1998).

According to Halpern (1983), mergers occur when an acquiring firm and a target firm(s) agree to combine under legal procedures established in the states in which the merger participants are incorporated. Manne (1965) argued that in a merger, the acquiring concern will be a corporation and not an individual, and the medium of exchange used to buy control will typically be shares of the acquiring company rather than cash. A merger requires the explicit approval of those already in control of the corporation. And most statutes require more than a simple majority vote by shareholders to effectuate a merger.

The term “acquisition” is used to refer to any takeover by one company of the share capital of another in exchange of cash, ordinary shares, or loan stock (Halpern, 1983). The acquiring firm retains its name and identity, and it acquires all of the assets and liabilities of the acquired firm leading to none existence of the acquired firm. M&A’s have been popular methods of increasing the size and value of firms in modern times. Compared to the older system of increasing value through organic growth, M & As are faster and in most cases cheaper. The terms M&As have been used interchangeably in this study.

### **1.1.2 Financial Performance**

Financial performance can be described as a measurement of how well a firm uses its assets from its primary mode of business to generate revenue. It is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare industries or sectors in aggregation. According to Subramanyam and John (2009), financial performance of a company is measured through financial analysis in the context of the goals and strategy of the company. This can be achieved through the use of two principal tools of financial analysis that are usually used: ratio analysis and cash flow analysis.

Operating performance studies attempt to identify the sources of gains from mergers and to determine whether the expected gains at announcement are ever actually realized. If mergers truly create value for shareholders, the gains should eventually show up in the firm's cash flows. These studies generally focus on accounting measures of profitability, such as return on assets and operating margins, (Andrade, Mitchell & Stafford 2001).

Ratio analysis has commonly been used to measure a firm's financial performance. The financial performance of a firm is defined as the subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor

may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Hutchison, 2005)

### **1.1.3 Mergers and Acquisition on Financial Performance**

Companies that engage in acquisition realize that the real challenge starts when the deal is closed and attention shifts to how value can be delivered. Whether or not the target company operates in the same or complimentary field, it's always important to merge the two companies in order to develop synergies and create value for shareholders. In 2001, most of the companies failed due to poor management of the merged companies (Boot, 2011).

Mergers and acquisitions (M&A) is an aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. Rationale for M&A has been traced (Hutchison, 2005) to include: monopolizing industry; reorganizing production systems to reduce cost structures; gaining synergies; decreasing capital costs; solving management problems; and speculating in stocks. Several authors including Luypaert, (2008) have investigated determinants of M&A in various settings. The firm's financial position is key in determining whether a firm will participate in a merger or in an acquisition. A firm will only participate in a merger or in an acquisition if it feels that it can gain by collaborating with another company (Andrade, 2004).

Mergers and Acquisitions are used in improving company's competitiveness and gaining competitive advantage over other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and

geographies, and capitalizing on economies of scale (Saboo & Gopi, 2009). Mergers and Acquisitions agreement is taken not necessarily because of lack of corporate strength but an avenue to create synergy. Many corporations find the best way to get ahead is to expand ownership boundaries is through mergers and acquisitions (Ismail, Abdou and Annis, 2011).

#### **1.1.4 Oil Companies in Kenya**

There are 75 registered companies in Kenya that are engaged in the oil and petroleum sector. Some of the major players include Shell Kenya limited managed by Vivo energy, Total Kenya, Oilibya Kenya Limited, KenolKobil Kenya, National Oil Corporation, Hashi energy and Hass Petro among many others. All the oil companies are regulated by ERC which controls the pricing of fuel. KenolKobil and Total Kenya are the only listed companies in the NSE. The major oil companies control about 70% of the market share and own oil infrastructures within the country. For example Kenya shell owns oil storage facilities in Nairobi and Mombasa, LPG filling plant in Nairobi and lubricants blending plant in Mombasa. The oil companies have a distinct brand, which totally differentiates them from the others. Oil companies in Kenya also run a nationwide network of retail outlets. For example KenolKobil has 140 service stations in its retail network and holds 20% of the Kenyan fuels market. Kenya Shell runs 130 service stations around the country and commands up to 25% of the Kenyan fuels market.

Despite Liberalization in 1994, which resulted in increase in number of independent oil distribution companies in Kenya, the major oil companies have maintained their status through acquisitions and mergers. In 2006 Kenya Shell acquired the Shareholding of BP in Kenya increasing its market share from 15% to 25% in 2008.

Oil Libya acquired Exxon Mobil shareholding in Kenya in 2007. Recently Total Kenya acquired all the assets of Chevron in Kenya (Kenya Oil Company Limited, 2008). Other mergers were those of Kenya Oil Company Limited (Kenol) which merged with Kobil to form Kenol/Kobil Ltd. In 2000, Kenol acquired Galana Oil, petrol and oil vendor.

## **1.2 Research Problem**

Shareholders and managers in the oil industry have turned to mergers and acquisitions to improve the financial performance, but the studies which have been carried out on this area have mixed results. It is critical to carry out study on the effects that mergers and acquisitions have on financial performance of corporate organization. Rather than being used as strategic tool, it is important to establish the impact of M&A's on liquidity, profitability and solvency. By analyzing the financial performance of oil firms in Kenya, the research will determine if M&A's affect the ability of these firms to meet their short term obligations. Additionally it is important to analyze if mergers and acquisitions have any effect on profitability efficiency of oil firms in Kenya over a given period of time. Also, the study will determine if M&A have an impact on the ability of oil firms in Kenya firms to meet their long-term objectives, achieved by a evaluating the solvency and improving on research methodologies of Powell and Stark (2005), Lole (2012) and Marembo (2012).

There has been a common trend on mergers and acquisition for corporations in Kenyan market especially ones listed in the Nairobi securities exchange. The key motivation has been improvement on profitability, efficiency and firm's general value to the shareholders. Despite the mixed results on mergers and acquisitions, there are arguments in support of the mergers and acquisition. The primary argument in favor of mergers is that they are good for industrial efficiency without the threat of their



companies being taken over and, in all likelihood, the loss of their jobs; managers would act more in their own interest than those of owner (Roll, 1986).

Empirical studies such as Saple, (2000) showed that mergers and acquisition did not lead to an improvement in the financial performance as measured by the profitability adjusted for industry average. Other studies have also shown that merger and acquisition are capable of having adverse effect as suggested by Yook, (2004), Yeh and Hoshino, (2002), King et al, (2004); Ismail, Abdou and Annis, (2010).Selvam et al (2009); Kling, (2006) provide evidence on the positive impact of corporate mergers and acquisitions by merger on firms

Kenya merger restructuring has not improved majority of the mergers and acquisition as indicated by the profitability and earnings ratios (Chesang, 2008). It's not certain for shareholders to venture in such deals due to the uncertainty and inconsistency of the findings on this area. There have been research on effects of mergers and acquisition on performance of firms in the financial sectors in Kenya, i.e. banks and insurance companies. Kithitu, et al, (2012) researched on the role of mergers and acquisitions on the performance of commercial in Kenya. The results reveal that mergers and acquisitions do add value to shareholders wealth.

There is need to have a comprehensive framework which will seek to understand the origins of M&A performance and integrate the various studies done on M&A. Minimal research has been conducted on the effect of mergers and acquisitions on performance of firms in the oil sector and Manufacturing industries. Past studies have led to conflicting results that make the effect of mergers and acquisitions as a business strategy to better performance inconclusive. Therefore, the study will answer whether corporate mergers and acquisitions affect liquidity, profitability and solvency

objectives which firms pursue. This research study will attempt to fill a gap in academia by investigating the effects of mergers and acquisitions on the profitability, liquidity and solvency of corporate organizations in the oil sector in Kenya.

### **1.3 Research Objective**

The objective of this research is to establish the effect mergers and acquisition have on the financial performance of oil companies in Kenya, both listed and non-listed.

### **1.4 Value of the Study**

The study will be of great benefit for firms that have merged or participated in an acquisition, those considering merging or taking part in an acquisition and for scholars. This research will entail making use of, or exploring the knowledge residing in the mergers and acquisitions. Most research has focused on the effects of gaining access to market or country specific knowledge, or to technological and innovative capabilities through explorative M&As. Yet, the knowledge obtained from M&A experience also provides an interesting avenue to explore. Firms that have merged will be able to identify the variables that are affected by the mergers or participated in an acquisition so that these firms can develop strategies for effective resource allocation for a better financial performance. These firms will identify key aspects that would turn around a firm after a merger or an acquisition with an aim of focusing on these aspects, develop strategies after which a firm will be able to enhance its financial performance.

This study will also be of great significance to scholars as it will shed light and provide literature that can be developed further about how a mergers and acquisitions can affect the financial performance of firms. The study will hence form academic data that can be used in learning institutions and research institutions for further

research. The study will also assist customers be in a position to understand on the possible effects of M & A and how it affects them. Synergies can be created that will lead to reduction of prices of items or otherwise in case the M&A deal does not succeed. M&A also has the possibility of creating monopolistic firms that act to the detriment of customers in terms of prices. Based on the positive and negative effects of M&A customers through relevant systems can air their views

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will focus on theories surrounding the problem and past studies through empirical evidence. The subsequent literature review seeks to integrate issues regarding theories to be reviewed, classification of mergers and acquisitions, motivations for mergers and acquisitions, determinants of financial performance and the empirical review of related studies.

#### **2.2 Theoretical Review**

Merger is defined as an arrangement whereby the asset of two companies become vested in or under the control of one company (which may or may not be one of the original two companies), which has all or substantially all, the shareholders of the two companies (Weinberg and Blank 1979). Gaughan (2002) opined that merger is a combination of two companies in which only one company survives and the merged company ceases to exist, whereby the acquiring company assumes the assets and liabilities of the merged company. Various theories that lead to mergers and acquisitions revolve around market control theory, free cash flow theory, and size and return to scale theory.

Mergers and Acquisitions, however, can arise from non-value maximizing behavior on behalf of the managers of the acquiring company. As they are not prompted by managerial discipline motives, these mergers do not usually cause the layoff of the target's incumbent management. However, such mergers are generally harmful to the shareholders in the interest of whom managers are supposed to act Managers acting to

maximize value for shareholders must distribute all free cash flow to them (Jensen, 1986).

### **2.2.1 Market Control Theory**

This theory postulates that a merger increases the size and reputation of a firm and enables it to control and influence the market and even influence economic decisions and policies. Large conglomerates can and often do influence political decisions and have considerable political leverage in the US to lobby policymakers on domestic and foreign policy (Hutchison, 2005).

In this theory the conduct of takeovers by companies in that market and the accompanying threat of takeover are external control mechanisms which can reduce agency costs. The opposing view considers that the market for corporate control cannot resolve principal-agent problems and that, on the contrary, mergers and acquisitions are manifestations of acts of agency that can exacerbate contradictions between management and shareholders. In countries as the U.K. and U.S.A., company stock rights are highly decentralized and shareholders have limited influence over companies' operations and management. The market for corporate control is quite dynamic and its functions can be effectively brought into play. In countries such as Japan and Germany and in countries of Southeast Asia where there are family holdings, the market for corporate control is by no means dynamic since stock rights are more concentrated (Hutchison, 2005).

### **2.2.2 Free Cash Flow Theory**

Takeovers benefit shareholders of target companies. Premiums in hostile offers historically exceed 30 percent on average, and in recent times have averaged about 50 percent. Acquiring-firm shareholders on average earn about 4 percent in hostile

takeovers and roughly zero in mergers, although these returns seem to have declined from past levels. Takeovers do not waste credit or resources. Instead, they generate substantial gains: historically, 8 percent of the total value of both companies (Jensen and Ruback, 1983).

Diverting free cash flow from shareholders allows managers to avoid having to use capital markets when in need of new capital; i.e. it allows them to avoid the monitoring associated with new equity issues (Easterbrook, 1984). Moreover, by diverting free cash flow managers can increase the size of the company, thereby enhancing their power and their earning ability, and reducing take-over risk. There is a conflict of interest related to the distribution of free cash flow between managers and the shareholders they are supposed to represent (Jensen, 1986).

### **2.3 Determinants of Financial Performance**

Profit is the ultimate goal of all corporate organization. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that companies have no other goals. Companies could also have additional social and economic goals. However, the intention of this study is related to the first objective, financial performance. To measure the financial performance of oil firms there are variety of ratios used of which Return on Asset and Return on Equity are the major ones (Murthy and Sree, 2003; Alexandru et al., 2008).

The empirical literature examines how financial factors, such as profitability, liquidity, efficiency have an influence on the firms' financial performance and growth. Debt leverage is measured by the ratio of total debt to equity (debt/equity ratio). It shows the degree to which a business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable

to make payments on their debt; they may also be unable to find new lenders in the future. Leverage is not always bad, however; it can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing (Palepu, 1986).

### **2.3.1 Management Efficiency**

Management Efficiency is one of the key internal factors that determine a company's financial performance. It is represented by different financial ratios like total asset growth and earnings growth rate. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. If managers of acquiring firms are more capable than those of acquired firms, they can improve the efficiency of targets. This theory predicts that poorly performing firms are more likely to be acquired and that the performance of targets will improve after the takeover. Acquiring firms are also expected to gain from the takeover activity if they have the ability to bring operating synergy to the post-takeover entity (Athanasoglou et al. 2005).

The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al., 2005).

### **2.3.2 Liquidity Management**

Liquidity is another factor that determines the level of a company's financial performance. Liquidity refers to the ability of the oil companies to fulfill their obligations, mainly of creditors or suppliers as and when they fall due. According to (Dang, 2011) adequate level of liquidity is positively related with oil company profitability. A firm can use liquid assets to finance its activities and investments when external finance is not available or it is too costly. On the other hand, higher liquidity would allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings.

The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. The size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. Other scholars use different financial ratio to measure liquidity. For instance (Ilhomovich, 2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia.

### **2.3.3 External Factors/ Macroeconomic Factors**

The macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability is also other macroeconomic variables that affect the financial performance of companies. For instance, the trend of GDP affects the demand for banks asset. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle. During boom the demand for credit is high compared to



recession (Athanasoglou et al., 2005). The same authors state in relation to the Greek situation that the relationship between inflation level and banks profitability is remained to be debatable. The direction of the relationship is not clear (Vong and Chan, 2009).

## **2.4 Empirical Studies**

The effect of M&A on value creation has been widely studied in the financial sector. The motivation has been to understand whether the perceived benefits from this strategy have accrued or not.

Cummins et al., (1999), examined the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry over the period 1988 to 1995. They estimated cost and revenue efficiency using data envelopment analysis (DEA). Their results found that acquired firms achieved greater efficiency gains than firms that had not been involved in mergers or acquisitions. Furthermore, they found firms operating with non-decreasing returns to scale and financially vulnerable firms were more likely to be acquisition targets. From their results they concluded, mergers and acquisitions in the life insurance industry had a beneficial effect on efficiency.

Guest et al., (2010), examined the financial impact of 303 acquisitions of UK public companies, completed between January 1985 and December 1996. They wanted to address whether takeovers yield a positive net present value for the acquiring company. They analyzed the sample using two methodologies- accounting returns and residual income approach. Their findings showed that while the accounting returns showed significant improvement in performance, the residual income approach finding was that acquisitions had a small and insignificant effect on fundamental value, relative to control firms

Marangu (2007), studied the effects of mergers and acquisition on financial performance of non-listed commercial banks in Kenya. The research focused on the profitability of non - listed banks which merged from 1994 to 2001 and used four measures of performance: profit, return on assets, shareholders equity/total assets, and total liabilities/ total assets. Comparative analysis of the bank's performance for the pre and post-merger periods was conducted to establish whether mergers lead to improved financial performance before or after merging. The results of the data analysis showed that three measures of performance: profit, Return on Assets and shareholders' equity/total assets had values above the significance level of 0.05 with exception of total liabilities/total assets. His results concluded that there was significant improvement in performance for the non-listed banks which merged compared to the non-listed banks that did not merge within the same period

Cummins and Xie (2006), analyzed the productivity and efficiency effects of mergers and acquisitions in the U.S. property-liability industry during the period 1993-2003. They used data envelopment analysis (DEA) and Malmquist productivity indices. Their aim was to determine whether M&As are primarily driven by value maximizing versus non-value-maximizing objectives. The analysis examined the efficiency and productivity change for acquirers, acquisition targets, and non-M&A firms. Their results indicated that M&A in property-liability insurance were primarily associated with value-maximization. Acquiring firms achieved more revenue efficiency than non-acquiring firms, and target firms experienced greater cost and allocative efficiency growth than non-targets. They also found evidence that M&A were motivated by earnings diversification, but there was no evidence that scale economies played an important role in the insurance M&A merger wave. They concluded that the deals lead to a significant positive valuation effect for the acquiring companies.

Pazarskis et al. (2006), examined empirically the impact of mergers and acquisitions (M & As) on the operating performance of Mergers & Acquisitions involved firms in Greece. Using financial, accounting and confidential questionnaire response data, the post-acquisition performance of fifty Greek companies listed on the Athens Stock Exchange that executed at least one merger or acquisition in the period from 1998 to 2002 is evaluated on the basis of certain non-financial characteristics and financial characteristics (a set of seven selected financial sectors). The study showed strong evidence that the profitability of a firm that performed M & As is decreased due to the merger/acquisition event.

Saboo and Gopi (2007), investigated the impact of mergers on the operating performance of acquiring firms by examining some pre-merger and post-merger financial ratios of these firms and determined the differences in pre-merger and post-merger financial ratio of the firms that went for domestic acquisitions and firms that opted for international/cross-border acquisitions. The results suggest that there are variations in terms of impact on performance following mergers, depending on the type of firm acquired-domestic or cross border. The main finding shows that merger have had a positive effect on key financial ratios of firms acquiring domestic firms while a slightly negative impact on the firms acquiring cross-border firms.

Mantravadi and Reddy (2008), evaluated the impact of mergers on the operating performance of acquiring corporate in different industries, by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003. The results suggest that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. Specifically, mergers seem to have had a slightly positive impact on profitability of

firms in the banking and finance industry; the pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance in terms of profitability and returns on investment. For the chemicals and Agri-products sectors, mergers had caused significant decline both in terms of profitability margins and returns on investment and assets.

Selvam et al (2009), conducted a study on the impact of mergers on the corporate performance of acquirer and target companies in India. A sample of companies which underwent merger in the same industry during the period of 2002-2005 listed on the Bombay Stock Exchange. The study focused on comparing the liquidity performance of the thirteen sample acquirer and target companies before and after the period of mergers by using ratio analysis and t-test. It was found out that the shareholders of the acquirer companies increased their liquidity performance after the merger event.

Ullah et al (2010), examined whether merger delivers value, taking the case of Glaxo Smith/cline Merger. They analyzed the pre and post-merger performance of the firm by applying the net present value approach of valuation. The study found that mega pharmaceutical merger hasn't delivered value. The stock prices underperform both in absolute and relative terms against the index. The merger resulted into substantial research and development reduction and downsizing instead of a potential employment haven. (Ismail et al., 2010), conducted a study to explore improvements in the corporate performance of firms involved in merger and acquisition. Using a sample of Egyptian companies in the period from 1996 to 2005 in the construction and technology sectors, their results show that merger and acquisition in the construction sector has contributed in improving the profitability of firms while in the technology sector, no improvements were discovered. For both sectors, M & As did not improve efficiency, liquidity, solvency and cash flow positions.

Mishra and Chandra (2010), assessed the impact of merger and acquisition on the financial performance of Indian pharmaceutical companies over the period from 2000 – 01 to 2007 – 08. By applying panel data estimation techniques, they found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. Their empirical findings suggests that M & A does not have any significant impact on profitability of the firms in the long run possibly due to the resultant X-inefficiency and entry of new firms into the market.

Marembo (2012), set out to investigate the impact of mergers and acquisition on the financial performance of commercial banks in Kenya over the period 1994 to 2010. Marembo used accounting analysis regression models and found that the new financial institution formed after the merger was more financially sound. He further recommended that commercial banks with a weak and unstable capital base should seek to consolidate their establishments through mergers and acquisitions

Lole (2012), set out to investigate the effects of the merger of Apollo Insurance Company Ltd, and Pan Africa Insurance Company to form APA Insurance in 2004. Lole used accounting analysis regression models and found that the merger was effective on the financial performance of the insurance company. Lole (2012), further recommended that insurance companies should opt for mergers and acquisitions to enable the insurer to alleviate the challenges that face the Kenyan insurance industry

## **2.5 Summary of Literature Review**

There are several theories that explain the rationale for mergers and acquisitions. According to the value maximizing hypothesis, a merger or acquisition should generate a positive economic gain to the merging firms or at least non negative returns. The non-value hypothesis, proposed by Halpem (1983), takes the view that

any merger or acquisition has no economic gains for the merging firms. Managerial hypothesis proposes that mergers can be used by the managers of firms as a tool to achieve their own personal interests or as response to inefficient management. The various determinants of financial performance revolve around, management efficiency, liquidity efficiency and external factors. In the final part, the literature review entails the related empirical review. Although M&A enjoy importance as strategies for achieving growth, their success in creating value remain contested. Consequently a lot of studies have been done to determine the post-acquisition performance

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section discusses the data sources as well as the selection of the sample of M&A that were included in the analysis. It specifically details the research design employed, population of study, data collection and finally the data analysis model used to conduct the study.

#### **3.2 Research Design**

The research adopted a descriptive research design in order to determine the relationship between mergers and acquisitions and the financial performance of oil firms in Kenya. Cooper & Schindler (2006) described this method to be a detailed description of events, situations and interactions between people and things. By using a descriptive study, the research was able to depict whether mergers and acquisitions do have an impact on the financial performance of oil firms in Kenya.

#### **3.3 Population**

The population under study consisted all the oil firms in Kenya. There are 75 oil firms in Kenya currently. Some of the firms in this sector participated in mergers and acquisitions in efforts to improve financial performance and maximize shareholder value. Some of the oil companies are listed in the Nairobi securities exchange. This study mainly focused on firms that had engaged in mergers and acquisitions in this sector whether listed or not between the years 2000-2014. These included; takeover of Mobil Oil by Oil Libya Kenya, Total Kenya acquisition of Chevron Kenya, Merger of Kenya oil and Kobil Kenya to form KenolKobil and the acquisition of BP Kenya by Shell Kenya.

### 3.4 Data Collection

The study used secondary data on financial statements of the merged company before and after the merger. The fundamental or intrinsic value were then compared before and after the merger. Secondary data was obtained from the Nairobi securities exchange and the Capital Markets authority annual reports as well as from the companies' official websites. Data from financial statements will included; current assets, current liabilities, total liabilities, net worth and total assets. Data from securities exchange will included net revenue of oil firms listed in the Nairobi Securities Exchange and had engaged in mergers and acquisitions.

### 3.5 Data Analysis

Data analysis was divided into pre-merger/acquisition period and post-merger/acquisition period. This helped in comparison of financial performance before and after merger/acquisition. Comparison was be on 11 year period comprising 5 years before M&A and 5 years after M&A with year of merger being year 0. Ratio analysis on financial data collected will be undertaken in order to compare and ascertain the financial performance over the two periods in line with the method specified by Agorastos et al (2012). Profitability as a measure of financial performance was analyzed; profitability ratio to be computed is return on assets (ROA). Ratio analysis was also used by (Odhiambo, 2013).

The following regression model was used for the study.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y= Financial performance was determined using the return on assets (ROA). ROA is calculated by diving firm's annual earnings after interest by its total assets.



$X_1$ = Financial leverage which was measured using the debt to equity ratio.

$X_2$ = Capital adequacy obtained by dividing total equity by total assets.

$X_3$ = liquidity calculated by dividing current assets by current liabilities.

$X_4$ = Size of the firm was measured by the log of total assets of each firm

$\alpha$  = Regression constant

$\varepsilon$  = Error term normally distributed about the mean of zero.

$\beta_1\beta_2\dots\beta_n$  were the coefficients of the variation to determine the volatility of each variable to financial performance the in regression model.

To establish the strength of the model, we conducted an ANOVA test. This helped to establish whether the model was significant in explaining the relationship between mergers and acquisitions on the financial performance of oil firms in Kenya. A significance test at 5% and confidence level was conducted at 95% to measure the significance of the factors in explaining the changes in the dependent variables.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION OF RESULTS**

#### **4.1 Introduction**

This chapter entails the data analysis, relationship among the study variables as well as results of the analysis. The data analysis method utilized is the ratio analysis, descriptive research design as well as the statistical t-test research design. In addition, the relation between variables is determined by performing a correlation between the variables. The correlation matrix presented simple bivariate correlations not taking into account other variables that may influence the results. Analysis of Variance (ANOVA) was employed to confirm the significance of the contributions with F-test to determine the equality of the two variables. All these were obtained in the Statistical Package for Social Sciences (SPSS) and finally the results of the analysis are discussed.

#### **4.2 Data analysis and findings**

Descriptive statistics analyzed mean, minimum, maximum and the standard deviation of the variables while inferential statistics looked at the regression analysis, model summary and the analysis of variance. Correlation analysis was also used to assess the strength of the relationship between the dependent and each explanatory variable.

##### **4.2.1 Descriptive Statistics**

The following table gives the descriptive statistics of the collected variables on the pre-merger period. The descriptive statistics and the distribution of the variables were presented in Table 4.2 presents. The mean value, minimum, maximum and the standard deviation of Return on Assets, financial leverage, liquidity, capital adequacy, size, were analyzed.

**Table 4.1 Descriptive statistics of the main determinants of financial performance in millions of Kenya Shillings**

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	21	-.13	1.40	.3667	.35186
Financial leverage	21	.14	2.49	.6371	.72174
Capital adequacy	21	.04	.55	.3843	.12250
Liquidity	21	.93	1.49	1.1814	.13211
Size	21	.95	6.98	2.6786	1.72485
Valid N (list wise)	21				

**Source: Research findings**

On the average return on asset (ROA) had a mean of .3667 with standard deviation of .35186. Financial leverage had a mean of .6371 with a standard deviation of .72174. The mean ratio of current assets and current liabilities is 1.1814 with standard deviation of .13211 implying that every unit of current asset invested is used to finance 1.1814 units of current liability. Capital adequacy mean was .3843 with a standard deviation of .12250, while size of then firm recorded a mean of 2.6786 with a standard deviation of 1.72485.

### **4.3 Inferential statistics**

The inferential statistics involved the use of multiple linear regression analysis to determine the significance of the coefficients of the explanatory variables in explaining the variation in dependent variables. Model summary was used to determine the proportion of the dependent variable explained by the explanatory variables while ANOVA was used to determine the fitness of the model used in the analysis. Correlation analysis established the direction of the relationship between the variables.

### 4.3.1 Correlation analysis

The Pearson product-moment correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by  $r$ . The Pearson correlation coefficient,  $r$ , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable.

**Table 4.2: Correlation Analysis**

	ROA	Financial leverage	Capital adequacy	Liquidity	Size
ROA	1				
Financial leverage	-.078	1			
Capital adequacy	-.218	-.640**	1		
Liquidity	.400	-.386	.095	1	
Size	.033	.668**	-.392	.172	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### Source: Research Finding

A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases. Table 4.2 below gives a summary of the correlation between the dependent variables and the explanatory variables. Financial leverage has a weak negative association with the ROA of the firm ( $R = -0.078$ ). Capital adequacy also shows weak negative relationship with ROA ( $R = -0.218$ ). Liquidity has a weak and positive relationship with the ROA of the firm ( $R = 0.400$ ). Finally, Size of the firms show weak but positive relationship with ROA ( $R = 0.033$ ), of the firms that merged or acquired.

### 4.3.2 Regression Analysis

To establish the relationship between M&A and financial performance of oil companies in Kenya, a multiple regression analysis was conducted. The regression model used was as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

#### 4.3.2.1 Model Summary

Determination coefficient ( $R^2$ ) was carried out to determine the proportion of the variation in dependent variable that is attributed to the changes in the explanatory variables. The study established  $R^2$  of 0.251 which implies that 25.1% of the variation in ROA of the firms that merged/acquired is attributed to the changes in explanatory variables (financial leverage, capital adequacy, liquidity, size (natural log of total assets)).

**Table 4.3 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.501 <sup>a</sup>	.251	.064	.34047

A. Predictors: (constant), Financial Leverage, Capital Adequacy, Liquidity, size (natural log of total assets).

B. Dependent Variable: ROA

Source: research findings

Regression analysis was used to establish the relationship between ROA and the factors that affect the variables. The results showed a correlation value of 0.501 which depicts that there is a good linear dependence of ROA financial leverage, capital adequacy, Liquidity, and size of the oil firms.

The adjusted  $R^2$  is known as coefficient of determination and it shows the variation in effect of merger and acquisition and financial performance. The study findings indicate that the goodness of fit model was adequate. This was reported by r squared of 0.251 which means that 25.1% of the variation in ROA (financial performance) is explained by changes in financial leverage, capital adequacy, Liquidity, and size. The correlation coefficient of 50.1% means that the dependent variables have a strong correlation the independent variable.

#### 4.3.2.2 Analysis of Variance

The study used ANOVA statistics to establish the significance of the relationship between value of the ROA of the oil firms that merged/acquired and the explanatory variables. There is no significant joint relationship between ROA and financial leverage, liquidity, capital adequacy and size at 5% level of significance, given the level of significance 0.298 which is above 0.05.

**Table 4.4 Analysis of Variance**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.621	4	.155	1.340	.298 <sup>b</sup>
	Residual	1.855	16	.116		
	Total	2.476	20			

a. Dependent Variable: ROA

b. Predictors: (Constant, financial leverage, Liquidity, Capital adequacy, Size)

#### 4.3.2.3 Regression Coefficients

Table 4.5 shows the regression coefficients of independent variables that explains the changes in ROA.

**Table 4.5 Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.684	1.148		-.595	.560
Financial leverage	.016	.243	.032	.064	.950
Capital adequacy	-.916	.857	-.319	-1.069	.301
Liquidity	1.269	.848	.476	1.495	.154
Size	-.040	.079	-.195	-.503	.621

Source: Research findings.

The coefficient table above was used in coming up with the model below:

$$Y = -0.684 + 0.016 X_1 - 0.916X_2 + 1.269 X_3 - 0.040 X_4$$

#### **4.6 Summary and Interpretation of Findings**

This section summarizes the results of the study. The study findings indicate that Return on Equity (ROA) mean decreased from 0.5635 to 0.3682 after Merging/Acquisition. This implies that either returns of the merged/acquired companies have decreased or the assets of the firm have increased after the merger/acquisition process. The study findings have observed that the merger/acquisition processes that have taken place in the oil industry in Kenya have affected the assets of the companies. This has led to increase in asset base of the merged/acquired firm thus reducing the return on assets.

The study findings indicate that the financial leverage mean of the merged/acquired company increased from 0.6337 to 0.6582. The increase may be attributed to more financing from debt for the merged firms.

From the study findings, indicate that capital adequacy of the post-merger/acquisition is less than the pre-merger firm. This decreased from 0.4030 to 0.3753, attributed to

more assets acquired or combined by the firms visa vis the equity available during the period.

The liquidity of firms increased in the post-merger period, increasing from 1.0778 to 1.1833 meaning the firms can meet their obligations as and when they fall due without challenges. The size of merged/acquired firms increased from rate decreased from 2.117 to 2.7474. The increase was due to the combination of assets of the firms merged.

Regression results indicate that the goodness of fit for the regression model between independence and dependent variables are satisfactory having attained a correlation value of 0.501. An  $R^2$  of 0.251 indicates that 25.1% of the variances on ROA are explained by the variances in the independent variables. This also implies that 74.9% of the variances in financial performance cannot be explained by the independent variables and is actually attributed to variables not included in the model.

ANOVA statistics indicate that the overall model was not significant. The p-value of 0.298 means that ROA has no significant joint relationship with financial leverage, capital adequacy, liquidity and size of the firms at 5% level of significance.

The regression above shows that when all other variables have a value of zero, the financial performance of the M&A oil company in Kenya is -0.684. This shows that mergers and acquisitions have a negative impact on the financial performance. Unit increase of capital adequacy and size of firm decrease the financial performance by 0.916 and 0.040 respectively while unit increase of liquidity and financial leverage increases the financial performance by 1.269 and 0.016 respectively. The critical values attained are not statistically significant at 5% hence M&A is not associated with increase in financial performance.



Ndung'u (2011) concluded that there was improvement in financial performance after merger of M & As in the commercial banks of Kenya between 1999 and 2005.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATION

#### 5.1 Introduction

The study was carried out with an objective of establishing the effect of merger and acquisition on the financial performance of oil companies in Kenya. The research design adopted was descriptive research design. The study focused on the mergers and acquisitions that have occurred between year 2000 and 2014 within the industry. The population of this study was all the oil companies' registered to operate their commercial activities in Kenya. The study sample comprised of four oil companies which merged or acquired one another namely KenolKobil Limited, Total Kenya Limited. Shell and Oil Libya Limited.

Secondary data from the annual financial statements of the companies was used in this study. Analysis of the data acquired was performed through use of the SPSS software (version 20). Both descriptive and regression analysis methods were used to establish the effect of merger and acquisition on the performance of oil industries in Kenya. Regression analysis was conducted to establish the relationship between financial performance and the independent variables that is the liquidity, capital adequacy, financial leverage, and size of the oil companies in Kenya.

The study findings indicate that the goodness of fit model was adequate. This was reported by r squared of 0.251 which means that 25.1% of the variation in ROA (financial performance) is explained by changes in current ratio (liquidity), financial leverage, capital adequacy and size. The correlation coefficient of 50.1% means that the dependent variables have a strong correlation the independent variable.

Analysis of the ANOVA results showed that there is a no significant joint relationship between financial performance and liquidity, financial leverage, capital adequacy and size of firm at p-value 0.298 at 5% level of significance.

## **5.2 Conclusion**

The study was carried out to determine whether improvements occur after the merger and acquisition are undertaken. The analysis and results show that oil companies performed lesser in the post- merger/acquisition era as compared to the pre-merger/acquisition era. The merger/ acquisition have a negative impact on the financial performance of the oil companies though this is not statistically significant at 5% level. The study therefore concludes that mergers and acquisitions do not have a statistically significant relationship with ROA. The study also found that financial leverage positively affects ROA of firms that merged however effect is not statistically. Liquidity positively affects ROA of the firms, though the effect is not significant. Both Size of the firms and capital adequacy negatively impacts on ROA and the effect is also not statistically significant.

## **5.3 Recommendations to Policy and Practice**

The study recommends that the companies with plans on mergers/acquisitions should prepare on terms of the labor forces required to retain the customers after the merger/acquisition process. This can be achieved by retaining all the employees of the acquired/merged company if possible. The alternative method is by having recruitment of new staff in the company to increase the effort of the existing staff.

The study further recommends that the merging/acquiring firm to internally generate income to facilitate the merging/acquiring and have less borrowing. This is to enable the firm to have better liquidity and solvency.

The study recommends that the management should instill discipline upon itself by ensuring good corporate governance, promote technological progress and increase its paid up capital regardless of the statutory requirements so that the continued existence of the firm is not jeopardized after undergoing mergers and acquisition. Management should not only undertake mergers and acquisitions in order to improve operation and sustain failing businesses but also improve their competitiveness and financial standing. Management should come up with a sound strategy towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced. Management should put into consideration the degree of transferability and marketability of assets invested in so that these assets can provide liquidity to the firm with ease.

#### **5.4 Limitations of the Study**

The short period of time that has been available to carry out this research has been a key challenge. A longer period of time of carrying out the study would facilitate collecting of data in a comprehensive manner and evaluation of other effects of financial performance of oil companies in Kenya.

Some companies particularly the private owned companies do not publicly avail their financial statements due to their operation nature and policies put in place by the management. This made the data collection a bit hectic as well as time consuming. The study reconsidered to use data available on the public domain. The data used in this case is from the merged/ acquired oil companies namely KenolKobil Limited, Total Kenya Limited, Shell limited and Oil Libya Kenya limited

The period of study considered is short (10 years), that is five years pre and post-merger. A longer period of time can be considered in future studies. The companies studied had a merger or acquisition at close years between 2007 and 2009 which

would have been affected with other microeconomic and macroeconomic factors effects leading to different results from the actual results.

A small sample of the companies that have merged/acquired has been selected due to the fact that not many oil companies have undergone mergers and acquisition during the study period. The results may not be very conclusive.

## **5.5 Areas for Further Research**

More research to be done using a base rate company or using the industry results for comparison purposes. This will help to detect any other factor affecting the financial performance of the oil companies in Kenya. The researcher to exclude the additional factors to establish the actual effect of M&A on financial performance of the oil companies in Kenya.

Further research in other sectors that have engaged in mergers and acquisitions should be embarked on so as to obtain further insights. This is because the type of industry may make a difference to the pre-merger/acquisition and post-merger/acquisition financial performance of firms. Extensive research has already been carried out on effect of mergers and acquisition on the financial performance of the banking sectors and thus it is important to look into other sectors such as; agricultural sector, insurance companies, manufacturing companies, IT and communications firms to enable to determine whether mergers and acquisitions do have a significant impact on the financial performance of firms. In addition, it is important to study the effect of mergers and acquisitions on shareholder value of the stated firms and also oil companies.

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## APPENDICES

### APPENDIX I: List of Oil Companies in Kenya

No	Company Name	No	Company Name
1	Afrioil international limited	40	Luqman petroleum limited
2	Ainushamsi energy ltd	41	Mogas kenya ltd
3	Alamana investments ltd	42	Moil kenya limited
4	Alba petroleum ltd	43	Muloil limited
5	Amana petroleum(kenya) ltd	44	Nafton oil company
6	Astrol petroleum co.ltd	45	National oil corporation of kenya
7	Axon energy limited	46	Ocean energy limited
8	Bakri international energy(k)	47	Oil city ltd
9	Banoda oil ltd	48	Oilcom kenya ltd
10	Cape suppliers ltd	49	Oilpoint kenya ltd
11	Center star company ltd	50	Olympic petroleum ltd
12	City oil (k) ltd	51	One petroleum ltd
13	Dalbit petroleum ltd	52	Orix oil (kenya) ltd
14	East african gasoil ltd	53	Oryx energies kenya ltd
15	Eco oil kenya ltd	54	Petro oil kenya ltd
16	Eliora energy limited	55	Petrosun k limited
17	Emkay international ltd	56	Premium petroleum co. Ltd
18	Engen petroleum ltd	57	Prime gas investment ltd
19	Essar petroleum (ea) ltd	58	Prime regional supplies
20	Fast energy ltd	59	Ramji haribhai devani ltd
21	Finejet ltd	60	Ranway traders ltd
22	Fossil fuels ltd	61	Regnol oil (k) ltd
23	Futures energy co. Ltd	62	Riva petroleum dealers ltd
24	Galana oil kenya ltd	63	Royal energy (k) ltd
25	Gapco kenya ltd	64	Safari petroleum ltd
26	Global petroleum products kenya	65	Societe petroliere kenya ltdo
27	Gulf energy ltd	66	Sovereign oil limited
28	Hashi energy ltd	67	Stabex international ltd
29	Hass petroleum kenya ltd	68	Tiba oil company ltd
30	Ilade oil company limited	69	Topaz petroleum ltd
31	Intoil ltd	70	Tosha petroleum (k) ltd
32	Jade petroleum ltd	71	Total kenya limited
33	Jaguar petroleum ltd	72	Towba petroleum co. Ltd
34	Kamkis trading company ltd	73	Tradiverse kenya limited
35	Kencor petroleum ltd	74	Tristar transport limited
36	Kenolkobil ltd	75	Trojan international ltd

**Source: Petroleum Institute of East Africa**

## APPENDIX II: TOTAL ASSETS

### Company

Years	2002	2003	2004	2005	2006	2007	2008
<b>Total Assets in 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008	-	280,689	287,166	290,689	299,689	300,689	301,689
TOTAL KENYA MERGED WITH CHEVRON IN 2009	-		105,488	107,733	153,535	125,128	145,268
SHELL ACQUIRED BP IN 2007	254,668	246,679	238,272	219,516	235,276	<b>269,470</b>	282,401
Oil Libya Acquired assets of Exxon in 2007	279,985	280,322	290,322	279,322	299,325	301,329	312,424

Years	2009	2010	2011	2012	2013	2014
<b>Total Assets in 'Ksh 000</b>						
KENYA OIL MERGED WITH KOBIL IN 2008	312,889	322,166	318,905	326,842	281,217	-
TOTAL KENYA MERGED WITH CHEVRON IN 2009	<b>315,282</b>	303,757	351,982	329,806	399,842	325,418
SHELL ACQUIRED BP IN 2007	292,181	322,560	345,257	360,325	-	-
Oil Libya Acquired assets of Exxon in 2007	311,322	309,322	360,322	370,325	-	-

**Source: Annual reports of the Oil firms in Kenya**

### APPENDIX III: NET INCOME

#### COMPANY

Years	2002	2003	2004	2005	2006	2007	2008
<b>Net Income in 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008	27,563	51,801	38,031	21,031	17,903	14,961	43,941
TOTAL KENYA MERGED WITH CHEVRON IN 2009	-		37,628	40,548	38,053	44,110	41,312
SHELL ACQUIRED BP IN 2007	34,834	12,847	21,847	33,731	27,845	<b>50,576</b>	50,820
Oil Libya Acquired assets of Exxon in 2007	26,603	43,145	13,814	69,012	100,905	240,615	72,125

	2009	2010	2011	2012	2013	2014
<b>Net Income in 'Ksh 000</b>						
KENYA OIL MERGED WITH KOBIL IN 2008	24,383	1,144	- 4,302	14,869		
TOTAL KENYA MERGED WITH CHEVRON IN 2009	<b>54,808</b>	79,207	105,590	119,789	154,626	170,726
SHELL ACQUIRED BP IN 2007	21,220	35,344	55,660	50,289		
Oil Libya Acquired assets of Exxon in 2007	109,153	73,158	197,153	163,153		

**Source: Annual reports of the Merged Oil firms in Kenya**

## APPENDIX IV: DEBT & EQUITY

### DEBT

	2002	2003	2004	2005	2006	2007	2008
<b>Debt in 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008		786,576	529,368.	121,380	142,676	156,785	103,675
TOTAL KENYA MERGED WITH CHEVRON IN 2009			30,783	42,396	50,140	27,765	50,416
SHELL ACQUIRED BP IN 2007	9,638	17,863	17,139	12,916	12,916	15,773	23,269
Oil Libya Acquired assets of Exxon in 2007	25,927	18,254	28,283	39,156	37,086	60,863	47,290

	2009	2010	2011	2012	2013	2014	
<b>Debt in 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008	42,808	137,726	189,049	153,768	166,148		
TOTAL KENYA MERGED WITH CHEVRON IN 2009	<b>138,626</b>	124,032	65,994	41,607	24,946	73,404	
SHELL ACQUIRED BP IN 2007	35,033	44,332	37,175	37,754			
Oil Libya Acquired assets of Exxon in 2007	33,090	14,576	26,970	32,785			

### EQUITY

	2002	2003	2004	2005	2006	2007	2008
<b>Equity in 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008		6,830	62,128	79,309	92,308	95,305	73,961
TOTAL KENYA MERGED WITH CHEVRON IN 2009			45,228	46,166	46,651	47,516	50,178
SHELL ACQUIRED BP IN 2007	84,842	110,847	98,842	90,924	90,924	105,726	127,285
Oil Libya Acquired assets of Exxon in 2007	18,305	12,415	13,314	18,392	16,605	15,316	14,013

	2009	2010	2011	2012	2013	2014
<b>Equity in 'Ksh 000</b>						
KENYA OIL MERGED WITH KOBIL IN 2008	11,455	12,706	11,650	64,457	66,663	
TOTAL KENYA MERGED WITH CHEVRON IN 2009	<b>89,622</b>	95,799	91,948	141,927	153,791	164,254
SHELL ACQUIRED BP IN 2007	136,431	149,780	171,003	189,927		
Oil Libya Acquired assets of Exxon in 2007	13,216	10,615	12,718	16,316		

## APPENDIX V: CURRENT ASSET & CURRENT LIABILITIES

### CURRENT ASSETS

Years	2002	2003	2004	2005	2006	2007	2008
<b>Current Assets 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008	-	23,171	27,271	35,646	36,746	25,870	25,970
TOTAL KENYA MERGED WITH CHEVRON IN 2009	-	-	8,219	7,999	12,524	9,775	11,764
SHELL ACQUIRED BP IN 2007	11,531	11,749	10,645	11,045	11,450	11,347	11,657
Oil Libya Acquired assets of Exxon in 2007	11,657	12,757	10,657	10,847	11,997	<b>13,897</b>	13,877

Years	2009	2010	2011	2012	2013	2014
<b>Current Assets 'Ksh 000</b>						
KENYA OIL MERGED WITH KOBIL IN 2008	25,171	26,062	40,146	24,540	19,382	-
TOTAL KENYA MERGED WITH CHEVRON IN 2009	<b>20,745</b>	20,115	25,339	23,307	30,005	22,211
SHELL ACQUIRED BP IN 2007	9,646	11,289	11,978	11,473	-	-
Oil Libya Acquired assets of Exxon in 2007	11,979	11,979	12,279	11,757		

### CURRENT LIABILITIES

Years	2002	2003	2004	2005	2006	2007	2008
<b>Current Liabilities 'Ksh 000</b>							
KENYA OIL MERGED WITH KOBIL IN 2008	-	19,293	20,293	33,794	33,794	19,243	19,243
TOTAL KENYA MERGED WITH CHEVRON IN 2009	-	-	60,260	61,566	10,688	7,761	17,886
SHELL ACQUIRED BP IN 2007	10,242	10,342	10,011	10,141	10,342	10,343	10,553
Oil Libya Acquired assets of Exxon in 2007	10,553	10,653	10,253	10,323	10,436	<b>10,691</b>	10,391

Years	2009	2010	2011	2012	2013	2014
<b>Current Liabilities 'Ksh 000</b>						
KENYA OIL MERGED WITH KOBIL IN 2008	19,293	18,879	32,794	25,341	20,739	
TOTAL KENYA MERGED WITH CHEVRON IN 2009	9,509	17,091	22,983	17,933	23,488	14,924
SHELL ACQUIRED BP IN 2007	8,479	10,055	10,266	10,266	-	-
Oil Libya Acquired assets of Exxon in 2007	1,043	10,116	10,895	11,123	-	-

**Source: Annual reports of the merged Oil firms in Kenya**