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EFFECTS OF MERGERS ON FINANCIAL PERFORMANCE OF COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

BY

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MAY 2006

DECLARATION

This management research project is my own original work and has not been presented for award of a degree in any other University.

Signed..Date.. 27/11/2006

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

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DEDICATION

This paper is dedicated to my wife Stellar and my daughter Chebet. It's also dedicated to my parents Leonard and Grace Kemei who have been source of inspiration and support both financially and morally, and their strongly held believe in education as the only sufficient investment diligent parents can give to their children.

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LIST OF ABBREVIATIONS

M&A – Mergers and Acquisition

ESOP- Employee Stock Ownership Plan

ISP – Internet Service Provider

NAV – Net Asset value

NAVPS - Net Asset Value Per Share

EPS - Earnings Per Share

P/E - Price to Earnings ratio

PEG – Price Earning Growth ratio

P/B - Price-To-Book Ratio

ROI - Return On Investment

ROA - Return On Assets

ROE - Return On Equity

ROCE – Return on Capital Employed

ROIC - Return On Investment Capital

NOPAT – Net Operating Profit After Tax

CAPM - Capital Asset Pricing Model

CML - Capital Market Line

ANOVA – Analysis of Variance

ABSTRACT

This research attempts to determine the effects of mergers on financial performance of companies listed at the Nairobi Stock Exchange (NSE). Theoretically it is assumed that mergers improves the performance of the companies due to increased market power, enhanced profitability, diversification of risks, synergy and various other qualitative and quantitative factors. Nairobi Stock Exchange has a total of forty eight listed companies and to carry out the research, a sample of twenty companies listed was taken for study. The sample consisted of ten companies that merged and ten that did not merged and the timeframe for analysis was from 1994-2005. The research was a descriptive research and involved collection of quantitative data. The secondary data was collected from NSE and other published reports for the period under study. The measures of performance used were: turnover, volume, market capitalization and profit. The data was analyzed with the aid of statistical tool, SPSS. Paired t-test procedure was used to compare the mean of two variables i.e. before and after merger. The results of the data analysis showed that all values i.e. turnover, volume, market capitalization and profit had a low significance value of less than 0.05 indicating that there was an improvement in performance after merger.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of Study.

The existing capabilities of a firm influence the kinds of acquisition activity that will make business and economic sense. The central strategy for most firms seeking Mergers and Acquisitions (M&A) is to seek to become the leading player in the product-market area of the strategic business unit.

The changing environments and the new forms of competition have created new opportunities and threats for business firms. The change imperatives are strong, and firms must adjust to new forces of competition from all directions and this has forced many of them to adopt many forms of restructuring activity.

Twenty years back, few companies made mergers a key element of their growth strategy, mergers were an afterthought or episodic. Today many companies look to achieve over 50 percent of their growth from M&A. Weston et al (2003)

There is no question that the pent-up demand for mergers has been brought back to life due to various factors such as convergence of low interest rates, debt availability, private equity and venture capital, cash infusions from initial public offers and the perceived lack of organic growth opportunities due to a saturated marketplace.

For large samples, some M&A succeed, others fail. But well conceived and effectively implemented M&A activity can yield returns to shareholders in excess of broad stock market indexes. The Economist (2000).

Some acquirers have developed processes that facilitate the achievement of highly impressive track records. For example, Anslinger and Copeland (1996) found that samples of both corporate and financial buyers were able to achieve superior performance.

The returns to acquiring firms are influenced by a number of factors. Many firms engage in a series of M&A activities over time thus making it difficult to isolate the influence of a single acquisition event. If the time period over which the returns to the shareholders of acquiring firms includes a year or two before a specific acquisition, on average acquiring firms earn at least their cost of capital. But studies also reveal that for the largest combinations during the period of strategic mergers (1992-98), in at least two-thirds of the cases, value is increased. Bruner (2005)

Other recent contributions suggest that long-term positive results for mergers are found for mergers across related product lines. Krallinger (1997)

It is important to note the long-term effects on performance of merger deals. As mentioned by Chakrabarti et al (1994), performance related incentives for mergers affect long-term strategic variables which tend to be underestimated in much of the current empirical research, which usually focuses on the short-term, economic effects. In these long-term effects, the expected synergistic characteristics of mergers can contribute to improved performance through successful efficiency of operations, whereby economies of scale spread the large fixed costs of investing in machinery or computer systems over a larger number of units. Another efficiency gain is achieved by combining complementary activities — for example, combining a company strong in research with one strong in marketing (Caves, 1989; Cosh 1989; Mueller, 1986; Scherer, 1987.)

This effect of merging companies is a well-known classic issue, where increased size of companies and synergies, through internal growth or by means of mergers, are positively related to long-term performance. Schumpeter (1942).

The probability of deals success goes up considerably when the key elements of post-merger integration are not only started before closing, but when the likely risks and challenges of the integration are considered at the very beginning of the merger process, when the acquirer is deciding what to buy and what to pay. All of the elements that affect

post-merger integration success, especially the culture of the companies, must be assessed and rolled into the synergy (and price to pay) calculation. Bhattacharyya (1998).

Pre-merger planning has become especially critical as companies face pressure to deliver synergies as soon as possible. In essence, there should not be separate mergers and post-merger integration process, but a holistic approach to the deal, from strategy to target identification and valuation to integration. This involves looking downstream at core processes and the nuts and bolts of how things work and in getting the people who know how to design and implement changes to these systems and processes involved up front, especially during the valuation stage.
Berger and Ofek (1942)

With excess capacity in an industry, horizontal mergers can be used to shut down some high-cost plants to reduce industry supply and to increase efficiency in the remaining firms. Also, a number of industries, formerly fragmented into many small-scale operations, have been rolled up into larger firms. This form of merger is what is referred to as consolidation and a good example in Kenya is what the Coca Cola Company is carrying out by closing bottling facilities countrywide while expanding the company's bottling facilities in the City. The larger firm has been able to achieve efficiencies not achieved by the separate units.
Mergers have also become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of business as a number of economies are being deregulated and integrated with other economies.

Most mergers actually benefit competition and consumers by allowing firms to operate more efficiently. But some are likely to lessen competition. That, in turn, can lead to higher prices, reduced availability of goods or services, lower quality of products, and less innovation. Indeed, some mergers create a concentrated market, while others enable a single firm to raise prices. In a concentrated market, there are only a few firms.

Internal growth and mergers are not mutually exclusive activities. Indeed, they are mutually supportive and reinforcing. Successful firms use many forms of M&A and restructuring based on opportunities and limitations. The characteristics and competitive structure of an industry will influence the strategies employed. The factors and circumstances favoring M&As in part relate to industry characteristics.

Some other advantages of M&A or external growth may also be noted. An acquisition enables the acquirer to obtain an organization already in place with an historical track record. Some surprises are still possible, but they can be mitigated to some degree by appropriate due diligence. An acquisition generally involves paying a premium, but the cost of acquiring a company may be determined in advance.

An acquisition may also represent obtaining a segment divested from another firm. The logic is that the segment can be managed better when added to the activities of the buying firm. Firms generally have internal development programs that are assisted by M&A activity.

Weston (1999) article is illustrative. The article states strong change forces have produced new forms and increased intensity of competition. In response to the massive changes and new forms of competition, organizations have had to make many forms of adjustments. M&A and restructuring are elements of the multifaceted adjustment processes put in motion.

1.2 Statement of the Problem

Mergers have become the main means of attaining higher performance which is the main goal of every listed company. Failure to perform is critical to a business as it is the major cause of business failure.

Many studies have been done in the area of M&A and results found from the studies have been inconsistent.

Akhavein (1997) studied merger profitability using measures including security price changes. The sample consisted of 42 firms matched in 21 pairs of one merging and one non merging firm. He compared pre and post merger performance based on five measures of profitability i.e. percentage change in stock prices, price earnings ratio, earnings per share, sales per share and profit margin. He used pre-merger period calculated average returns (5 years pre mergers and 5 years post merger) using stock returns. He concluded that operational restructuring as a result of merger activity positively affects profitability due to renewed attention to business, improved management, accounting and legal regulatory systems, better credit assessment and approval techniques, reduced branches and staffing levels.
A similar study was conducted by Lev and Mandelker (1972) on 69 firms. They compared the performance of merged firms using profitability measures for 5 pre merger and 5 post merger years. They concluded that the market value of the acquiring firms rose on average by 5.6 % (significant at 10% level).

Lichtenberg, Frank, and Siegel (1990) examined UK active acquires and (found some evidence that companies undertaking mergers earned a higher rate of returns than those that relied on internal growth. They were however unable to identify a positive relationship between the level of merger activity and profitability.
Ulton (1974) examined 39 companies which had undertaken large and or persistent mergers in the period 1954-1965. He concluded that the most that can be said there is no evidence from the sample that merger intensive firms have higher profitability than the coverage industry. From the above empirical studies done in the field of M&A it can be observed that results are not similar and thus need to carry out further research in the area.

Few studies have been done at the NSE concerning M&A and by conducting a research in the NSE will be able to know how companies perform.
Many companies at the Nairobi Stock Exchange use share price as their measure of performance and by which they are judged by investors and stockholders alike. This study was set to find out the effects of mergers, if any on the performance of the

companies quoted at the NSE. The question for the study was: *Would the performance of the firms at the NSE be the same before and after merging?*

1.3 Objective of Study

The objective of this study was to find out the effect of mergers, if any on performance of companies listed at the NSE.

1.4 Importance of the Study

This study will be of value to:

Current investors and firms at the Nairobi Stock Exchange and elsewhere and any other firm in competitive industry as it will add knowledge on the understanding of the importance of mergers in analyzing company performance.

It will also be of benefit to academicians and researchers by providing more insight into the relationship between mergers and company performance. As the environment is very dynamic, the practitioners of management need to update themselves and their respective industries on the best practices required.

It will be of benefit to the Executives and managers of the companies listed at the NSE as the study will cover all the companies which have merged and the relative performance.

This study will also contribute to the bulk of knowledge and research at the Faculty of Commerce at the University of Nairobi. It will be of benefit to students as it will be used as a basis of reference for any future study in the field of mergers, acquisition and restructuring of companies.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Nature of mergers

Merger can be defined as any transaction that forms one economic unit from two or more previous ones. Takeovers and related activities in the 1980s are much broader in scope and raise more fundamental issues than previous merger movements. Thus the traditional subject of M&A has been expanded to include takeovers and related issues of corporate restructuring, corporate control and changes in the ownership structure of firms. Thomas and Weston (1992)

Many mergers have little or no negative impact on competition. Some may be pro-competitive, for example, by enhancing production efficiencies resulting from economies of scale or scope. Mergers may also create new synergies, lead to innovation by combining talents of different firms, and provide additional resources to develop new products and services as found out in an early research by Chakrabarti and Burton (1983)

Concerns about mergers, acquisitions and other corporate combinations are generally based on the same concerns about anti-competitive behavior. The main concern is that a larger merged firm may increase its market power. Baysinger and Hoskisson (1989)

To the extent a merged firm becomes more dominant in a market, there is a greater potential to abuse the accumulation and exercise of market power to the detriment of competitors and consumers. According to Pfeiffer (1972) the basic rationale for merger control is that it is better to prevent firms from gaining excessive market power than to attempt to regulate abuses of their market power once such power exists. In practice, merger reviews and the exercises of related powers by competition authorities are usually based on an evaluation of the impact of specific merger on competition in the relevant markets.

2.2 Types of Mergers and Acquisitions

Weston et al (2003) found that business firms have used a wide range of activities in seeking to exploit potential opportunities. The major objective of mergers, tender offers, and joint ventures is to achieve expansion and growth. Merger is any transaction that forms one economic unit from two or more previous separate business units. Tender offer is a method of making a takeover via a direct offer to target firm shareholders to buy their shares, while joint venture is a combination of subsets of assets contributed by two (or more) business entities for a specific business purpose and a limited duration. Each of the venture partners continues to exist as a separate firm, and the joint venture represents a new business enterprise.

Sell-offs is a general term for divestiture of part or all of a firm by any one of a number of means, e.g., sale, liquidation, spin-off, and so on. Spin-offs is a transaction in which a company distributes on a pro rata basis all of the shares it owns in a subsidiary to its own shareholders. This creates a new public company with (initially) the same proportional equity ownership as the parent company. Divestiture is sale of a segment of a company (assets, a product line, a subsidiary) to a third party for cash and/or securities. Equity carve-outs is a transaction in which a parent firm offers some of a subsidiary's common stock to the general public, to bring in a cash infusion to the parent without loss of control. Split offs is a portion of existing shareholders receive stock in a subsidiary in exchange for parent company stock, while split up is where entire firm is broken up into a series of spin-offs, so that the parent no longer exists and only the new offspring survive.

Under changes in ownership structure, we have exchange offer, its a transaction which provides one class (or more) of securities with the right or option to exchange part or all of their holdings for a different class of the firm's securities, e.g., an exchange of common stock for debt. It enables a change in capital structure with no change in investment. Share repurchases here a public corporation buys its own shares by tender offer, on the open market, or in negotiated buybacks.

Going private is the transformation of where a public corporation is converted into a privately-held firm (often via a leveraged buyout or a management buyout). It can be through leveraged buyout; in this case the company is purchased by a small group of investors, financed largely by debt. We also have leveraged cash-outs its a defensive reorganization of the firm's capital structure in which outside shareholders receive a large one-time cash dividend, and inside shareholders receive new shares of stock instead, and lastly Employee Stock Ownership Plans (ESOPs) — a defined contribution pension plan designed to invest primarily in the stock of the employer firm.

Restructuring is the changes in product-market participation, asset redeployment, financial engineering; changes in management systems to improve revenue growth and to achieve efficiency increases including cost reductions.

Corporate control is another type of merger, under corporate control we have premium buybacks its the repurchase of a substantial stockholder ownership interest at premium above the market price (called green mail) Standstill agreement – these represent voluntary contracts in which the stockholder who is bought out agrees not to make further investment in the company in the future.

Anti takeover amendments are changes in the corporate by laws to make an acquisition of the company more difficult or more expensive. these include: Supermajority voting provisions, requiring a percentage (e.g. 80%) of stockholders to approve a merger, staggered terms of directors which can delay change of control for a number of years, golden parachutes which award large termination payments to existing management if control of the firm is changed and management terminated and poison pill provisions which give present stockholders the right to buy at a substantial discount the shares of a successor company formed by a stock takeover.

Proxy contests is a type of merger where an outside group seeks to obtain representation on the firms board of directors. The outsiders are referred to as "dissidents" or "insurgents" who seek to reduce the control position of the "incumbents" or existing

board of directors. Since the management of a firm often has effective control of the board of directors, proxy contests are often regarded as directed against the existing management.

It is clear from the above list that the strategies include expansion, contraction, and efforts to improve the efficiency of operations. Joint ventures represent a flexible method of exploring new areas with partners whose capabilities are complementary. Joint ventures are particularly useful when one firm sells a segment to another. The joint venture can be used to have the seller transmit knowledge about the operation and the buyer to learn more about what is being acquired.

With regard to split-ups and spin-offs, a firm may improve motivations and performance by creating separate operations, when an activity does not fall into an effective organization structure of the parent. Especially promising in this connection are cross-border transactions (like the Nation Media Group in the East African region) either in the form of joint ventures or mergers and acquisitions to achieve new products, new technologies, and new geographic markets.

2.2.1 Horizontal mergers,

This takes place between firms that are actually or potential competitors occupying similar positions in the chain of production. Merger reviews typically focus on horizontal mergers since, by defining, they reduce the number of competitors and the relevant markets. Also of concerns are mergers between a firm which is active in a particular market and another which is a potential competitor. In a horizontal merger, the acquisition of a competitor could increase market concentration and increase the likelihood of collusion. The elimination of head-to-head competition between two leading firms may result in unilateral anticompetitive effects.

An example is the recent acquisition of Absa (a big bank in South Africa) by Barclays Bank (another big bank too).In many areas of South Africa, the merger will reduce the

number of competitors, often leaving Barclays Bank as the only major bank in the area. Owino (2005)

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2.2.2 Vertical mergers,

This takes place between firms at different levels in the chain of production (such as between manufacturers and retailers); vertical mergers can also be of concern. Vertical mergers involve firms in a buyer-seller relationship --a manufacturer merging with a supplier of component products, or a manufacturer merging with a distributor of its products. A vertical merger can harm competition by making it difficult for competitors to gain access to an important component product or to an important channel of distribution. This is called a "vertical foreclosure" or "bottleneck" problem.

Another example is the merger of Time Warner, Inc., producers of HBO and other video programming, and Turner Corp., producers of CNN, TBS, and other programming. The USA Federal Trade Commission (FTC) was concerned that Time Warner could refuse to sell popular video programming to competitors of cable TV companies owned or affiliated with Time Warner or Turner or offer to sell the programming at discriminatory rates. That would allow Time Warner-Tuner affiliate cable companies to maintain monopolies against competitors like Direct Broadcast Satellite and new wireless cable technologies. What’s more, the Time Warner-Turner affiliates could hurt competition in the production of video programming by refusing to carry programming produced by competitors of both Time Warner and Turner. The FTC allowed the merger, but prohibited discriminatory access terms at both levels to prevent anticompetitive effects. Mantell (2002)

2.2.3 Conglomerate mergers

According to Meshki (1999) Conglomerate Mergers are mergers between firms that are neither competitors nor potential or actual customers or suppliers of each other which vary in types and attributes and they may be pure or mixed in form whereby Pure mergers have no economic relationships between the acquiring firm and the acquired firm.

Mixed mergers have aspects of both pure conglomerate merger, and of horizontal merger. This is a combination of firms engaged in unrelated lines of business activity. Examples merging of different businesses like manufacturing of cement products, fertilizers products, electronic products and advertising agencies.

2.3 Motives of merger

One of the most common motives for mergers is *growth.* There are two broad ways a firm can grow. The first is through internal growth. This can be slow and ineffective if a firm is seeking to take advantage of a window of opportunity in which it has a short-term advantage over competitors. The faster alternative is to merge and acquire the necessary resources to achieve competitive goals. Growth is essential for sustaining the viability, dynamism and value-enhancing capability of a company.

During the twentieth century, M&A have occurred in waves where times of low activity frequently have turned into periods of high activity. What are the motives that have made M&A such a widely used strategy?

Baker (1999) looks at the similarities within and across industries regarding merger motives. His empirical material consists of primary and secondary data collected from two mergers in three industries respectively; manufacturing, banking and IT. Their analyses make use of three different perspectives, the reason for this being to create understanding and furthermore illuminate the complexity of the problem. The results clearly demonstrate similarities in merger motives within the industries, but also give some support for similarities across the industries. Using a multi perspective approach they have come up with a number of motives which include:

Enhanced profitability, When two or more companies combine they result in rise in profit because they realize cost reduction and efficient utilization of resources.

Synergy. Another commonly cited motive for mergers is the pursuit of synergistic benefits.

This is the new financial math that shows that 2 + 2 = 5. That is, as the equation shows, the combination of two firms will yield a more valuable entity than the value of the sum of the two firms if they were to stay independent:

Value (A + B) > Value (A) + Value (B)

Although many merger partners cite synergy as the motive for their transaction, synergistic gains are often hard to realize. There are two types of synergy: that which is derived from cost economies and that which comes from revenue enhancement. Cost economies are the easier of the two to achieve because they often involve eliminating duplicate cost factors such as redundant personnel and overhead. When such synergies are realized, the merged company generally has lower per-unit costs.

Diversification of risk Other motives for mergers and acquisitions include diversification. whereby companies seek to lower their risk and exposure to certain volatile industry segments by adding other sectors to their corporate umbrella. However, this is the exception rather than the norm.

Reduction in Tax liability Under the Kenyan Tax law, a company is allowed to carry forward its accumulated loss to set-off against its future earnings for calculating its tax liability. A loss making company may not be in a position to earn sufficient profits in future to take advantage of the carry forward provision. Thus by combining with a profit making a company, the combined company can utilize the carry forward losses and save tax.

Agency problems. An agency problem arises when managers own only a fraction of the ownership of the firm. This partial ownership may cause managers to work less vigorously than otherwise or to consume perquisites (luxurious officers, company car etc) because the majority owners bear most of the cost. Manne (1965) emphasized that the market for corporate control and viewed mergers as a threat of takeover if a firm's management logged in performance either because of inefficiency because of agency problem.

2.4 Importance of mergers in Company Performance

According to Donald DePamphilis (2002), M&As can be seen as instruments used by companies to externally acquire capabilities developed by their partners, as such they can have a positive economic effect on companies that are active in the M&A Market.

However, overview of studies on the economic effects of M&As performed during the late fifties and sixties reveals that there is substantial ex post evidence that mergers and acquisitions have positive effects on the performance of firms. Hoskisson and Hitt (1994) suggest that related acquisitions can have a positive effect on company performance if these acquisitions support innovative activities of firms.

The Stock Market is one of the most closely observed economic phenomenon in the world. Market indicators meet the demand for measures of stock market performance. Such indicators quantify movements in stock market prices and act as a standard in evaluating the returns on money invested in the stock market. Stock market indices as aggregate measures are an instrument to meet the information requirement of investors by characterizing the development of global markets and specified market segments. A merger is believed to have a substantive effect on the stock market. Synergies top the list of merger motives.

To better understand the importance of M&As in company performance, Professors Tarun Mukherjee, Halil Kiymaz, and H. Kent Baker surveyed the executives responsible for corporations' M&A strategy. Most of those surveyed listed synergy as a leading motivation for both domestic and cross-border mergers. Diversification was also identified as a good reason to engage in a merger. They also cite operating economies as an important merger goal.

They cite mergers as being important in increasing a company's focus and eliminating poorly performing units thus increasing managerial efficiency while creating a particular organizational structure at the same time. Mergers assist companies to increase cash,

taking advantage of market conditions, seek tax advantages, restructure capital and resolve antitrust concerns.

2.4.1 Merger Analysis

Large mergers, acquisitions and some other corporate combinations require prior review and approval in some jurisdictions. As part of their review, competition authorities may prohibit mergers or approve them subject to conditions. Mergers are usually only prohibited or subjected to conditions if the authority concludes that the merger will substantially harm competition. The merger of a firm that provides essential inputs to other firms can be problematic if the supply of those inputs to other firms is threatened. For example, the merger of a dominant local provider with a major Internet Service Provider can raise concerns about whether other ISPs will obtain local access services on fair and non-discriminatory terms. Such a merger might be reviewed in order to ensure that adequate safeguards are in place to protect competing ISPs. Sherman (2000)

Blair (2001) in the context of a merger review, market definition is often the key factor in determining whether a merger is anti-competitive. If a market is defined broadly, the merging firms may be considered to be competitors. A more narrow market definition may result in a determination that the firms operate in different markets. On the other hand, a broad market definition could lead to a conclusion that the merged entity will face sufficient competition from other firms in the market. A narrow definition could lead to a conclusion that the merged entity would have excessive market power in a smaller market.

The second stage of the analysis is the identification of firm competing in the relevant market and their market shares. The determination of market share will have a direct bearing on an assessment of market power and the potential for abuse of market power by the merged entity. The evaluation of market participants includes not only firms which actually participate in the relevant market, but also firms which could be expanded to enter it.

In assessing the potential adverse effects of a proposed merger, attention will typically focus on the establishment or increase of the dominant position by the merged entity. There may also be concerns that the merger, by reducing the number of firms participating in a market, will create conditions which make anti-competitive agreements among them more likely.

The evaluation of barriers to entry is an important aspect of merger review. A finding that there are low barriers to entry can help justify a merger.

Finally, the analysis concludes with an assessment of any efficiency to be realized as a result of the merger. In this stage, the objective is to assess efficiency or other welfare gains which can be projected to result from the merger. These will be balanced against any anti-competitive effects which have been identified in the earlier stages of the review.

Theoretically, substantial efficiency gains or other public welfare gains could support approval of a merger even where anti-competitive risks are identified. In practice, it is difficult for a competition authority to qualify the positive and negative aspects of the transaction and arrive at any verifiable net effect. It may also prove difficult to determine how any efficiency or other welfare gains will be distributed between the producing firm and its customers. Similarly difficult is the development of any means to ensure redistribution of efficiency gains to broader public advantage.

In exceptional circumstances, a merger which would have anti-competitive effects may be permitted where one of the merging entities is in severe financial distress. The competition authority may be persuaded that the public interest is better served by a merger than by the failure of one of the merging entities. However, transactions of this sort should be carefully evaluated. Sometimes the merger is not the best solution. For instance, it may be that another firm could expand productive capacity using the assets of the failing firm and that public welfare would be better served by this alternative solution. Bankruptcy is painful for shareholders, but does not always have a long-term negative effect on the economy.

2.4.1.2 Empirical Studies of Mergers.

Early literatures on mergers suggest synergistic motives as the main rationale behind merger activity. A study conducted by Ulton (1974) examined 39 companies which had undertaken large and or persistent mergers in the period 1954-1965. He concluded that the most that can be said there is no evidence from the sample that merger intensive firms have higher profitability than the coverage industry.

Kouhm (1975) observes that acquiring firms tended to be faster growing than firms in their respective industries. This being the case a merger of these two firms is expected to lead to improved performance.

Reid (1968) concluded that conglomerate mergers satisfied the desires of managers for larger firms but did not increase earnings or market prices.

Weston and Mansinghka (1971) in study carried for a period 1958-1968 found that conglomerate as a group raised the depressed pre merger rates of return on total assets up to the average for all firms.

Hogarty (1970) constructed indexes of investment performance based on changes in stock prices. His sample consisted of 43 acquiring firms whose indexes of their respective industries. He concluded that mergers resulted in negative synergy; investment performance of acquiring firms was 5% less (significant at a 10% level) than their industries performance.

2.4.2 Information in merger reviews

As part of the merger review process, the merging firms must normally provide information to the reviewing authority. It is standard practice in jurisdictions which impose merger review to require merging parties to submit advance notice of the proposed transaction. The information disclosed in the pre-merger notification will normally be used to determine if any anti-competitive concerns are present and whether to proceed with a more detailed review of the proposed transaction.

The initial information filing typically triggers a waiting period, during which the reviewing authority will be entitled to request further information. This process concludes

with a determination by the reviewing authority whether to proceed with a more detailed investigation.

If the competition authority decides to proceed with a further investigation, it will obtain more information from the merger participants. Additional information is usually gathered from third parties such as competitors and customers. Commercially sensitive information is also generally protected from public disclosure.
During a more detailed review, a competition authority will normally seek information about matters such as the following: Products, customers, suppliers, market shares, financial performance. Activity of competitors and competitors' market shares, availability of substitute products, influence of potential competition (including foreign competition), pace of technological or other change in the relevant markets, and its impact on competition and nature and degree of regulation in the relevant markets

The quality of a merger review will depend heavily on the quality and range of information available to the reviewing authority. Nihat et al (2004)

2.4.3 Merger remedies

The goal of merger control laws is to prevent or remove anti-competitive effects of mergers. Three types of remedies are typically used to achieve this goal.
Prohibition or Dissolution – The first remedy involves preventing the merger in its entirety, or if the merger has been previously consummated, requiring dissolution of the merged entity.
Partial Divestiture – A second remedy is partial divestiture. The merged firm might be required to divest assets or operations sufficient to eliminate identified anti-competitive effects, with permission to proceed with the merger in other respect.
Regulation/Conditional Approval – A third remedy is regulation or modification of the behavior of the merged firm in order to prevent or reduce anti-competitive effects. This can be achieved through a variety of one-time conditions and on-going requirements.
The first two remedies are structural, and the third remedy is behavioral. Behavioral remedies require ongoing regulatory oversight and intervention. Structural remedies are

often more likely to be effective in the long run and require less ongoing government intervention.

Partial divestiture or behavioral constraints are less intrusive in the operation of market than preventing a merger from proceeding or requiring dissolution of a previously completed merger. Partial divesture can reduce or eliminate anti-competitive effects while preserving some of the commercial advantages of a merger. Nihat et al (2004)

2.5 Performance Measures

Sharpe et al (1999) al lists the following as the other measures of performance.

Market Capitalization

This is the total market value of a company at the bourse. It is computed as the prevailing share price times the total number of shares. It is also the total market value of all quoted companies at the stock exchange. It keeps changing on a daily basis subject to changes in share price.

Turnover

This is the total number of shares traded at the stock exchange.

Share price

This is the value of a company's share at a given time. It is very dynamic and keeps changing all the time.

Net Asset Value per Share (NAVPS)

The NAVPS Is calculated by dividing the total net assets fixed assets plus net current assets) by the number of Shares outstanding as at the end of that year. Simply this is the net tangible assets attributable to the ordinary shareholders divided by the number of shares in issue.

Net Asset Value (NAV) is of little use in investment decision as in most cases it will usually be well below the value calculated using earnings yield. However NAV is fairly

descriptive in the case of property companies that tend to have low earnings compared with their asset value.

Earnings per Share (EPS)

This is calculated by dividing the net profit after tax of a company (less any dividends on preference shares that the company may have paid) for a given year or period by the number of equity shares outstanding at the end of the year. The EPS does not reveal the quality of earnings, but as a thumb rule, the higher the EPS, the better

Price to Earning Ratio

Earnings of a stock divided by its price is what one gets in return. This ratio tells one how cheap or expensive a stock is in the market place compared with its peers or against other stocks in another industry. This ratio is obtained by dividing market price of a share by its issuing company's earning per share or market capitalization to entire net profit (Total earnings).This ratio indicates one how many years it would take one to recoup one's investment in a stock at current market prices if the company's performance was to stay frozen at current level.

2.5.1 Other Measures of performance

By relating share prices to their actual profits, the Price to Earnings ratio (P/E) highlights the connection between share prices and recent company performance. If earnings move up with share prices the ratio stays the same. But if stock prices gain in value and earnings remain the same or go down, the P/E rises. For example, if a stock price was Kshs70 and it got Kshs2 in earnings, the P/E is 35, historically high.

P/E of:

0-13 - Undervalued, cheap by historical standards. Buy stocks at this P/E.

14-20 - Fair value, normal

21-28 - Overvalued. Sell stocks at this P/E.

28+ - Stock market is in a speculative bubble, use extreme caution here.

The P/E is calculated primarily for common shares, not for preferred shares. The appropriate calculation for P/E is the preferred dividend coverage ratio.

A related concept is the "PEG ratio". This is the PE ratio adjusted by a growth coefficient. It is sometimes used in high growth industries and new ventures. Its use is controversial.

Another practice, which is not mainstream, based on behavioral finance, is to take market behavior parameters, among which the stock image, as factors playing a part in the level and evolution of the PE.

Price-To-Book Ratio - P/B Ratio

A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value (book value is simply total assets minus intangible assets and liabilities).

A lower P/B ratio could mean that the stock is undervalued. However, it could also mean that something is fundamentally wrong with the company.

This ratio also gives some idea of whether you're paying too much for what would be left if the company went bankrupt immediately.

ROI

(**R**eturn **O**n **I**nvestment) The monetary benefits derived from having spent money on developing or revising a system. The intangibles are sometimes the most important benefits, but because many of them may be long term, they are typically the most difficult to quantify.

Return On Assets - ROA

A useful indicator of how profitable a company is relative to its total assets. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

Note: Some people add interest expense back into net income when performing this calculation because it measures operating returns before cost of borrowing.

Return On Equity - ROE A measure of a corporation's profitability, calculated as:

$$= \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

The ROE is useful in comparing the profitability of a company to other firms in the same industry.

The ROE is useful in comparing the profitability of a company to other firms in the same industry. Investors can use several variations when computing the formula.
Investors wishing to decipher the return on common equity may modify the formula above by subtracting preferred dividends from net income and subtracting preferred equity from shareholder's equity, so that ROCE = (Net Income - Preferred Dividends)/Common Equity.

Return on equity may also be calculated by dividing net income by average shareholder's equity, (rather than shareholder's equity), over the period. Average shareholder's equity calculated by adding beginning shareholders equity to ending shareholder's equity and dividing the result by

Investors may also calculate ROE using either beginning shareholder's equity or ending shareholder's equity as the denominator. Calculating both beginning and ending shareholder's equity allows an investor to determine the change in profitability over the period.

Return on Investment Capital - ROIC

A calculation used to determine the quality of a company. The general definition for ROIC is as follows:

$$= \frac{\text{Net Income} - \text{Dividends}}{\text{Total Capital}}$$

Total capital includes long term debt and common and preferred shares. Since some companies receive income from other sources, or have other conflicting items in their net income, NOPAT will be used instead.
This is always calculated as a percent. Invested capital can be in buildings, projects, machinery, and other companies.

2.6 Market based valuation.

There are several methods used to value companies and their stocks. They try to give an estimate of their fair value, by using fundamental economic criteria. This theoretical valuation has to be perfected with market criteria, as the final purpose is to determine potential market prices. According to Thomas and Weston (1992) the listed are some of the methods of stock valuation.

Fundamental criteria (fair value)

The most theoretically acceptable stock valuation method, called income valuation or discounted cash flow method, involves discounting the profits (dividends, earnings, cash flows) the stock will bring to the stockholder in the foreseeable future, and a final value on disposition. The discount rate normally has to include a risk premium.
In some cases an asset valuation is also made. This entails analyzing the assets and liabilities of the firm. This type of valuation is typically done if the company is expected to cease operations. It will provide a "termination value" rather than the "ongoing operations value" obtained from the income valuation method.

Market criteria (potential price)

Some feel that if the stock is listed in a well organized stock market, with a large volume of transactions, the listed price will be close to the estimated fair value. This is called the efficient market hypothesis.
On the other hand, studies made in the field of behavioral finance tend to show that deviations from the fair price are rather common, and sometimes quite large.

Thus, in addition to fundamental economic criteria, market criteria also have to be taken into account (market-based valuation). Valuing a stock is not only to estimate its fair value, but also to determine its potential price range, taking into account market behavior aspects. One of the behavioral valuation tools is the stock image, a coefficient that bridges the theoretical fair value and the market price.

A stock image is a stock valuation coefficient. It links the estimated economic value (fair value) and the stock market price. This coefficient, usually between .3 and 3, is related to the stock behavioral category.

Technical Analysis

This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts to identify patterns that can suggest future activity.

Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

In a shopping mall, a fundamental analyst would go to each store, study the product that was being sold, and then decide whether to buy it or not. By contrast, a technical analyst would sit on a bench in the mall and watch people go into the stores. Disregarding the intrinsic value of the products in the store, his or her decision would be based on the patterns or activity of people going into each store.

Fundamental Analysis

This is another method of evaluating securities by attempting to measure the intrinsic value of a particular stock. Fundamental analysts study everything from the overall economy and industry conditions, to the financial condition and management of companies.

In other words, it is the use of real data to evaluate a stock's value. The method uses revenues, earnings, future growth, return on equity, profit margins, and other data to determine a company's underlying value and potential for future growth.

Quantitative analysis

A **quantitative analysis** is a method which develops mathematical models to assist the activities of traders and risk managers within banks and other large corporate institutes.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research design

The research was carried on 10 companies which merged and another 10 which never merged. All the 20 companies sampled were listed at the NSE. The reasons for choosing the NSE quoted companies as the research population was the easy accessibility of their financial information as they are made public.

Another reason was that listed companies had other indicators for gauging performance, for instance performance reports published by the NSE which does not apply to non listed companies.

The performance of these companies was analyzed before and after merger. The measures of performance were share turnover, volume of shares, market capitalization, *and profit.*

The question to determine was whether there was impact on performance of companies that merged and the acquirers are listed at NSE i.e. *Was the performance of the firms at the NSE the same before and after merging?*

The unit of analysis was 10 listed companies which had undergone merger and restructuring and 10 companies which had not. The time frame for analysis was from 1994-2005.

The research was a descriptive research and involved collection of quantitative data. Secondary data was collected and related to share turnover, volume of shares, market capitalization and profit. It was collected from the NSE, Capital Markets Authority, Published Financial Statements and other relevant sources.

The data was analyzed on the basis of the mean, mode, median, standard deviation, and variance. The Paired t- test and F-test was computed to determine the level of significance.

3.2 Population

The population used in this study was 48 companies listed on the Nairobi Stock Exchange. The financial statements for the listed companies were easily found and majority of the companies which merged during the same period of study were listed at the NSE. Shares of some of these sampled companies were heavily traded at the NSE.

3.3 Sample

A study of 20 listed companies was contacted, it consisted of 10 companies that merged and 10 that never merged and were continuously in operation for the period the counterparts were merged.

The arbitrary period was chosen to take into account other factors that were not included in the study but affects performance at the Nairobi Stock Exchange.

3.4 Data Collection

The study used mainly the secondary data from Nairobi Stock Exchange, published facts and figures and reports for the period in study. The data collected was on total share turnover, volume of shares sold and market capitalization. Also financial statements i.e. profit and loss account, balance sheets, cash flow statements were used.

3.5 Data Analysis

Prior to Paired t-test, data was analyzed on the basis of descriptive statistics. Descriptive statistics describe data on variables with single numbers while analysis of variance (ANOVA) tests for any significance difference between mean values of variables. Arithmetic mean, median, maximum, minimum and the standard deviation are some of the main descriptive statistics applied in data analysis.

The arithmetic mean, the average of values in an observation, is used to represent the entire data by a single value. The median is the middlemost value of a variable when arranged in order of magnitude and is used to measure the positional average.
The minimum and maximum statistics describe the respective lower and upper values of a variable. The standard deviation is a measure of variation and is used to determine how the mean is a representative of the observations.

3.6 Paired t-test

The paired-samples t- test procedure was used to compare the means of two variables (before and after merger) that represented the same group i.e. share turnover, volume, market capitalization and profit at different times. The mean values for the two variables were displayed in the Paired Samples Statistics table. A low significance value for the t-test (typically less than 0.05) indicated that there was a significant difference between the two variables.

Where the confidence interval for the mean difference did not contain zero, this also indicated that the difference was significant.

Where the significance value was high and the confidence interval for the mean difference contained zero, then we could not conclude that there was a significant difference between the means for the two variables.

CHAPTER FOUR

4.0 RESEARCH FINDINGS AND INTERPRETATIONS.

4.1 Introduction

The main objective of this study was to determine the relationship between mergers and performance for companies listed at the Nairobi Stock Exchange. In order to achieve this objective, the entire set of companies was broken into two main groups to take into account difference in companies' performance. For the merged companies the average measures of performance before and after merger were analyzed for the measures of performance in terms of share turnover, volume, market capitalization and profit.

4.2 Measures of central tendency

Basic analysis begun with the determination of various measures of central tendency; namely minimum and maximum and mean value. Standard deviation is used as a measure of dispersion (variation). Calculations were carried out for correlation, significance, significance (2 tailed) and paired t- test.

Table 1: Descriptive statistics

	Minimum	Maximum	Mean	Std Deviation	No
Turnov	Kshs.170,600.83	Kshs.3,400,000,000	Kshs.210,000,000	Kshs.627012409.7	10
Volum	Units.8,853.33	Units.17,000,000	Units.2,936,528	Units.3,361,063.5	10
Market Capt.	Kshs.39,000,000	Kshs.28,000,000,000	Kshs.300,000,000	Kshs.5,279,032,343	10
Profit	Kshs.-78,000,000	Kshs.650,000,000	Kshs.72,000,000	Kshs.187,913,654.1	10

Source: Research data

This table above displays the; minimum values, maximum values, mean value and standard deviation for the pair(s) of variables compared in the paired samples t- test procedure. Since the paired samples t- test compares the means for the two variables, it was useful to know what the mean values are.

The minimum value for turnover, volume, market capitalization and profit were found to be Kshs.170,600.83, 8,853.33 shares, Kshs.39,000,000 and Kshs.-78,000,000 respectively for the ten surveyed companies. The maximum value for turnover, volume,

market capitalization and profit were Kshs.3,400,000,000, 17,000,000 Shares, Kshs.28,000,000,000 and Kshs.650,000,000 respectively. Further analysis showed the mean for turnover, volume, market capitalization and profit were Kshs.210,000,000, 2,936,528 Shares, Kshs.300,000,000 and Kshs.72,000,000 respectively. The standard deviation for turnover, volume, market capitalization and profit were Kshs.627,012, 409.7 Shares, Kshs.3,361,063.5, Kshs.5,279,032,343 and Kshs.187,913,654.1 respectively.

Table 2: Correlation and Significance for the Merged Companies.
(Three years before and three years after merger)

	Correlation	Sig.
Turnover	0.971	0.000
Volume	0.628	0.052
Mark/Carp	0.640	0.046
Profit	0.250	0.486

Source: Research data

This table displays the value of the correlation coefficient and the significance value for each pair of variables used in the paired samples t-test procedure. Since the two variables should represent the same group at different times, the correlation should be fairly high and the significance value low (typically less than 0.05). For turnover the correlation was 0.971 and significance 0.000, for volume the correlation was 0.628 and significance 0.052, for market capitalization correlation was 0.640, significance 0.046 while for profit correlation was 0.250 and the significance 0.486.

Table 3: Paired t-test for the Merged Companies.
(Three years before and three years after merger)

	Paired t - test
Turnover	-1.335
Volume	-0.843
Mark/Carp	-1.429
Profit	-2.441

Source: Research data

The mean values for the two variables are displayed in the paired samples statistics table above. A low significance value for the t- test (typically less than 0.05) indicates that there is a significant difference between the two variables. The t-test for Turnover, Volume, Market capitalization and Profit were -1.335, -0.843, -1.429 and -2.441

respectively. The study showed a significant difference in both the variables as both of them their values are below 0.05.

Table 4: Confidence interval
(For paired sample tests, three years before and three years after merger)

	95% confidence Of the	interval difference
	Lower	**Upper**
Turnover	-9.8E+08	2.5E+08
Volume	-3540648	1618968
Mark/Cap	-8.0E+09	1.8E+09
Profit	-4.2E+08	-1.6E+07

Source: Research data

If the confidence interval for the mean difference does not contain zero, this also indicates that the difference is significant, for this study both turnover, volume, market capitalization and profit does not contain zero.

Table 5: Pearson Correlation for Non Merged companies
(For the three years under review)

	Turnover	Volume	Mark/Cap	Profit
Turnover	1	0.519	0.861	0.843
Volume	0.519	1	0.250	0.16
Mark/Cap	0.861	0.250	1	0.938
Profit	0.843	0.160	0.938	1

Source: Research data

Pearson correlation coefficients assume the data are normally distributed. The Pearson correlation coefficient is a measure of linear association between two variables. The values of the correlation coefficient range from -1 to 1.
The sign of the correlation coefficient indicates the direction of the relationship (positive or negative). The absolute value of the correlation coefficient indicates the strength, with larger absolute values indicating stronger relationships. For these study both the variables shows a positive relationship, with stronger relationship being between profit and market capitalization where it's indicated by 0.938 and lowest was between profit and volume indicated by 0.16.

Table 6: Significance test (2-tailed) for Non Merged Companies
(For the three years under review)

	Turnover	Volume	Mark/Cap	Profit
Turnover	.	0.124	0.001	0.002
Volume	0.124	.	0.487	0.658
Mark/Cap	0.001	0.487	.	0.000
Profit	0.002	0.658	0.000	.

Source: Research data
Correlation is significant at 0.01 levels (2-tailed)

The significance of each correlation coefficient is also displayed in the correlation table. The significance level is the probability of obtaining results as extreme as the one observed. If the significance level is very small (less than 0.05) then the correlation is significant and the two variables are linearly related. If the significance level is relatively large (for example, 0.50) then the correlation is not significant and the two variables are not linearly related.

The significance level is 0.000 which indicates a very low significance. The small significance level indicates that profit and market capitalization are significantly positively correlated. As profit increases market capitalization also increases. And as profit decreases, market capitalization also decreases. The significance level for profit and volume is 0.658 indicating that the correlation is not significant. Even if the correlation between two variables is not significant, the variables may be correlated but the relationship is not linear.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSIONS

5.1 Conclusion

The study was conducted with the objective of finding out the effect of mergers on the performance of companies listed at the NSE. The four measures of performance used were turnover, volume, market capitalization and profit. The study established the financial performance of the merged companies in the pre-merger and post-merger period. Annual data relating to the performance measures were collected and analyzed using the Statistical Package for the Social Sciences (SPSS).

After the data was analyzed it was found that there is a significance difference between the two variables i.e. before and after merger performance.

The turnover, which is the total shares traded, multiplied by the share price it was found that there is improvement in the performance of companies which merged. Using the paired t-test approach for the before and after merger period it was found that the value is -1.335. In case of volume which is the units of shares traded it was found to be -0.843 while for the Market capitalization which is the total shares of a company multiplied by the ruling market price, it was fund to be -1.429. With the profit the t-test value was found to be -2.441.

From the above results it can be concluded that mergers improves performance of companies listed at the NSE. This is explained by low variation in paired t-test below 0.05 for turnover, volume, market capitalization and profit.

5.2 Limitations of the study.

Considering that it is difficult to have a perfect research situation, it is then expected that this research will have some limitations. There is need to highlight some of these limitations so that the conclusions can be understood in view of the weaknesses of the research study.

The computations of profit performance measure are based on accounting data and accounting practices differ between firms and this may introduce bias into the study.

The study focused only on the companies listed at Nairobi stock exchange. However, there are forty eight companies that are listed while there are many other unlisted private companies operating in Kenya. Consequently, the findings of this study cannot be generalized.

Another limitation encountered was that the companies analyzed merged on different dates and therefore it was difficult to have overall picture of the pre-merged and post merger periods to enable comparison and draw conclusions. The companies had to be analyzed individually.

5.3 Suggestions for further research.

This study focused only on companies listed at Nairobi stock exchange. An improvement on this study would be to extend this study to include companies not listed at Nairobi stock exchange.

Given that most companies merged in the late 1990s and early 2000, the data was only limited to three years and two years in some cases, a further study could be carried out to cover a longer period.

5.4 Recommendation to policy makers

The current global trend mostly in the developed countries is that mergers and acquisition is popular and many other countries especially Africa is following suite. Kenyan companies are following the global business trend of mergers and acquisitions. In the Kenyan example the companies analyzed plays a central role in the Kenyan economy and thus the performance after merger is critical as it will enable companies to design policies, strategies and tools of reform to strengthen their performance. It's observed from the study that there is improved performance of companies which merged basing on the four parameters of measures of performance i.e. Turnover, Volume, Market capitalization and Profit. In this regard therefore and from the results of study, merger can still be considered as one of the option that can be used by companies to improve their financial performance.

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APPENDIX A

LISTED COMPANIES

1	A. Baumann and Company Limited	Investments
2	Athi River Mining	Building Materials
3	Bamburi Cement Limited	Building Materials
4	Barclays Bank of Kenya Limited	Banking
5	British American Tobacco Kenya Limited	Tobacco
6	British Oxygen Company Kenya Limited	Manufacturing and Industrial
7	C.F.C Bank Limited	Banking
8	Car and General Kenya Limited	Automotives
9	Carbacid Investments Limited	Investments
10	City Trust Limited	Investments
11	CMC Holdings Limited	Automotives
12	Crown Berger Limited	Manufacturing and Industrial
13	Diamond Trust Bank Kenya Limited	Banking
14	Dunlop Kenya	Manufacturing and Industrial
15	Eaagads Limited	Agriculture
16	East African Breweries Limited	Beverages
17	East African Cables Limited	Manufacturing and Industrial
18	East African Portland Cement Limited	Building Materials
19	Express Limited	Shipping
20	George Williamson Kenya Limited	Agriculture
21	Housing Finance Company Limited	Banking
22	Hutchings Biemer Limited	Furniture
23	I.C.D.C Investments Company Limited	Investments
24	Jubilee Insurance Company Limited	Insurance
25	Kakuzi	Agriculture
26	Kapchorua Tea Company Limited	Agriculture
27	Kenya Airways Limited	Transportation
28	Kenya commercial Bank	Banking
29	Kenya Oil Company Limited	Natual Gas and Oil
30	Kenya Orchards Limited	Agriculture
31	Kenya Power and Lighting Company Limited	Utilities
32	Limuru Tea Company Limited	Agriculture
33	Marshalls East Africa Ltd	Automotives
34	Mumias Sugar Company Limited	Food
35	Nation Media Group	Media and

		Broadcasting
36	National Bank of Kenya Limited	Banking
37	National Industrial Credit Bank	Banking
38	Pan Africa Insurance	Insurance
39	REA Vipingo Plantations Limited	Agriculture
40	Sameer Africa (formally Firestone East A	Automotives
41	Sasini Tea and Coffee Limited	Agriculture
42	Standard Chartered Bank Kenya Limited	Banking
43	Standard Newspapers Group	Media and Broadcasting
44	Total Kenya Limited	Natual Gas and Oil
45	Tourism Promotion Services Limited	Hotels, Casinos, Resorts
46	Uchumi Supermarket Limited	Retail and Wholesale
47	Unga Group Limited	Food
48	Unilever Tea Kenya (formally Brooke Bond	Agriculture

APPENDIX B

MERGED COMPANIES

No.	Institution	Merged with	Current Name	Date Merged
1.	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	Feb 1999
2.	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	May 1999
3.	ICDCI	Wildlife works Inc, UAP Insurance	ICDCI	June 2002
4.	Nation Media Group	Mwananchi Communications Tanzania & Radio Uhuru Ltd Uganda	Nation Media Group	Dec 2002
5.	Jubilee Insurance Co. Ltd	Jubilee Insurance of Uganda Jubilee Insurance of Tanzania	Jubilee Insurance Co. Ltd	Dec 2002
6.	Kenya Oil Company Kenol	Jovenna Zambia	Kenya Oil Company Kenol	Sept 2002
7.	Unga Ltd	Unga Millers Ltd	Unga Group Ltd	Feb 2004
8.	CFC Bank	Alico Kenya	CFC Bank	2003
9.	East African Breweries	International Distillers Uganda Ltd UDV(K) Ltd	EastAfrican Breweries	June 2002
10.	Standard Newspapers Ltd	Baraza Ltd	Standard Group Ltd	2001

APPENDIX C

NON MERGERD COMPANIES

1. Sasini Tea and Coffee Ltd
2. CMC Holdings Ltd
3. Housing Finance
4. BAT
5. East African Cables Ltd
6. Total Kenya Ltd
7. Express Kenya Ltd
8. Eaagards Ltd
9. City Trust Ltd
10. A Baumann & Co.Ltd

APPENDIX D

AVERAGE RAW DATA

Before Merger

	Turnover	Volume	Market/Cap	Profit
1	87770897	3386368	1.75E+09	206564
2	95829363	7090252	1.36E+09	-2625268
3	1.29E+08	2708186	1.70E+09	209334.3
4	1.24E+08	2499008	2.83E+09	280866.7
5	21423743	1359052	7.17E+09	92546.67
6	13844167	175963	7.74E+08	331186.3
7	65054414	6622128	3.14E+08	-154362
8	26167428	1436619	1.09E+09	208274.5
9	6.58E+08	7689739	7.32E+09	1285017
10	2463617	277876.5	1.51E+08	-73319.3

After Merger

	Turnover	Volume	Market/Cap	Profit
1	35056592	2111155	1.30E+09	102910
2	10733474	2089906	6.47E+08	-569543
3	1.32E+08	2882233	3.24E+09	2.00E+08
4	7.68E+08	4739073	9.65E+09	5.91E+08
5	83183322	2003139	1.94E+09	2.60E+08
6	1.48E+08	1975783	3.92E+09	6.53E+08
7	73831617	4609635	8.38E+08	-7.80E+07
8	1.39E+08	2476054	6.16E+09	5.40E+08
9	3.40E+09	16989111	2.75E+10	2556105
10	65598058	1877504	2.80E+08	-37441

Unmerged Companies

	Turnover	Volume	Market/Cap	Profit
1	70381921	3307176	8.58E+08	56354
2	22533932	1582029	3.42E+08	188286.7
3	18783680	4259513	6.40E+08	-27276.3
4	1.09E+08	1923233	5.45E+09	948245.3
5	5750422	672815.7	1.87E+08	21952
6	36779776	1081859	2.79E+09	206458.3
7	1139268	64016.67	86480000	-25427.3
8	170600.8	8853.33	1.59E+08	4054
9	633995.4	33252	74572223	9136.33
10	1492033	164315.7	38720666	-14990.3

APPENDIX E

PAIRED T-TEST OUTPUT

Turnover

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BEFORE	1.2E+08	10	193623062.2	6.1E+07
	AFTER	4.9E+08	10	1047691866	3.3E+08

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	BEFORE & AFTER	10	.971	.000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	BEFORE - AFTER	-3.6E+08	861028674.3	2.7E+08	-9.8E+08	2.5E+08	-1.335	9	.215

Volume

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BEFORE	3214519	10	2700456.7164	853959.4
	AFTER	4175359	10	4627277.7661	1463274

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	BEFORE & AFTER	10	.628	.052

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	BEFORE - AFTER	-960840	3606322.7850	1140419	-3540648	1618968	-.843	9	.421

Market Cap

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BEFORE	2.4E+09	10	2643662538	8.4E+08
	AFTER	5.5E+09	10	8247826552	2.6E+09

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	BEFORE & AFTER	10	.640	.046

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	BEFORE - AFTER	-3.1E+09	6862412641	2.2E+09	-8.0E+09	1.8E+09	-1.429	9	.187

Profit

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BEFORE	-23915.9	10	994081.6427	314356.2
	AFTER	2.2E+08	10	281069944.7	8.9E+07

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	BEFORE & AFTER	10	.250	.486

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	BEFORE - AFTER	-2.2E+08	280822800.2	8.9E+07	-4.2E+08	-1.6E+07	-2.441	9	.037