THE EFFECT OF MERGERS AND ACQUISITIONS ANNOUNCEMENT ON THE STOCK RETURN VOLATILITY OF THE COMMERCIAL BANKS LISTED AT NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I hereby declare that this research project is my original work and it has not been presented for the award of a degree in any University.

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DEDICATION

I dedicate this study to all merged commercial banks listed at Nairobi Securities Exchange and to my family for their moral support.

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CBS	Central Bureau of Statistics
CMA	Capital Market Authority
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
GDP	Gross Domestic Product
M&A	Mergers and Acquisitions
NSE	Nairobi Security Exchange
ROE	Return on Equity
ROS	Return on Sales
PV	Price Volatility
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

Many organizations merge and acquire for the sole benefit of putting the organizations in a better position than they were before in terms of lack of capital, wealth, financial performance and different operation synergies and due to this, there is an increasing level of merging and acquiring of companies. This may affect the company before the mergers or even post-merger. Critical evaluations and thorough understanding needs to be taken before accompany decides to engage in mergers and acquistions.However the benefits associated with this, clearly surpasses the failures. The objective of the study was to find out on the effect of mergers and acquisition announcement on the stock return volatility on commercial banks listed on the Nairobi securities exchange. The descriptive research design was used. The population consisted of 10 commercial banks that had undertaken mergers from the 1997- 2015 and due to the small numbers of the sample, the census approach was used. There was no sampling of the data. Based on the findings, the stock return volatility was affected and there were changes noted immediately on stock prices. In some commercial banks there were drops and others and huge increase after the merger announcements. Abnormal returns were witnessed in some banks and others did not exhibit anything at all. This therefore translated to returns on investments made by the acquiring firm's shareholders. However, for a majority of the commercial banks listed in the NSE merger and acquisition announcements had no effect on the share returns of the listed commercial banks. In essence, this meant that shareholders of the parent banks did not attain returns on investments in the short term.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Various firms undertake Mergers and Acquisitions (M&A) for various reasons either local growth strategies or international expansion strategies. Organizations use various strategies for development, expansion and for growth of their goods and services region wise. An organization can decide to focus on development either internally by undertaking various actions towards internal processes improvement, or forming possible alliances that are strategic et cetera. Case in point, as indicated by the report issued by (UNCTAD, 2008), Mergers and acquisitions represented around sixty percent of the aggregate household investment and about eighty percent of all the foreign investments cash flows.

(Homburg and Bucerius, 2006) Firms choose to set about mergers and aquistions for various purposes. (Bradley, Dosai and Kim, 1988), Mergers and acquisitions will generally allow economies of scale which is unachievable by an individual firm and also enhance financial markets efficiencies (Brouthers and Brouthers, 2000). Executives personal goals may simply lead to failing to assess on the target companies which would prompt Mergers and Acquisitions (Seth, Song and Pettit, 2000). Findings of Mergers and Acquisitions are purely dependent upon the post-securing mix of the procured firm. (Youngster et al., 2001) The failures of M&A arrangements is frequently associated to cultural differences.

1.1.1 Mergers and Acquisitions

A merger is defined as when two organizations decides to form one organization whereby one firm ceases to exists legitimately and a new firm which undertakes all the resources

in terms of the assets and liabilities of the old company. (Gaughan, 1999). In this manner, mergers include a consolidation process of where the old firm is closed completely and a new firm is formed (Ross, Westerfield and Jaffe, 2003; Gaughan, 1999). Conversely, acquisition is defined as one firm transfers or buys some shares /ownerships in another entity and buys full purchase a section or the totality of another firm and forms itself as a different owner/ proprietor (Ross, Westerfield and Jaffe, 2003).

Likewise, it justifies we got various sorts of mergers and acquisitions, specifically related to scope included. Gaughan (1999) categorizes Mergers and Acquisitions as horizontal, vertical and conglomerate. The horizontal integration is formed by most businesses that are engaged in selling same produce, same clients and even face stiff completion direct. Vertical acquisitions happen between firms have different stages of production process or value chain. Conglomerate mergers and acquisitions put together firms' workings in totally unrelated markets UNCTAD (2008) The most common mergers and acquisitions are horizontal integrations that have been known to account to seventy percent of the total mergers and acquisitions deals.

1.1.2 Stock Return Volatility

Stock return volatility can be characterized as the rate at which the cost of a security varies in degree by either fluctuating upwards and downwards at a given time period. Volatility is calculated using the standard deviation and variance of the abnormal returns within a set time period. It demonstrates the degree the security price may vary (Bannette, 2016). Volatility breeds vulnerability, at the financial sector which hinder viable execution and also to the whole economy of a district or nation. The presence of over the

top unpredictability in the share trading system undermines the convenience of stock costs about the genuine characteristic estimation of a firm, an idea that is center to the worldview of the enlightening productivity of business sectors (Karolyi, 2001).

As indicated by Pindyk (1984) the discounting of future cash flows and marking up of the expected future volatility and premium risk cause the sudden or unexpected volatility increase. The increased rate of marking down leads to low prices and as a result returns that are negative (Bannette, 2016). The rise of a security is measured by volatility. The pricing options formula uses volatility to misuse changes of either increase or decrease in the securities. Volatility shows the replication of a price behavior of a security and helps also in predictions in a brief timeframe. The study concentrated on historical volatility which was measured by standard deviation between two cycles (before merger and after-merger) on 10 commercial banks chose for this study as indicated on Appendix iii.

1.1.3 Mergers and Acquisitions and Stock Return Volatility

With the ascent in prominence of merger arbitrage in the 1980s, researchers started to investigate the data contained in stock and option markets amid merger circumstances. Be that as it may, most of the M&As research has concentrated on the period encompassing to bid and more so, in regard to informed trading of rumors as well as data leakage

Jayaraman, Shastri, and Kishore (2001) inferred that stock returns volume and open interest results to increase before any announcements by unusual happenings in the early markets. Cao, Chen, and Griffin (2005) found out that before an offer declaration is due there is a rise or increase stock return volume imbalances, i.e. more trading which is

buyers. They likewise found that a solid connection between's the unevenness in stock return volume and the offer premium. Contrasting these outcomes with the value markets, they inferred that the share trading system gives a superior flagging instrument in takeover situations. Jayaraman, Shastri, and Kishore (2001) inferred that objective firm suggested volatilities increment essentially ahead of time of a bid announcement declaration and reduction after the announcement.

Various analysis show that, the interim between the transaction announcement and resolution, have for the most part been more constrained in scope. Examining various prices, Brown and Raymond (1986) used estimations to determine the business sector suggested likelihood of achievement or fallouts, demonstrating that the market separates amongst effective and unsuccessful transactions. Hutson (2000) developed this story further by observing standardized prices rather than probabilities and observed that Australian stock prices don't completely join to the offer price because of lower liquidity and stale previous trading prices. Hutson and Kearney (2001) demonstrated decreases in offer period restrictive and unqualified unpredictability of focus on organizations' stock returns. They found that post-offer betas are much lower than pre-offered betas for money exchanges and that unrestricted and contingent price volatility declined most definitely for cash bids and less so for stocks

1.1.4 Mergers & Acquisitions and Stock Return Volatility at the Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) is the Africa's fourth layout stock trade as far as exchanging volumes, and fifth as far as market capitalization as a rate of GDP. Being a capital market institution, it assumes an imperative for economic development: it

activates household funds in this manner achieving reallocation of money related assets from torpid to dynamic specialists; long term institutions are liquefied, as the exchange of securities (shares and securities) among the public is encouraged; the trade has likewise empowered organizations to engage public of their shares ownership locally, along these lines allowing Kenyans to possess shares of respectable firms; organizations can likewise raise additional funds crucial for expanding and of businesses (NSE, 2016).

To raise finances, an organization issues additional shares, distributes an outline, which gives clear information operations and future prospects of an organization, while in the meantime expressing the stock price per offer of the issue (NSE, 2016). A securities exchange additionally improves the inflow of worldwide capital; and securities exchanges likewise encourage government's privatization. Because of changes in the working environment, a few authorized establishments, basically business banks and insurance agencies have needed to union (consolidate operations via commonly concurred arrangements) whereby one organization assumes control of the acquired firms' operations (acquisitions). Most of the basis why organizations merge is having increased capital levels, market share expansion and network distribution and gaining best practices globally among others (Gitau, 2013).

Mergers and acquisitions (M&A) can't be under liabilities in today's money world. A corporate merger is taking all the assets of two firms to form a different new firm in simpler term acquisition for one reason or the other happens when the bigger firm absorbs the smaller entity while a merger is depicted when equivalents firms in the same market come together as one. In a merger of firms estimated to be of the same levels, there regularly is an exchange of stock decided in a pre-merger agreement in which one

firm issues shareholders of the other firm with new shares at a specific ratio. Mergers and acquisitions are known for enhancing benefits and profitability of an organization. Mergers and acquisitions are known for enhancing benefits and profitability of an organization. Furthermore, mergers and acquisitions are engaged to also diminish costs of the firm (Heyner, 2007).

Since 1985, a few mergers have occurred in Kenya. An aggregate of 33 mergers and 6 acquisitions have been executed (CBK, 2016) of which a smaller number has been listed at the Nairobi securities exchange. By year end December 2015, 10 commercial banks under Appendix iii of this study had that experienced mergers and acquisitions were listed at the Nairobi securities exchange (NSE). The study mainly focused on particularly commercial banks which have been listed.

1.2 Research Problem

Over the last decade, mergers and acquisitions have been occurring at an unprecedented rate. The mergers and acquisitions increased levels is amongst many developments in the topic of latest developments. M&A are monetarily applicable in the event that they advance monstrous reallocation of assets in a brief timeframe, both inside and crosswise over enterprises and locales, and possibly prompting boundless institutional and authoritative changes (Ferraz and Hamaguchi, 2002). In this way, organizations utilize M&A as an apparatus to increase upper hand, to produce productivity additions, furthermore to upgrade development potential. M&As have been concentrated on a great deal and different discoveries have been accomplished. More research about individual reasons and M&A choices have been concentrated yet there is by all accounts no straightforward response for the thought processes behind M &A. There is a ton of data

however by what method can these pieces be assembled so that it additionally helps the organizations who are giving us explores a fascinating test field.

Lewis and Mackenzie (2000) concluded that although there is tradeoff which is straightforward in regards to morals and monies and investors will only put their monies where they feel safe. The underperformance costs don't in by their own choose investment decision. Some academic researchers battle that M&As make synergies that assist the consumers and acquiring companies (Weston, and Mulherin, 2004). Some critics have argued that M&A practices cause problem related to agency which overall reduce company returns (Jensen, 1986). In light of view in M&As motions still remains unclear, no matter the many studies done and continued research need exist on this subject.

Various studies on mergers and acquisitions attempted in Kenya as highlighted include: Chesang (2002) studied financial performance and merger restructuring on Kenyan commercial banks ; Katuu (2003) embraced a study on factors that are vital in merger and acquisitions on selected firms in Kenya; Njenga (2004) studied whether the demerger of coffee marketing societies in central Kenya caused wealth gain or loss; Yash Pal Bansal (2005) embraced a study on the Apollo and Pan Africa general insurance agencies merger challenges and processes; Kiplagat (2006) researched the on financial performance of listed companies at the NSE after mergers; Mukele (2006) studied facts that determine the choice of mergers and acquisition performance in Kenya; Ngare (2013) focused on the effects commercial banks financial performance in Kenya after merging and Odhiambo (2013) examined on the impacts of extra territorial mergers and acquisitions on listed at the Nairobi Securities Exchange and the value created

However, no study has yet investigated the impacts of mergers and acquisitions on stock return volatility in the commercial banks listed at the Nairobi securities exchange. From the findings mentioned above hence the motivation to conduct the research. This study focuses on commercial banks listed at the Nairobi Securities Exchange. The research question investigated was: The effect of mergers and acquisitions announcement on the stock return volatility of the commercial banks listed at Nairobi Securities Exchange.

1.3 Objective of the Study

The study sought to investigate the effects of mergers and acquisitions announcement in the stock return volatility among commercial banks listed at the Nairobi Securities Exchange.

1.4 Value of the Study

This study was seek to out the impact of mergers and acquisition announcement to various persons and stakeholders. It is hoped specifically; the findings would be beneficial to various key stakeholders as discussed in the subsequent paragraphs.

The investors and management of commercial banks listed at the Nairobi securities exchange will gain a better understanding as to why the stock prices may fluctuates upon mergers acquisitions announcement and on the findings of the study, the managers of the banks listed at the Nairobi Securities Exchange may embrace mergers and acquisitions from an informed position.

The Capital Markets Authority (CMA) and other regulatory bodies that in charge of licensing, supervising and regulating the operators in the capital markets, including policy formulation, monitoring and evaluation are able to make better decisions, when

executing its mandates on decisions involving mergers and acquisitions from an informed position.

The study would make a major contribution to the growing mergers and acquisition body of research. It results or conclusions of this study may likewise be utilized as a wellspring of reference for different researchers. Furthermore, scholastic analysts would require the findings of study to empower continued research in this area and consider it as a good background for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter highlights the theoretical review whereby the main theories on mergers and acquisitions are discussed, reasons for mergers and acquisitions, further empirical review and conclusions on the chapter will also be discussed. Conclusion on this chapter are on how this research intended to cover the knowledge gap and the ways in which this research paper intended to fill the knowledge gap.

2.2 Theoretical Review

Theoretical approach of this study was focused on different theories based on Mergers and Acquisitions. The study is based on the theory of financial synergy that explains on benefits gained by firms in terms of financial performance as a result of mergers or acquisitions, among other theories.

2.2.1 Wealth Maximization Theory

Shareholders wealth maximization is realized when the company strategies of investing and decision making by the managers are rational. Normally the firms should only invest on these particular projects whose the expected sum of present values exceeds the intial project outlay. In mergers and acquisition the shareholders wealth maximization is realized when the questions of the targeted firm surplus the acquisition cost. (Manne 1965)

Similarly, owners of target firms would take part in mergers and aquistion if the M&A will bring additional benefits to shareholders (Berkovitch and Narayanan, 1993).The outcome of all these is synergies earned by the target firm and bidders gains. In any case,

Bruner (2004) through carious synergies the new firms are able to make profits that they would not have made by while on their own and thereby creating value for the shareholders. Accordingly, the organizations agents who are the managers should make monies for the principals or owners by making or creating for the shareholders' values through possible synergies. There are various interactions obtained when joining two organisations and operational assets when key fitting is available on monetary and operational basis point of view of mergers. Through economies of scale most costs can be decreased and also via assets reductions. (Porter, 1985). (Simmonds, 1990) Synergies improvements on income are imagined to emerge from a deal and showcasing perspective, while mergers and aquistions also provide some pathway to alternative capabilities and human resource

2.2.2 Financial Synergy

The financial synergies are known not to emerge from the individual firm value but from the leveraging of M&A activities. On the contrary in regards to the perspective of Miller and Modigliani (1958), he contended that without taxes, default costs and informational asymmetries in a well-functioning efficient market, and default costs of financial synergy was only discovered when the company market value is independent of the capital structure. Nonetheless, the company's capital structure choice may need to be considered when the above assumptions are not true.

The hypothesis has two essential provisos concerning its relevance; Initial, one of the consolidating organizations has to experience monetary pain. The hypothesis is most straightforwardly appropriate to barely gainful new businesses and existing organizations that are financially distressed. Second, hypothesis just applies when serious office issues

surfaces between directors and the owners of the upset firm. (Fluck and Lynch, 1999).The hypothesis is more material to mergers where the combining firms is small

Some of the empirical studies done shows diversified firms have been worth les in an imperfect move (as described by Tobin's q) in an arrangement organization (Lang and Stulz (1994) and Berger and Ofek (1995) . In this manner, stakeholders don't appear to profit only from financial diversification point of view. In outline, financial sector synergies is by all accounts available and mix of collaboration are prone in moving ideal point expense of capital, the conservative and working financial synergies is by all accounts the most overwhelming worth amplification thought processes in firms occupied with M&A action. Because of the part it plays in mergers and acquisitions, the study was along these lines pegged in this financial synergy hypothesis.

2.2.3 Hubris Hypothesis Theory

Roll (1986) defined this theory which recommends executives to effectively present goof of positive thinking upon mergers valuations openings for its outrageous fearlessness. The valuation of highest bidder, appears differently in relation to the certified estimation of the objective, which sensitive bidder may not have done. Trautwein (1990) Along these lines, expectations of the management is key to determining aftereffect of the mergers and acquisitions and directors may decide to acquire a target firm particularly for their own interest in 'domain building' as opposed to their shareholders' quality. Supervisors may put the free trade stream out tasks, for instance, acquisitions with skeptical net present quality if that would provoke extended individual utility instead of help shareholder regard. Jensen (1986) These free money streams, which is the reserves

of the organisation, should rather be issued to the shareholders as benefits as the firm is to seen effective when it intensifies the securities esteem.

Amihud and Lev (1981) contend that directors in conglomerate mergers face an "occupation hazard" in light of the fact that their future job and income potential are profoundly associated with the company's danger. Weston, Siu, and Johnson (2001) Subsequently, managers who are risk adverse might also attempt mergers and aquistions to lessen the risk of employment as opposed to profit shareholders, on the grounds that such hazard can't be differentiated in their own portfolio. In addition, Mueller (1969) built up a development augmentation model of M&A taking into account the contention that managers' rewards, economic wellbeing, pay, and advancements are identified with the span of the firm. He contends that due to this relationship, supervisors will probably acknowledge a lower return on the investment than that of shareholders.

(Jensen and Meckling, 1976) Consequently, managerial hubris can be seen as an organization issue which emerges because of partition of proprietorship and control, subsequent uniqueness along with interest and thought processes of the managers (principals) and (the agents) stakeholders

2.2.4 Value Creation Theory

Merger and acquisitions will be deemed viable if the whole worth makes more economic sense if the sum paid is less compared to synergies obtained. The Horizontal mergers surplus value can be proficient by obtaining production, distributions economies of scale new markets access, having one headoffice, firing of poor management, more important cash related possible results and joined unessential assets (licenses, trademarks and

patents). Mergers that are vertical normally minimizes the processes of value chains and greater costs savings are felt in procuring department, enhancement of communications mechanisms possible, and ensuring production to targeted markets is achived. An importance of cooperative energies nitty gritty by Sirower (1997) is according to the accompanying: Synergy is the updated forceful cutoff and following more essential exchange streams out plenitude of which individual associations fulfilment..

Value creating mergers are scarce Sirower (1997) . When the synergy(surplus worth) surpasses price of merging whereby takeover is included, then a merger is beneficial. Different analysts have found positive and significant changes after the post-merger in relations to the cash flows contrasted to individual organisations (Healy, Palepu and Ruback, 1992)

2.2.5 Signaling Theory

This theory suggests that an issuer, through the action of estimating an issue, flags the nature of the firm. Proponents of signaling theory also argue that security backers of excellent firms will probably set a generally higher cost, while the inverse is normal from low quality firms. Low quality firms run the risk of offer failure if they attempt to imitate the high quality firm’s pricing strategy. Leland and Pyle (1977) stated that Investors who understand it ,view the negative stock sales as an important signal. The signaling effect implies that better-informed investors sales of shares signals overpriced shares.

Miller and Rock (1985) further add that SEO issuance that when earnings fall then investors interpret it negatively and as a result the stock prices fall. Managers are often aware of the firm’s cash flows, its retention of 10% earnings, sales prospects and the need for capital and research expenditure which motivates them to select the optimal method

of financing. An expected decline in the operating cashflows is caused by issuing of securities (equity and debt) which normally signal need for cash on a need unexpectedly. The signaling theory is also based on information asymmetry and its relevance is subjects to the constraints highlighted in the earlier discussion on market timing. However, the signaling theory remains significant in explaining the reactions of both informed and un-informed investors to seasoned equity offerings.

2.3 Determinants of Stock Return Volatility

Stock return volatility is the rate at which the cost of a security increases or reduces for a given set of returns. (Bannete, 2016) Volatility is measured by calculating the standard deviation of the annualized returns over a given timeframe. Stock return volatility is controlled by a few variables:

2.3.1 Region and Country Economic Factors

Interest rates and tax policies overall cause a change in the market thereby causing volatility. Case point, in various governments worldwide, their central bank usually set overnight interest rates for banks borrowings The overnight rates may change thereby causing the violent reaction of the stock market (Healy, Palepu and Ruback, 1992). In addition, governments also set policies in relation to taxes that affect the stock markets; therefore, the markets tend to react and cause the prices of the said stock to move upwards or downwards, thus stock return volatility.

Stock return volatility can trigger positive or negative signals in the economy in a specific region. Emerging stock market volatility is delicate to certain neighborhood and worldwide occasions. The reason for Aggarwal, Inclan and Leal (1999) study was to distinguish the movements in instability and to examine whether worldwide or nearby

occasions (social, political and financial) are the significant reason for movements in developing business sector unpredictability.

2.3.2 Changes in Inflation

Changes in inflation designs affect the whole deal securities market trend and volatility. Periods when there is low and stable inflation or the inflation is falling, the price earning rations also expands and may also experience low volatility in the market as when there is higher trend (Gitau, 2013).

On the other hand, times of falling value/income extents tend to relate to rising or higher inflation periods when expenses are more shaky. This has a tendency to realize the stock markets to decrease and experience higher volatility. Higher instability if not firmly checked can result to damage of the economy. At whatever point the market part ends up being all the more consistent, the monetary volatility and contagion change into less successive and milder (Gitau, 2013).

2.3.3 Industry and Sector Factors

Industry and segment variables can likewise bring about expanded volatility in the stock market .Major instances like in oil industry, may experience a huge climate storm in an main oil producing region and as a results the oils become scarce and prices tend to go up (Karolyi, 2001). Thus, the cost of other related oil stocks also follows the trend. The advantage of higher oil costs will be a disadvantage to the other stocks will be affected and thereby causing volatility which influence the general markets and also individual prices of other stocks.

The surge in oil costs has affected microeconomic factors, for instance, era costs, speculator decisions and industry improvement and decay, and has also impacted macroeconomic factors, for instance, expansion, levels of national profit, add up to spending and the adjust of installment of different countries. The enormous aggregates included impact levels of global obligation, the working of the world's money related framework and countries' rate of monetary advancement (Cleaver 2007).

2.3.4 Exchange Rates

Exchange rate is the cost at which one nation's money trades for another nation's cash. The swapping scale assumes a crucial part in deciding the cost of a country's item in whatever remains of the world and household cost of products imported from abroad. The stability of the currency is determined by many factors among them the trade relations between the countries (Bannette, 2016).

(Thomas, 2006) Today world trade is done in a drifting exchange rate system, where conversion scale changes persistently for the duration of the day. (Samuelson and Nordhaus 2010) define exchange rate as costs of one currency expressed regarding another, they can be communicated in immediate and abberant citation.

2.3.5 Interest Rates

As indicated by Thomas (2006) interest rate is the expense of borrowing expressed as a percentage for each year. It is a key financial variable that plays an important part in buyer's choice to purchase. The genuine interest rate, the interest balanced for expected inflation is especially critical.

Samuelson and Nordhaus (2010) define interest as the cost paid for borrowing cash over a timeframe; they include that there are numerous interest rates relying on the development risk, tax status, and different properties of credit. Howells and Bain (2008) define interest as installment from borrowers to lenders which remunerates the latter to part with assets for a timeframe at some danger.

2.4 Empirical Review

The section starts the empirical part of the literature review with studies dedicated to developed countries and then proceed with analysis of the local studies in Nairobi security Exchange. In the United States, a few studies that took this approach presumed that the execution of gained companies stays, best case scenario, unaltered and normally decays. Ravenscraft and Scherer (1987) demonstrated that the productivity of companies' abatements after takeovers. So also, Caves (1989) reasoned that the piece of the pie and efficiency of gained companies declined speedier than that of partnerships that had not been assume control.

Then again, Lichtenberg (1992) inferred that corporate proficiency enhanced after takeovers. He inspected changes in the aggregate efficiency of the components of generation amid the seven years prior and then afterward takeovers in the assembling part and watched that promptly before takeovers, the aggregate profitability of the elements of creation of the focused on companies was fundamentally lower than that of different enterprises. In any case, this hole contracted significantly over the long run with the outcome those seven years after the takeovers, the distinctions in efficiency between firms that had been assumed control and those that had not were immaterial. These increments in efficiency were mostly because of a lessening in all our livelihood.

Lichtenberg (1992) additionally concentrated on work that was explicitly identified with innovative work and reasoned that there were no critical contrasts. At last, his outcomes affirmed that the piece of the overall industry of organizations that have been assumed control decreases after the obtaining is made.

Brown and Medoff (1988) additionally inspected the impact of acquisitions on the work constrain. They reasoned that people in's general impression that acquisitions negatively affect occupation is not valid. They concentrated on 200,000 partnerships in U.S.A somewhere around 1978 and 1984 and found that mergers were connected with around a two percent expansion in all out job and around a four percent diminish in wages.

Different studies done in Italy incorporates the research done by Focarelli, Panetta, and Salleo (1999) study identified with the efficiency thought processes in mergers and acquisitions.

Inspecting post-mixing period, they fought that in Italy stretching was changed in 1990 which surmised the rising of mergers and acquisitions numbers. The terms mergers and acquisitions are distinguished various authors since they assume that they may have specific motivations and prompt different results. Multinomial logit is similarly used as a piece of this study. In particular, mergers, that incorporate basic definitive issues in joining two uninhibitedly run firms, may have unmistakable destinations from acquisitions, which incorporate only a trade to control. Utilizing a generally little specimen, the creators tried theory that mergers and acquisitions are trailed by changes. They presumed that mergers are driven by procedures went for offering more administrations, while acquisitions can be alluded to methodologies in light of credit

administration. After a securing, the creators found a long-increment in gainfulness for obtained firms. They clarified this by more effective checking and screening which brings about steady lessening in terrible advances. The creators additionally noticed that mergers seem to influence an adjustment in the money related structure of a bank by diminishing value and expanding loaning which brings about steady abatement in awful advances. The creators additionally noticed that mergers seemed to influence an adjustment in the money related structure of a bank by diminishing value and expanding loaning.

Locally a few studies have been done which centered around mergers and acquisitions. Kurui (2014) concentrated on the relationship amongst mergers and acquisitions of firms listed in Nairobi securities exchange and their financial performance. Population for the study was 10 recorded firms in Nairobi securities exchange that had taken an interest in mergers or acquisitions amid the period 2000 to 2013.Secondary sources of data i.e. from the annual audited financial records of the listed firms over the period of study was used. 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 on three years before Mergers and acquisitions and 3 years after. The results indicated that most shareholders earned much better post-merger or acquisitions period. The study by Kurui (2014) focused on effects of mergers and acquisitions in relation to firms financial performance listed at NSE. This study focused on stock return volatility following mergers and acquisitions announcement by listed commercial banks at NSE hence filling the knowledge gap.

Gitau (2013) contemplated on the information content of mergers and acquisition announcement for listed organizations at Nairobi securities Exchange. The number of inhabitants in the research comprised of the considerable number of firms that had experienced mergers and acquisition and are listed in the NSE. Listed firms were stratified into horticultural, business, financial, industrial and elective divisions. The model for purposive testing was the occurrence of M&A between 1999 – 2011 on every stratum. The information utilized was optional, which was gotten from NSE website. The data collected was quantitative in nature comprising of stock price (current and previous day close share price) as well as values of market Index. The data was analyzed using descriptive statistics to describe the variables under investigations using the Social Sciences (SPSS) software. Comparative analysis was carried out using t-test to assess industry difference. Daily adjusted prices for sampled stocks with an event window consisting of 5 days before and 5 days after the event date was used. The study revealed that the market reacted some days before the mergers and acquisitions and immediately after. Increased activity was also noted from about 2 days during that period of mergers and acquisitions to 10 days afterwards. The study focused on effect of information in mergers and acquisition. This study sought to fill the gap by studying the effect of mergers and acquisition announcement in stock return volatility in the commercial banks listed at the NSE.

Odhiambo (2013) studied cross border mergers and acquisitions effects and the firms values listed at the Nairobi securities exchange. The research adopted a causal study that relied on controlling factors. It also endeavored to find out the relationships among variables in regards to profitability of companies involved in M&A changes before or

after the process. The population study was the seven listed Kenya companies who had so far acquired other companies in the East African region in nine different transactions. The specimen was comprised of five cross border mergers and acquisitions that had occurred in the last ten years. The study utilized auxiliary information. In this paper, the utilization of accounting ratios was utilized to examine the budgetary execution of the chosen organizations that have undergone cross border mergers and acquisitions. Gainfulness performance indicators, return on assets (ROA) in view of both EBIT and (Earnings before Interest, Taxes Depreciation) EBITDA, return on sales (ROS) in light of both (Earnings before Interest and Taxes) EBIT and (Earnings before Interest, Taxes and Depreciation allowance) EBITDA, and income return on resources were utilized. The study uncovered positive execution on account of acquiring companies and mergers turn out to be more effective after the merger. This general impression or pattern is available over each of the time skylines for which the examinations are conducted. The study concentrated on financial performance rather than this study which expected to fill the knowledge crevice by studying the stock return volatility in mergers and acquisitions on the commercial banks listed in the NSE.

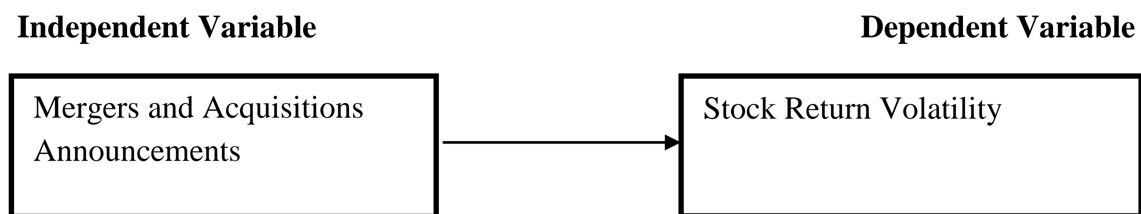
Lastly Ngare (2013) studied the impact of mergers and acquisitions relationship to the financial performance of commercial banks in Kenya. The causal research design study was undertaken. Population used was 16 Kenyan commercial banks that had undergone mergers and acquisitions between the year 2000 and 2012. The study mainly used secondary data from the published performance facts, NSE, CBK, Central Bureau of Statistics (CBS) and annual statutory reports derived from the commercial banks themselves for the period in study. Financial performance was measured through ROE.

For ROE the data collected was the profit before tax and the equity level of the commercial bank whereas for the solvency ratio the research collected data of liabilities held by the commercial bank and it asset position. Results from both the (ROA) return on assets and (ROE) return on equity indicated a significant increase in profits for the banks as a result of the mergers. Results from the total assets to total liabilities ratio found they had general increase in the banks solvency after the merger. This study is to fill gap of knowledge by studying the stock return volatility in mergers and acquisitions on the commercial banks listed at NSE.

2.5 Conceptual Frame Work

The conceptual framework for this study is depicted in the figure below.

Figure 2.1: Conceptual Framework



Source: Researcher (2016)

2.6 Summary of Literature Review

Investigation on mergers and acquisitions gives one scaffold between the neoclassical hypothesis (Manne, 1965) of the firm (benefit augmentation) and later speculations of the firm, to be specific, the level of adequacy of the capital (stock) advertise train. With a flawless capital market, the neoclassical hypothesis and later speculations of the firm should yield the same forecasts in that the level of merger action would be very low or non-existent. From the empirical review, study focused to fill an existing knowledge gap whereby the entire studies reviewed have not been able to do research on. No study has

investigated the effect of mergers and acquisition announcement on stock return volatility of Kenyan commercial banks .

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter will highlight the discussion of the suitable research method that was used by the researcher to achieve the purpose of this research. The first subsection covers research design. Subsection two covers the unit of analysis followed by the data collection methods used by the researcher. Lastly how the analyzation of the data collected was done.

3.2 Research Design

This study design in nature is descriptive. Descriptive designs are used to explain phenomena's as they occur and will mostly be used to obtain information on a particular issue characteristic (Kothari, 2004). Market trends and reactions were analyzed in terms of changes in share prices and returns. The methodology used was event study to measure the effects of an unanticipated event on stock prices.

An event study normally quantifies the relationship between firm specific events like M&A practices and stock prices. The event window was set at 61 days, comprising of 30 days before day t=0 (which was the day of announcement) and 30 days following the announcement day. The abnormal returns was captured before and after the announcement or any information that might could have leaked out before the announcement date.

3.3 Population

The population related to all the mergers and acquisitions between 1997 and 2015 that had taken place within 10 commercial banks listed on the Nairobi Securities Exchange as

per appendix iii. Given the small number of the said mergers and acquisitions, no sampling was done and a census survey approach was used.

3.4 Data Collection

The study used secondary data from the NSE, CMA and or the listed banks' websites. The data was derived by studying the stock prices 30 days before the announcement date and 30 days post the announcement date. The announcement date was termed as time 0; and the study covered a 61day period for each firm. The purpose of using published secondary source data was to get authentic factual information on issues of mergers and acquisition at the NSE.

3.5 Data Analysis

This study employed the Event Study Standard Market Model to realize its objective. Factual Package for Social Sciences (SPSS) was utilized to break down the relevant information. The analysis included evaluating and inspecting irregular returns for each of the listed banks for 30 days before the occasion and for 30 days after the occasion. At every point in occasion time, the merger irregular returns and the normal unusual returns over the banks was figured. The normal strange returns was in total summed up over the occasion time. Values were figured extensively for the aggregate occasion window of 61 days to examine the impact on stock. T-statistic was utilized to test for the criticalness, with the normal combined unusual return and its standard deviation being utilized to determine the appropriate empirical t-statistic.

3.5.1 The Analytical Model

The standard market show utilizes a reason for assessing the typical rate of profit for a security is determined as takes after (Fama, 1998). As indicated by Panayides and Gong (2002), a 61-day occasion window completely catches the impacts of an occasion of intrigue. The window started 30 days before the occasion date and closures 30 days after. The study intended to determine daily returns surrounding each stock around the M&A announcement. The standard approach depends on assessing a market show for every bank and afterward computing strange returns. The market model is a factual model which relates the arrival of any offered security to the arrival of the market portfolio. These returns that are irregular are expected to mirror the stock exchange's response to new information arrival.

The standard market model by Mackinlay (1997) is used:

$$\mathbf{R_{it} = \alpha_i + \beta_i R_{mt} + E_{it}}$$

Where:

$\mathbf{R_{it}}$ is share prices rate of return of bank i on day t;

$\mathbf{R_{mt}}$ is market portfolio rate of return of stocks (NSE 20 share index) on day t;

$\mathbf{\acute{\alpha}_i}$ is the intercept term;

$\mathbf{\beta_i}$ is the stock I systematic risk ; and

$\mathbf{E_{it}}$ is the error term with E (eit) =0

Daily actual returns are defined as:

$$R_t = \frac{P_i - P_o}{P_o} + D_i / P_o$$

Where: P_o and P_i is the price of stocks of day t_0 and t_1 respectively and

Di is the expected dividend.

Abnormal return is gotten by by taking the observed and the expected return and getting the difference, as stated below

$$AR_t = R_t - ER_t$$

Where: $\mathbf{AR_t}$ is abnormal return flow; and

$\mathbf{ER_t}$ is the(normal return) expected return

The normal return is then based on sample data points, and abnormal return will be based on event period window. Dodd and Warner (1983) model (SAR) standardized abnormal return will be computed, where the standard deviation of abnormal return will be calculated as:

$$SAR_t = \frac{AR_t}{StdAR}$$

Where $\mathbf{SAR_t}$ = the standardized abnormal return for time t and

StdAR = standard deviation of abnormal returns of the event period.

The standardized abnormal returns (SART) are then cumulated over the days, (event window) to get (CAR) cumulated abnormal returns for each bank.

$$CAR = \sum_{i=1}^{t=2} AR_t$$

Values of CAR are independent and independently distributed as per the assumption

CAR is then divided by its standard deviation.

$$SCAR = \frac{\text{CAR}}{\text{StdCAR}}$$

Where SCAR standardized cumulative abnormal return and Std CAR being standard deviation of cumulated abnormal returns.

3.5.2 Test of Significance

Testing the significance of the abnormal return was done using standard t-test statistics at 95% significance level. Using the model, the study sought to determine the effects of the announcement of mergers and acquisitions on stock return volatility for the commercial banks listed at the Nairobi Securities Exchange.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the results of data analysis on the basis of the stock return volatility of commercial banks that underwent M&A and are listed at the NSE. The researcher used event study methodology and descriptive statistics in a bid to compare the abnormal share price returns before and after M&A of the listed companies. This methodology was appropriate since it helped determine whether listed commercial banks can generate abnormal return or not after M&A. The study aimed to investigate the effects of mergers and acquisitions announcement in the stock return volatility among commercial banks listed at the Nairobi Securities Exchange.

4.2 Descriptive Statistics

The study carried out investigated the effects of mergers and acquisitions announcement in the stock return volatility among commercial banks listed at the Nairobi securities exchange. Data on daily market price and individual company share prices was collected for the period 1997 to 2015. The researcher used the Statistical Package for Social Sciences (SPSS) version 20 to do the analysis for each of the listed firms. The existence of abnormal returns was tested at 5% significance level.

Descriptive statistics was used to analyze the data and results are discussed in Table 4.1.

Table 4.1: Descriptive Statistics

Company	Minimum Price	Maximum Price	Mean	Std. Deviation
CFC Stanbic Holdings	107.44	126.15	115.7918	3.70806
Diamond Trust Bank	35.00	44.00	37.9945	2.83942
NIC Bank	37.17	49.43	43.3511	2.74721
KCB	20.05	23.13	21.2559	.87321
National Bank	19.10	23.27	22.9582	3.57330
Co-operative Bank	9.47	17.97	12.7007	.12719
I & M Holdings	93.50	100.97	96.6607	1.86797
Barclays Bank	70.13	109.38	94.1718	2.62958
Standard Chartered Bank	79.96	125.32	104.1598	11.58928
NSE 20	2950.25	5477.70	4446.6606	683.76066

Source: Research Findings

During the study period, the 20 NSE Share Index market recorded a minimum value of 2950.25 and a maximum value of 5477.70. It depicted a mean of 4446.6606 with a standard deviation of 683.76066. Most of the banks standard deviation ranged between 2.0 and 3.7 except for the standard Bank which had a very high standard deviation of 11.5.

4.3 Paired t-Test

Paired t-test results for the comparison of the share prices before (denoted with a 1) and the prices after news about mergers were made (denoted with a 2) in a span of 60 days. The two samples for each listed firm were of size 30 that is before and after merger news. The difference in returns deemed as abnormal returns was tested using the 5% significance level. This is illustrated in the table 4.2 below:

Table 4.2: Paired t-test Results

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std deviation	Std Error mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	CFC1 - CFC2	-1.92172	5.34085	0.99177	-3.95327	0.10983	-1.938	28	0.063
Pair 2	NIC1 - NIC2	-0.46655	2.92669	0.54347	-1.57981	0.6467	-0.858	28	0.398
Pair 3	KCB1 - KCB2	-0.03783	1.42436	0.2645	-0.57963	0.50397	-0.143	28	0.887
Pair 4	NBK 1 – NBK 2	-2.90113	5.69942	1.05836	-5.06907	-0.73318	-2.741	28	0.011
Pair 5	Co-op1 – Co-op2	0.0784	0.21171	0.03931	-0.00213	0.15893	1.994	28	0.056
Pair 6	I&M1 - I&M2	1.37833	3.0615	0.88378	-0.56685	3.32352	1.56	28	0.147
Pair 7	BBK1-BBK2	-3.51082	1.21762	0.22611	-3.97398	-3.04766	-15.527	28	0.015
Pair 8	STNC1-STNC2	-19.7882	9.83151	1.82567	-23.5279	-16.0485	-10.839	28	0.230
Pair 9	DB1 -DB22	5.24316	1.80817	1.27857	-11.0026	21.48892	4.101	28	0.152

Source: Research Findings

4.3.2 CFC Stanbic Bank

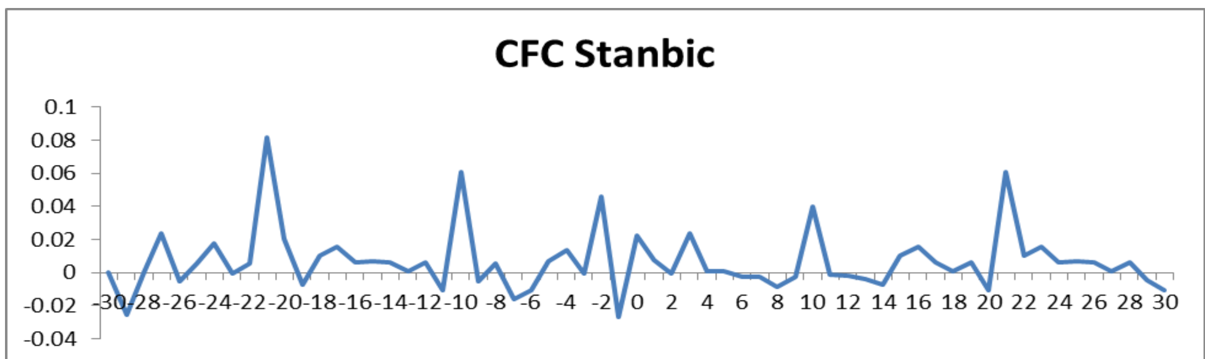


Figure 4.1 CFC Stanbic Bank

The results showed that the mean difference in the two sample returns of CFC Stanbic shares was -1.92172 with a standard deviation of 5.34085. The results also showed with 95% confidence that the difference in mean lied between -3.95327 and 0.10983.

However, this interval includes zero thus we conclude that there was no difference in returns before and after merger announcement at CFC Stanbic bank in the studied sample.

4.3.3 NIC Bank

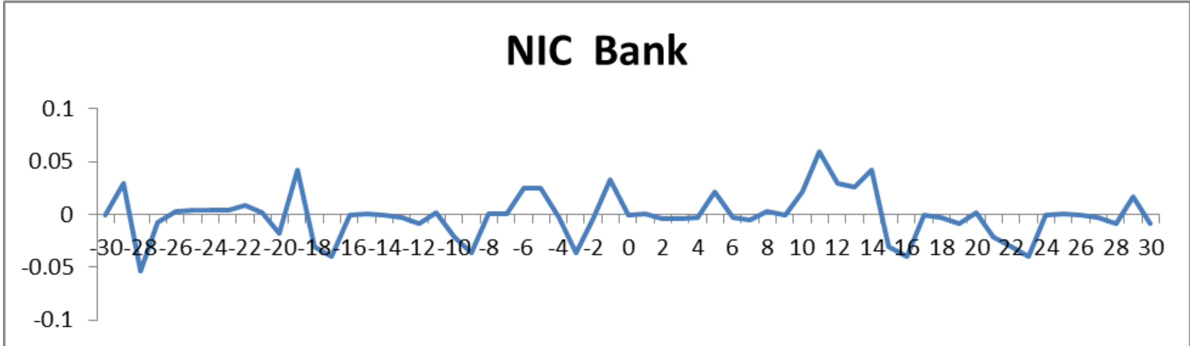


Figure 4.2 NIC Bank

For NIC Bank, the difference in the two sample means was - 0.46655 with a standard deviation of 2.92669. The 95% confidence interval for the difference in the mean was that the mean would be between -1.57981 and 0.64670. This interval however includes zero thus there was no difference in the returns before and after announcement. Therefore, for NIC Bank the announcement had no significant statistical influence on the share prices.

4.3.4 Kenya Commercial Bank

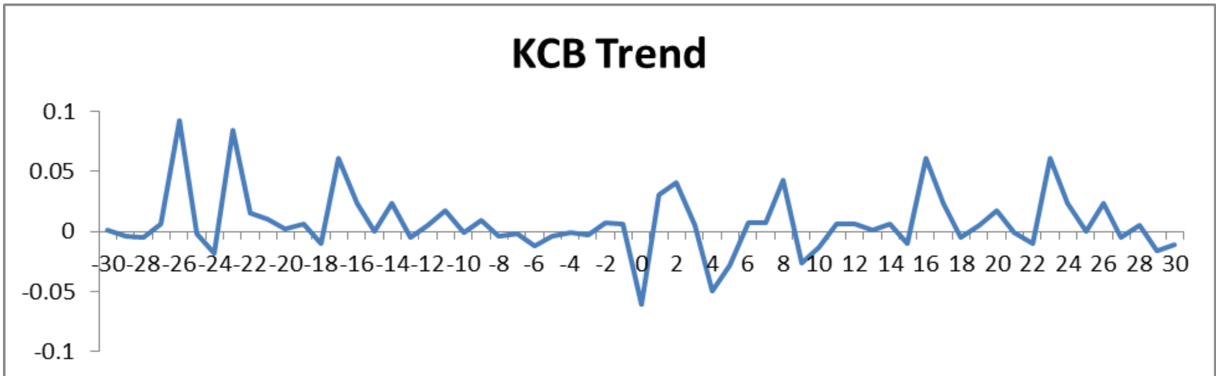


Figure 4.3 Kenya Commercial Bank

The Kenya Commercial Bank had a mean difference of - 0.03783 with a standard deviation of 1.42436. The 95% confidence interval for the difference in the two mean was that the mean would be between - 0.57963 and 0.26450. Since the interval included zero, then there was no significant difference in the returns of shares of KCB even after the announcement of the merger.

4.3.5 National Bank of Kenya

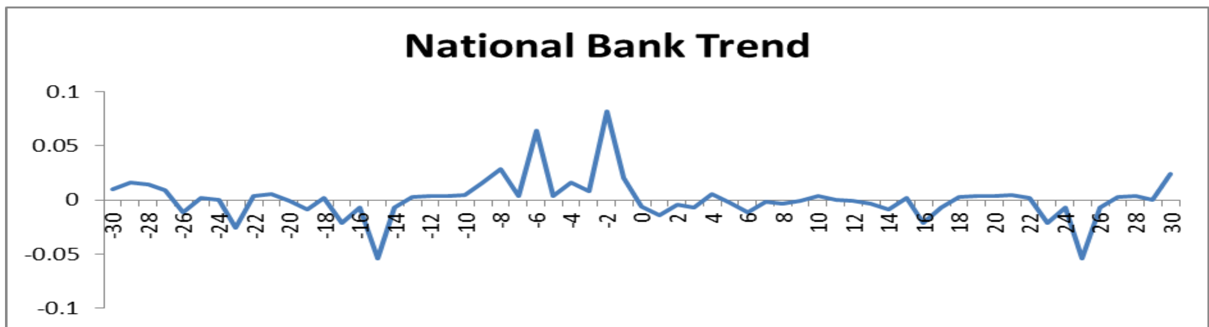


Figure 4.4 National Bank of Kenya

The national bank two samples showed a mean difference of - 2.90113 with a standard deviation of 5.69942. The 95% confidence interval for this difference in mean was between -5.06907 and - 0.73318. Nonetheless, since this interval did not include a zero, the two samples of share returns before and after announcement were therefore statistically different and hence the announcement had an impact on the share performance.

4.3.6 Co-operative Bank

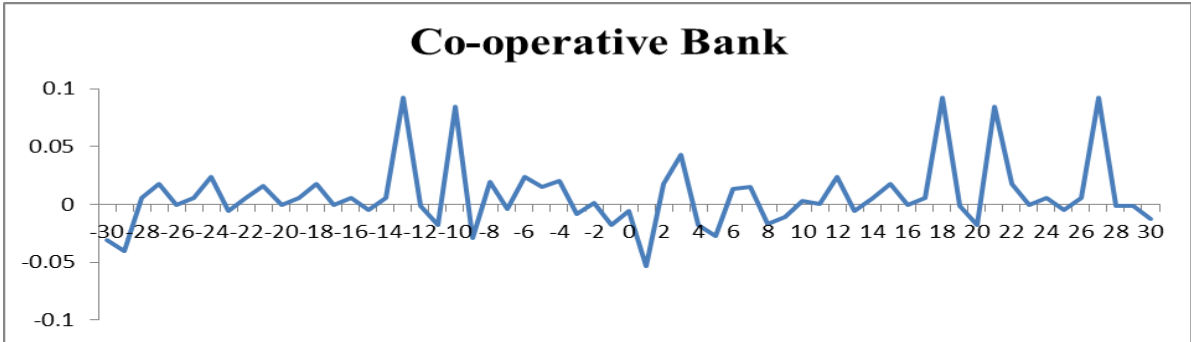


Figure 4.5 Co-operative Bank of Kenya

Accordingly, a difference of 0.07840 in the means of the two sample means of Co-operative Bank was noted. This difference in mean had a standard deviation of 0.21171 and a 95% confidence interval of between - 0.00213 and 0.15893. The interval included zero thus the two samples were not statistically different and hence there was no impact on the share prices after the merger.

4.3.7 Barclays Bank

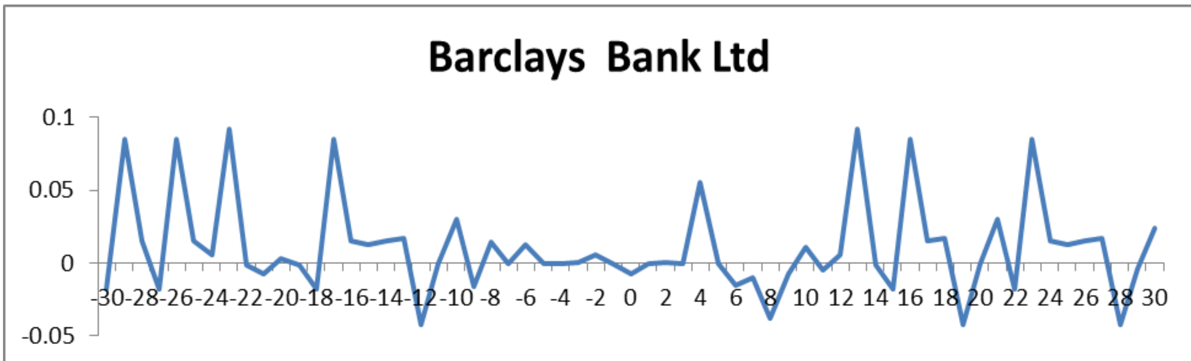


Figure 4.6 Barclays Bank

For Barclays Bank, the difference in the two sample means was - 3.51082 with a standard deviation of 1.21762. The 95% confidence interval for the difference in the mean was that the mean would be between - 3.97398 and - 3.04766. This interval did not include a

zero thus there was a difference in the returns before and after announcement. Therefore, for Barclays the announcement had an influence on the share prices.

4.3.8 I&M Bank

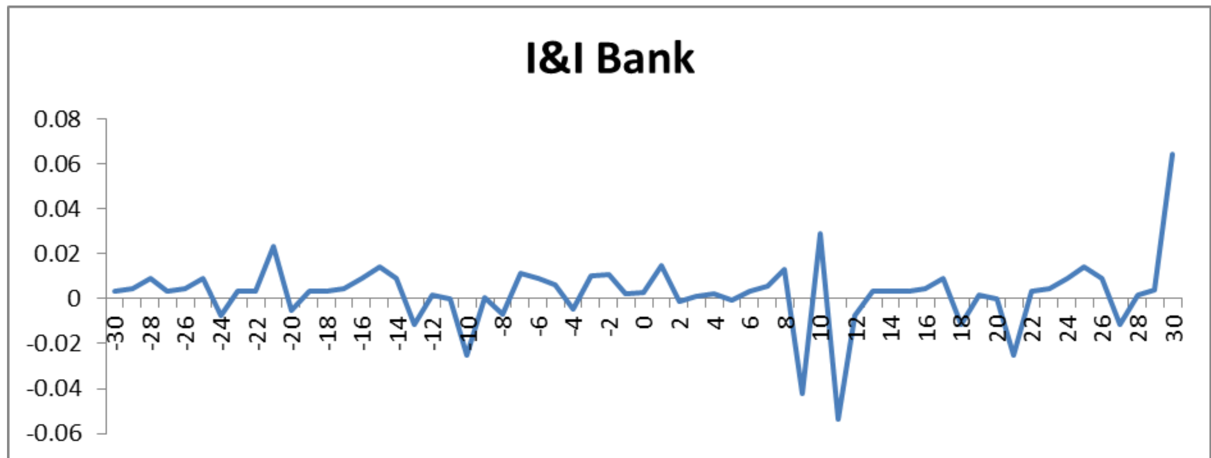


Figure 4.7 I&M Bank

The I&M Bank two samples showed a mean difference of 1.37833 with a standard deviation of 3.06150. The 95% confidence interval for this difference in mean was between - 0.56685 and 3.32352. Nonetheless, since the interval included zero, the two samples of share returns before and after announcement were therefore not statistically different and thus the announcement had no impact on the share performance of I&M Bank.

4.3.9 Standard Chartered Bank

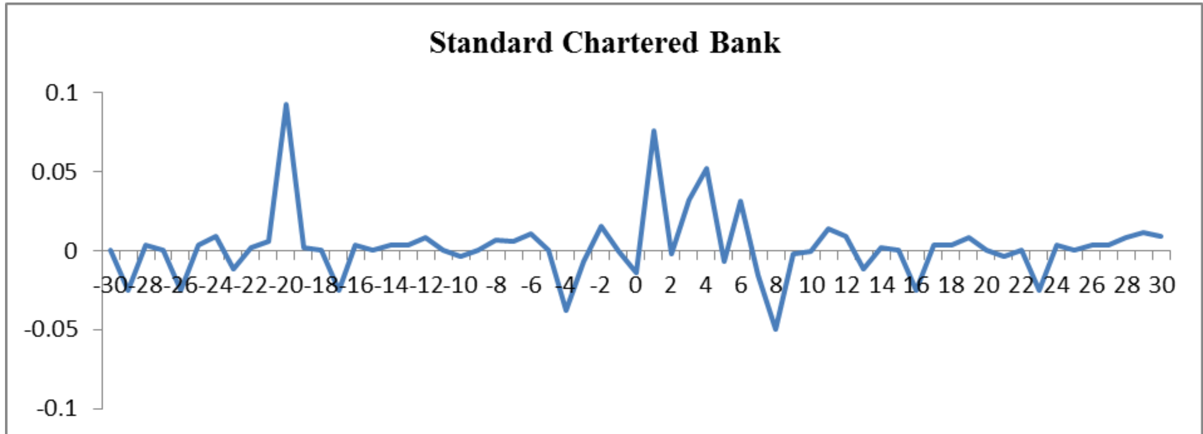


Figure 4.8 Standard Chartered Bank

For Standard Chartered Bank, a mean difference of - 19.78816 in the two samples was recorded with a standard deviation of 9.83151. The lower limit for the 95% confidence interval for this difference in mean was -23.52787 whereas the upper limit for the 95% confidence interval was -16.04846. This confidence interval of the difference in means excluded zero thus the two samples were statistically different. This implied that the announcement had an impact on the returns of the shares of Standard Chartered Bank.

4.3.10 Diamond Trust Bank

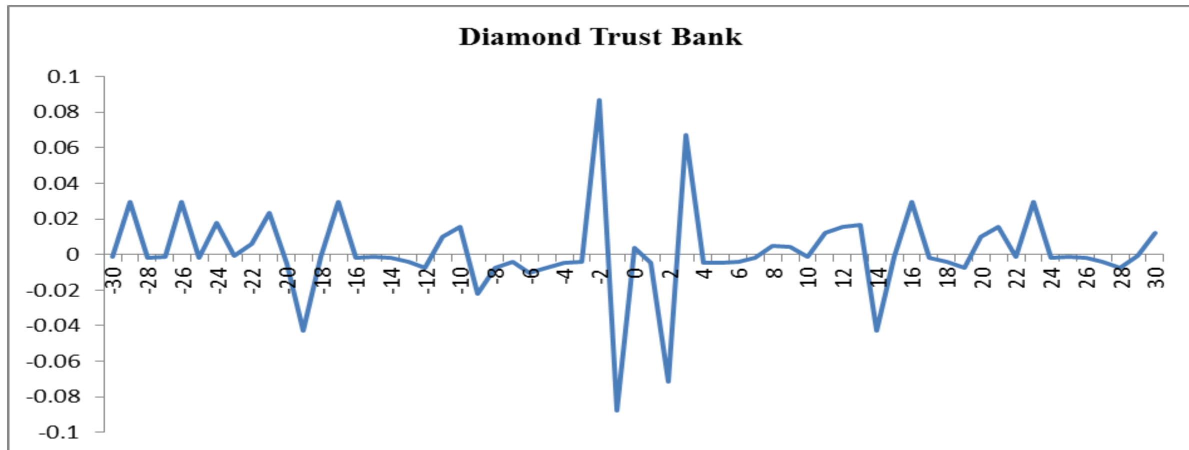


Figure 4.9 Diamond Trust Bank

Lastly, for Diamond Trust Bank, the mean difference was 5.24316 which had a standard deviation of 1.80817. The lower limit for the 95% confidence interval for the difference in the two sample means was -11.00261 whereas the upper limit for the 95% confidence interval was 21.48892. This confidence interval of the difference in means included zero thus the two samples were not statistically different. This actually meant that the announcement had no impact on the returns of the shares of Diamond Trust Bank.

4.4 Discussion of Findings

The research findings showed that there were changes in stock prices immediately after mergers were formed. In some instances the share prices dropped after the mergers whereas in some cases the prices went up after successful takeovers took effect .In essence, abnormal returns were witnessed in some of the listed commercial banks for instance National Bank, Standard Chartered Bank and Barclays Bank. Co-operative bank I &M, KCB, Diamond trust, CFC and NIC did not exhibit any abnormal returns even after the mergers took place. These findings concur with previous studies done to study effects of mergers on share return performance. Ellert (1976) observed that stock holders of newly acquired firms received cumulative positive returns which are a clear indication

that they actually earned abnormal returns after mergers. In some instances however, the returns after mergers were positive but not significant.

The research findings for this study were both sided. First, it was established that the returns of the nine sampled firms exhibited significant changes in returns within the 60-day study period. The results imply that the various mergers for the listed companies were indeed wealth creating projects to the shareholders of the combined entities. These research findings concur with study of Mailanyi (2014) who investigated the effects of mergers and acquisitions on the financial performance of oil companies in Kenya using causal research design. The study found that a positive significant relationship existed between of mergers and acquisitions and subsequent financial performance. Gathecha (2014) also did investigate the information content effect of mergers and acquisitions announcement on companies listed at the Nairobi securities exchange and found that indeed these announcements had a positive impact on shareholders wealth as was indicated by abnormal returns upon declaration of the mergers and acquisitions date.

However, for some few companies the returns after merger announcements showed no improvement after the take-overs. In conclusion, successful mergers proved to positively influence the share returns to shareholders. This study observed a weak relationship between cumulative share returns before and after merger announcement. In essence, for a majority of the companies no significant changes in returns were realized. These findings concur with previous studies on the effects of mergers announcements on share returns. Constantine (2008) found mergers and acquisitions` announcements not to have had any positive significant relationship on the returns implying that merger

announcements are not significant in moving share prices. Popovici (2014) did also analyze the impact of mergers on the performance of the bidder bank during 2000-2011 periods. The research findings revealed that mergers and acquisitions never improved the market value of the shares of the bidder bank.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The aim of the study was to investigate the effects of mergers and acquisitions announcement in the stock return volatility on the commercial banks listed at the Nairobi securities exchange. The associated effect was measured by event study methodology. This chapter presents the discussions, summary of findings, conclusions and recommendations made thereon.

5.2 Summary

The study sought to investigate the effects of mergers and acquisitions announcement in the stock return volatility on the commercial banks listed at the Nairobi Securities Exchange. This study design was descriptive in nature. An event study would quantify the relationship between firm specific events like M&A practices and stock prices. The event window was set at 61 days, comprising of 30 days before day t=0 (which is the announcement day) and 30 days after announcement day. The population relates to all the mergers and acquisitions between 1997 and 2015 that have taken place within 10 commercial banks listed on the Nairobi Securities Exchange. The study used secondary data from NSE, CMA and or the listed banks' websites. This study employed the Event Study Standard Market Model to realize its objective. Statistical Package for Social Sciences (SPSS) analyzed the relevant data.

The research findings showed there were changes in stock prices immediately after merger and acquisition announcement. In some instances the share prices dropped after the merger and acquisition announcements whereas in some cases the prices went up. For some banks however, no changes were noted. In essence, abnormal returns were witnessed in some of the listed firms for instance National Bank, Standard Chartered and Barclays. Co-operative bank, I &M, KCB, Diamond Trust Bank, CFC and NIC did not exhibit any abnormal returns even after the merger and acquisition announcements.

5.3 Conclusions

The study concluded that merger and acquisition announcements had effects on stock price valuation in the securities market. In some instances the share prices went up after merger and acquisition announcements. This therefore translated to returns on investments made by the acquiring firm's shareholders. However, for a majority of the commercial banks listed in the NSE merger and acquisition announcements had no effect on the share returns of the listed commercial banks. In essence, this meant that shareholders of the parent banks did not attain returns on investments in the short term. This does not imply that the mergers were not profitable ventures. The 30 day period is small in assessing the viability in terms of share returns of the newly acquired companies.

The study concluded that the merger and acquisition announcements had significant effects on total accumulated share returns for the various listed commercial bank in Kenya before and after the announcements. Therefore, they were indeed wealth creating

projects for investors at the Nairobi Securities Exchange since they were able to positively influence share returns even in the short term.

In essence, the study concluded that merger and acquisition announcements resulted to build ups of shareholders wealth after they took effect. Nevertheless, the positive impact of the mergers on returns not occurring to a number of listed banks should not be mistakenly interpreted to mean that the mergers were not wealth creating projects in the long run. The study therefore vehemently concluded that commercial banks will take some grace period before they can actually profit from consolidations.

5.4 Recommendations for Policy

The research findings show that mergers should not be treated as a short-term predictor for capital gains in the short term for both by the combined entities. The study recommends that listed companies should carefully make their decisions before undertaking M&A. To the regulators, they ought to impose full disclosures by bidding firms on the rationale behind their intended takeovers.

The primary reason for M&A is to realise profits and competitiveness in the long run. This leads to the assertion that that merging companies make a big gamble to undergo mergers in an attempt to gain a new market share, improve on products offered and to continue operating as a going concern for the foreseeable future. On this basis, future mergers should be based primarily on realizable future benefits and not immediate

profits. Therefore, management of the various banks intending to merge should clearly evaluate post-merger synergies carefully without bias to short term benefits.

The study recommends that regulators should actually deploy tools of synergy assessment that are non-market based in a bid to assess the performance of bidding companies and the acquiring companies. This may help to establish possible reasonable skepticisms before and after merger event. Proper mechanisms should be made and employed by banks and the securities exchange so as to reduce insider trading activities to increase the integrity in securities trading.

5.5 Limitations of the Study

The event study methodology dependable on the efficient market assumptions. In most situations the assumption may not be valid. The duration of time needed by individual investors to react to event signals cannot be known, hence, causing a market implication which would exhibit inefficiencies of the market mainly because the prices may instantly or reflect fully on all information available.

It is only a handful of banks that actually merged in the study period thus leading to an insufficient data set. The study period was limited to only 61 days, which are 30 days before the merger and 30 days after the merger. This study period was too short and this study duration may not be a sufficient representation of the merger effects on the listed banks.

The researcher used secondary data to investigate the effect of mergers and acquisitions announcement in the stock return volatility among commercial banks listed at the Nairobi Securities Exchange. It is vital to note that these data had been primarily collected for

other purposes and as such the research findings are entirely dependent on the accuracy and validity of the secondary data gathered.

The researcher used share returns and cumulative share returns to measure the stock return volatility before and after merger announcement. The researcher did not assess the effects of mergers on non-listed commercial banks indicators for instance increased customer and market share. Additionally, other measures of financial performance for instance profitability ratios were not addressed by this research.

5.6 Suggestions for Further Studies

Further assessment on effects of insider trading and the performance and speculations in the securities should be studied. This would help to understand the reactions of potential share buyers when there are merger speculations circulating. The stock market is all about speculations whereby insider trading significantly influences trading through the provision of vital inside knowledge

This study relied on the abnormal returns generated by using event methodology based market model .Further study in this area will be needed and may as well include more independent variables of those related to size of the firm, dividends expectation to help in determining if when considered the market would react differently upon announcements of mergers and acquisitions.

Further studies ought to be done so as to help understand the factors that come into play when managers and shareholders are contemplating consolidation. These future studies would also reveal reasons behind the non-achievement of economies of scale after consolidations. Lastly, the effects of managerial and corporate culture changes on financial performance after mergers ought to be conducted.

APPENDICES

Appendix I: Data

Days	Pair 1	Pair 2	Pair 3	Pair 4	Pair 5	Pair 6	Pair 7	Pair 8	Pair 9
-30	0.0002	-0.001	0.0007	0.01	-0.0311	0.0035	-0.0181	0.0002	-0.001
-29	-0.0252	0.0296	-0.0035	0.0158	-0.0401	0.0043	0.0847	-0.0252	0.0296
-28	0.0002	-0.0537	-0.0051	0.0141	0.0058	0.0088	0.0153	0.0037	-0.0016
-27	0.0236	-0.0073	0.0058	0.0088	0.0176	0.0035	-0.0181	0.0002	-0.001
-26	-0.0054	0.0031	0.0922	-0.0116	-0.0007	0.0043	0.0847	-0.0252	0.0296
-25	0.0055	0.0035	-0.0017	0.0016	0.0058	0.0088	0.0153	0.0037	-0.0016
-24	0.0176	0.0035	-0.0181	0.0002	0.0236	-0.0073	0.0058	0.0088	0.0176
-23	-0.0007	0.0043	0.0847	-0.0252	-0.0054	0.0031	0.0922	-0.0116	-0.0007
-22	0.0058	0.0088	0.0153	0.0037	0.0055	0.0035	-0.0017	0.0016	0.0058
-21	0.0817	0.0012	0.0107	0.0059	0.0157	0.0236	-0.0073	0.0058	0.0236
-20	0.0202	-0.0175	0.002	-0.0004	-0.0005	-0.0054	0.0031	0.0922	-0.0054
-19	-0.0072	0.0415	0.0063	-0.0089	0.0055	0.0035	-0.0017	0.0016	-0.0426
-18	0.01	-0.0311	-0.0104	0.0017	0.0176	0.0035	-0.0181	0.0002	-0.001
-17	0.0158	-0.0401	0.0609	-0.0215	-0.0007	0.0043	0.0847	-0.0252	0.0296
-16	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153	0.0037	-0.0016
-15	0.0067	0.0004	0.0002	-0.0537	-0.0051	0.0141	0.0121	0.0004	-0.0013
-14	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153	0.0037	-0.0016
-13	0.0007	-0.003	-0.0054	0.0031	0.0922	-0.0116	0.0167	0.0037	-0.0041
-12	0.0063	-0.0089	0.0055	0.0035	-0.0017	0.0016	-0.0426	0.0085	-0.0072
-11	-0.0104	0.0017	0.0176	0.0035	-0.0181	0.0002	-0.001	0.0007	0.01
-10	0.0609	-0.0215	-0.0007	0.0043	0.0847	-0.0252	0.0296	-0.0035	0.0158
-9	-0.0053	-0.0364	0.0098	0.0164	-0.0292	0.0006	-0.0167	0.0001	-0.0218
-8	0.0057	0.0006	-0.0038	0.0285	0.0192	-0.007	0.014	0.007	-0.0074
-7	-0.0158	0.0006	-0.0014	0.0041	-0.0042	0.0112	-0.0008	0.0059	-0.0043
-6	-0.0109	0.0246	-0.0125	0.0642	0.0236	0.009	0.0124	0.0104	-0.0104
-5	0.0069	0.0243	-0.0042	0.0042	0.0153	0.006	-0.0006	0.0006	-0.0076
-4	0.0134	-0.0025	-0.0007	0.0165	0.0207	-0.0046	-0.001	-0.0375	-0.0049
-3	-0.0008	-0.0367	-0.0033	0.0078	-0.008	0.0101	0.0003	-0.0071	-0.0042
-2	0.0456	-0.0037	0.0068	0.0817	0.0012	0.0107	0.0059	0.0157	0.0866
-1	-0.0266	0.0329	0.0067	0.0202	-0.0175	0.002	-0.0004	-0.0005	-0.0878
0	0.0222	-0.0007	-0.06047	-0.00598	-0.0059	0.00266	-0.00782	-0.01415	0.004048
1	0.0078	0.0006	0.0307	-0.0143	-0.0533	0.0147	-0.0002	0.076	-0.0046
2	-0.0005	-0.0037	0.0412	-0.0039	0.0179	-0.0009	0.0002	-0.002	-0.0712
3	0.0237	-0.0036	0.0056	-0.0069	0.0427	0.0009	-0.0004	0.0324	0.0672
4	0.0011	-0.0025	-0.0499	0.0057	-0.0179	0.0023	0.0549	0.0521	-0.0045
5	0.0006	0.0217	-0.0287	-0.0021	-0.0271	-0.0004	-0.0002	-0.0065	-0.0045

6	-0.0025	-0.0029	0.0071	-0.011	0.0138	0.0031	-0.015	0.0311	-0.0043
7	-0.0026	-0.0048	0.0074	-0.0016	0.0153	0.0056	-0.01	-0.0156	-0.0016
8	-0.0089	0.0026	0.0432	-0.0031	-0.0172	0.0132	-0.0378	-0.0497	0.0048
9	-0.0025	-0.001	-0.0263	-0.0009	-0.0111	-0.042	-0.0074	-0.0023	0.0043
10	0.0397	0.0215	-0.0127	0.0038	0.0032	0.0292	0.0104	-0.0002	-0.0015
11	-0.0013	0.0595	0.0067	0.0004	0.0002	-0.0537	-0.0051	0.0141	0.0121
12	-0.0016	0.0299	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153
13	-0.0041	0.0253	0.0007	-0.003	-0.0054	0.0031	0.0922	-0.0116	0.0167
14	-0.0072	0.0415	0.0063	-0.0089	0.0055	0.0035	-0.0017	0.0016	-0.0426
15	0.01	-0.0311	-0.0104	0.0017	0.0176	0.0035	-0.0181	0.0002	-0.001
16	0.0158	-0.0401	0.0609	-0.0215	-0.0007	0.0043	0.0847	-0.0252	0.0296
17	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153	0.0037	-0.0016
18	0.0007	-0.003	-0.0054	0.0031	0.0922	-0.0116	0.0167	0.0037	-0.0041
19	0.0063	-0.0089	0.0055	0.0035	-0.0017	0.0016	-0.0426	0.0085	-0.0072
20	-0.0104	0.0017	0.0176	0.0035	-0.0181	0.0002	-0.001	0.0007	0.01
21	0.0609	-0.0215	-0.0007	0.0043	0.0847	-0.0252	0.0296	-0.0035	0.0158
22	0.01	-0.0311	-0.0104	0.0017	0.0176	0.0035	-0.0181	0.0002	-0.001
23	0.0158	-0.0401	0.0609	-0.0215	-0.0007	0.0043	0.0847	-0.0252	0.0296
24	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153	0.0037	-0.0016
25	0.0067	0.0004	0.0002	-0.0537	-0.0051	0.0141	0.0121	0.0004	-0.0013
26	0.0064	-0.0011	0.0236	-0.0073	0.0058	0.0088	0.0153	0.0037	-0.0016
27	0.0007	-0.003	-0.0054	0.0031	0.0922	-0.0116	0.0167	0.0037	-0.0041
28	0.0063	-0.0089	0.0055	0.0035	-0.0017	0.0016	-0.0426	0.0085	-0.0072
29	-0.0043	0.0171	-0.0158	0.0006	-0.0014	0.0041	-0.0042	0.0112	-0.0008
30	-0.0104	-0.0091	-0.0109	0.0246	-0.0125	0.0642	0.0236	0.009	0.0124

Appendix II: Summary of Data

		α	β_1
Pair 1	CFC1 - CFC2	0.008	0.002
Pair 2	NIC1 - NIC2	0.022	0.002
Pair 3	KCB1 - KCB2	0.023	0.015
Pair 4	NBK 1 – NBK 2	0.016	0.002
Pair 5	Co-op1 – Co-op2	0.018	-0.014
Pair 6	I&M1 - I&M2	0.033	0.013
Pair 7	BBK1-BBK2	0.052	0.001
Pair 8	STNC1- STNC2	0.037	-0.003
Pair 9	DB1 -DB22	-0.050	-0.018

Source: *Research Findings*

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Appendix III: List of Listed Commercial Banks Which Have Undergone M&A

No.	Institution	Merged /Acquired	Current Name	Date approved
1	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
2	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
3	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
4	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
5	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
6	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
7	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
8	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008

9	KCB Bank	Savings and Loans	KCB Bank	07.10.2009
10	I&M Holdings	Giro Commercial Bank	I&M Bank Kenya	07.09.2015