THE IMPACT OF MERGERS AND ACQUISITIONS ANNOUNCEMENT ON SHAREHOLDER RETURNS OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This project is my original work and has not been presented for a degree in any other University

Signature................................. **Date................................**

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D63/79166/2015

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

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DEDICATION

This work is dedicated to my dad Mr. Kade David, mum Mrs. Elizabeth Kade and my entire family at large for their un-relentless support, motivation and encouragement throughout my entire studies.

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LIST OF ABBREVIATIONS

BSE: Bombay Stock Exchange

CAR: Cumulative Abnormal Returns

CAAR: Cumulative Average Abnormal Returns

CMA: Capital Markets Authority

EPS: Earnings per Share

GDP: Gross Domestic Product

KCB: Kenya Commercial Bank

M & A: Mergers and Acquisitions

NSE: Nairobi Securities Exchange

ABSTRACT

The study sought to investigate the impact of mergers and acquisitions announcement on shareholder returns of firms listed in the NSE. The population comprised of all the 64 firms listed at the NSE. The sample comprised of nine bidding firms that had undertaken mergers and acquisitions between the periods of 2005-2015 and had been listed at the NSE at the time of merger announcement. They included Kenya Commercial Bank, CFC Bank Ltd, Unga group limited, Kenol Limited, British American Insurance Company, Total Kenya Limited, Centum Investments Company Limited, Trans century Limited and East African Breweries Limited. The study used secondary sources obtained from Nairobi Securities Exchange reference Library and past newspapers from University of Nairobi Jomo Kenyatta Memorial Library. The research design was event study methodology design which was designed to measure if there are abnormal returns resulting from an unanticipated event (M&A). The observations were centred within an 11-day event window that is 5 days before and 5 days after the M&A announcement. The Market Model was used find the expected returns which was subtracted from the actual returns to get the abnormal returns. This provided a basis for examining whether or not shareholder returns were influenced by mergers and acquisitions announcements. The research findings showed that most mergers and acquisitions of bidding firms gain small but positive insignificant cumulative abnormal returns for its shareholders. Therefore, they are 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. The study recommended that mergers and acquisitions should only be undertaken if they have an incremental value.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The ever-increasing competition in the world of business has forced companies to look for Mergers and Acquisition opportunities that promise a substantial incremental value. To find a compatible M & A opportunity that promises this incremental value is a difficult task. The difficulty can be attributed to the differences in companies involved in terms of their cultural differences, operations and management ideology. Finding a target that perfectly fits the bidder's objectives is not possible; however, the logic of greater potential for value creation should not be overlooked.

The impact of M&A announcement is increasingly becoming of interest mainly because it directly affects the share price of companies involved. Each is affected depending on the shareholders' perception of returns generated for them. Extensive research has been undertaken on whether M&A create wealth for its shareholders. Most studies have found out that the target company shareholders earn a significant positive abnormal return owing to the fact that they get a premium on their shares while bidder shareholders yield negative or insignificantly different from zero returns. There is still no concrete agreement on this, due to the contradictions from other researchers.

According to semi strong form Efficient Markets Hypothesis, "security prices fully incorporate all publicly available information on an underlying asset". This information may include be financial or non-financial such as historical stock prices, new progress in research and development, analysts' recommendations, economic reports, and investment advisory letters. Event studies drawn from the assumption of a semi - strong form efficient markets are oftenly used to measure the effect of a company event such as M&A announcements, announcements on earnings and stock splits (Fama, 1991). The event study method uses the company share price data and a market index on days before up until after the announcement of the M&A offer in order to in order to measure any abnormal returns during that period of time. Brown and Warner (1980), Mitchell, Pulvino and Stafford (2002) utilized the event study approach to observe the stock market reactions to merger and acquisition announcements.

1.1.1 Mergers and Acquisitions announcement

Mergers and Acquisitions (M&A) is a term commonly used to refer to the legal union or combination of companies so that they operate as a single entity. According to Cartwright and Schoenberg (2006), A merger is the amalgamation of two existing companies to bring forth a new company where the joint firms retains their identity while an acquisition is taking control of a company by purchasing most of the company's ownership stake with no new company being formed. However, (Jarrel *et.al,* 1988; Berkovitch and Khanna, 1991) argue that a merger, an acquisition and a takeover have a similar meaning. They all mean an offer which is made by the bidding firms to the shareholders of target firms. There are other varied ways in which one company can acquire another among them is buying a company's outstanding shares of stock or purchasing a company's assets (DePamphilis, 2008).

The investigation on the impact of M&A announcement can be determined on the view point of either the acquiring companies or the acquired companies. When a merger and Acquisition announcement is made, there usually is an immediate effect on the share prices of both the bidder and the target companies on days surrounding the announcement date. Past studies indicate that most target companies gain positive significant abnormal returns on the days surrounding M&A announcement (Jensen and Ruback, 1983). Likewise, most existing literature shows that the acquiring firms earn negative or zero abnormal returns on the days surrounding M & A announcement (Roll, 1986). The research focused on the acquiring companies where there is no certainty as to whether the shareholders can earn abnormal returns on days surrounding the M&A announcement date.

1.1.2 Shareholder Returns

Return refers to a gain or loss on a security held by an investor for a particular period. The most reliable evidence on shareholders returns generated from a corporate announcement draws on short-term event studies which examine the abnormal returns earned. Abnormal returns can be defined as the difference between the actual company returns and the expected returns as a result of an announcement of a corporate event. Abnormal stock returns generally reflect the value that a firm potentially creates for its shareholders.

Different models are formulated to be used to find the expected returns. These models may include; Capital Asset Pricing Model (Mackinlay 1997), the Market Model, Constant Mean Return Model (Market-adjusted) and Constant Mean Return Model (Mean-adjusted) (Peterson 1989). Mergers and Acquisitions announcement usually sends a signal to the market and immediately the share prices start reacting to the new information. This may enable shareholders to earn abnormal returns depending on the market perceptions. Mergers and Acquisition announcement produces a significant amount of knowledge regarding the deal and this is reflected on the company's share prices.

1.1.3 Impact of Mergers and Acquisitions Announcement on Shareholder Returns

The extent of M&A announcement impacting shareholder returns has led to accumulation of substantial amount of literature on the subject matter. There are two major research approaches adopted in the literature for examining returns of mergers and acquisitions. One approach is to use share price data to determine gains and losses to shareholders of acquirer and target firms in M&A deals. The second approach has been to use the accounting data to analyse long-run operating and financial performance of companies in Mergers and Acquisitions transaction. This study concentrated on M&A announcement period studies using the event study methodology.

Various theories have been formulated to explain mergers and acquisitions. Some of the theories include; value maximization theory, agency theory and non-value maximization theory. These theories are imperative in explaining the expected impact of M&A announcement on shareholders returns. Value maximizing theory asserts that mergers and acquisitions should influence both the bidder and target company shareholders positively. If both the acquiring and the target firms are not in a position to gain, then they should not proceed with the merger proposal.

Under Agency theory, managers proceed with mergers and acquisitions if it adds onto their personal wealth. In non-value maximizing theory, it is not necessary for firm managers to enhance shareholder returns. They will engage in M&A for other objectives such as to create revenue synergies, to enhance diversification strategies, to control a larger market share and to promote a company's reputation that are beyond maximization of shareholder returns. In order to achieve these objectives, it may force the managers of bidder firms to pay a premium to the target firms. It is surprising that in some cases non-value maximising activity may generate more gains to shareholders than value maximizing activities.

A large number of studies have focused on short term returns earned by shareholders surrounding the announcement period of the event. The conclusion that the target companies gain significant positive abnormal returns while the acquiring or bidder companies do not gain any significant returns and in some cases, negative abnormal returns around announcement period is almost questioned. Research done by Mendelker (1974) showed the acquired firms shareholders received positive cumulative average residuals indicating that they earned abnormal returns. Moffett and Naserbakht (2012) studied the share price behaviour of targets and bidding banks based on the M&A announcement as from the year 2000-2010. Their findings indicated that M&A announcements enhanced positive average abnormal return for both the target and acquiring banks. Liang (2013) also found evidence that bidding firms receive significant and positive abnormal return. Khanal, Mishra and Mottaleb (2014) results after analysis also showed positive cumulative abnormal returns of the bidding firms implying that the market responded positively toward recent M&A announcements.

Locally, Empirical literature reviewed in this study produce mixed results. Constantine (2008) found that majority of the company's stock results did not experience a significant positive reaction following M&A announcement. These findings contradicted with that of Gathecha (2014) who found that M&A positively affect shareholders' wealth as evidenced by abnormal returns around the announcement date. Barasa (2015) also found that M&A had significant effects on total accumulated share returns both before and after the merger announcement while Jane (2013) findings showed that shareholders total accumulated return did not significantly change due to announcement of a takeover bid. These studies prompted the researcher to concentrate more on the impact of mergers and acquisition announcement on shareholders returns of firms listed at the NSE.

1.1.4 Firms Listed at the NSE

The NSE, founded in 1954 is the leading exchange in East Africa. It is based in Kenya which is one of the fast-growing economies in the sub-Saharan Africa. According to the Nairobi Securities Exchange (2014), there are 64 companies listed at the NSE. The segments on the NSE include Banking, Agriculture, Commercial and Services, Automobiles and Accessories, Construction and allied, Insurance, Energy and Petroleum, Investment, Telecommunication and Technology, Manufacturing and allied, and lastly Real Estate Investment Trust. M&A deals involving listed companies are governed by Cap 485A (the Capital Markets Authority Act), the Companies Act (Chapter 486, Laws of Kenya) and the associated regulations. The regulations prescribe the process to be followed in the transactions and also timelines within which they must be done.

Kenya witnessed an increase in mergers and acquisitions activity during the period 2000 to 2014 but slowed down a bit in the 2015 but the market is still bullish. The Competition Authority of Kenya entered into force on 1st August 2011 and since then it has determined about 50 merger applications. This is in comparison to the six-year period between 2005 and July 2011 during which there were 68 mergers notified to the Monopolies and Prices Department, the predecessor of the Competition Authority (Mutulu, 2014) . The M&A activity has been seen in various sectors such as banking, insurance, energy and petroleum, and consumer goods among others. There are a number of mergers that have taken place in Kenya. Examples include CFC Stanbic Bank mergers, East Africa Breweries Limited, Unga group Limited, CMC motors, I & M Bank, Pan African insurance, Access Kenya, Co-operative bank of Kenya, Kenya Kenol Kobil, Commercial Bank, Total Kenya, Trans century Limited, Centum Investments, British American Investments etc.

1.2 Research Problem

Merger and Acquisition announcements not only have an effect on the value of merging firms but also have an impact on shareholder returns. One of the most essential and firmly held belief of most corporations is their obligation to create and maximise shareholders returns. This is determined by the movement of the share prices which reflects the time and risk associated with the returns expected to be received by the shareholders. Most research in the past concluded that M&A announcements enhances significant positive returns for target firm's shareholders but have negative or zero returns of bidding firms' shareholders owing to the fact that bidder companies pay a premium to the target companies. This argument has been challenged over the years.

Mergers and Acquisitions of firms listed at the NSE are regulated by the Capital Markets Act (Chapter 485 A), the companies Act (Chapter 486, Laws of Kenya) and the associated regulations. M & A activity in Kenya has been prevalent in a number of sectors such as banking, petroleum, insurance and automobiles and accessories in the recent years. Kenya has positioned itself as the leading M & A preference in East Africa with the largest concluded deal have seen Old mutual purchase of 60.7% in UAP holdings in the mid of 2015. Companies are looking for ways to protect their market share and ensure better returns for shareholders. The NSE currently has 64 listed companies. Out of the 64 companies, many companies have merged from time to time with banking and insurance being the most prevalent sectors of merger cases. This study looked at 11 merger cases that cut across a number of sectors focusing on the acquiring firms. The study also used an event window of -5 to +5 days utilized by Cheng et.al. (2007) in order to avoid other confounding factors.

Focusing on global research, Friesen, (2005) studies on the effect of a horizontal merger announcement between Air France and KLM, Air France shareholders as the bidder firm insignificant returns whereas KLM shareholders experienced significant positive abnormal returns. This studies contradicted with that of Liang (2013) who found that bidding firms received a significant and positive abnormal return. Khanal, Mishra & Mottaleb (2014) results also showed cumulative average abnormal returns of the bidding firms. Locally, Gathecha (2014) found that M&A positively affects shareholders' wealth as indicated by abnormal returns around the M&A

announcement date. His findings contrasts that of Constantine (2008) who found that majority of the company's stock returns did not experience a significant positive reaction following M&A announcement. Jane (2013) findings also indicated that the shareholders' total accumulated return did not significantly change due to announcement of a merger bid.

There is no overall agreement on whether or not mergers and acquisitions announcements generate returns to the bidder or target firms. Thus, the use of questionable research propositions, method and potentially biased and mixed post-merger results provided motivation for this study. The study therefore addressed the research question: What is the impact of mergers and acquisitions announcement on shareholders returns of firms listed at the NSE? It pressed more focus on the bidding firms.

1.3 Research objective

To assess the impact of mergers and acquisitions on shareholders return of firms listed at the Nairobi securities Exchange

1.4 Value of the study

In looking at the impact of mergers and acquisitions on shareholder returns of firms listed at the NSE, the study sought to expand on the growing body of research on mergers and acquisitions. The findings ought to be used as a source of reference to researchers, academicians and analysts who may want to further their research in this area. The study is useful to the Government policy makers, the Central Bank of Kenya, the Capital Markets Authority and the Nairobi Stock Exchange in regard to formulation of guidelines towards the approval of mergers and acquisitions amongst the listed companies. The study also greatly contributes to practice in that it can assist managers in making prudent decisions before undertaking any merger announcements since this may have an effect on value of company stocks. It also assists shareholders in making informed decisions towards intended mergers they may participate in safeguarding their investments.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter comprised of research relevant to the field of study**.** The areas covered were theoretical review, empirical studies, determinants of shareholder return, and the conceptual framework.

2.2 Theoretical review

Many propositions have been developed to elaborate or to expound and extend existing knowledge of Mergers and Acquisitions. Based on the research problem in the study, this subtopic reviews some of the theories regarding the fundamental purposes for mergers and acquisitions.

2.2.1 Value maximizing theory

Value maximization theory has its origin from economic theory Manne, (1965). Value Maximization is an act of increasing owner's wealth by maximizing the share price of the stock in which that individual has invested. This theory views M&A as an investment decision that leads to value creation. Under this theory, the managers have a crucial objective of maximising shareholder return (Firth, 1980; Sudarsanam et.al., 1996; Gonzalez *et.al,* 1997). If this objective cannot be achieved by the managers of the merging companies, they should decline or revoke the merger offer. In this case, the ability to choose a takeover target that has an incremental value and realistic synergies is essential (Powell, 1997). According to this theory, a merger or acquisition should enhance significant positive returns to the shareholders of both the bidding and target firms or at least returns that are not negative (Baradwaj *et.al,* 1992).

The relevance of this theory is its explanation on a total wealth effect of both the target and bidder shareholders. It explains Mergers and Acquisitions as value maximizing investments whose intention is to enhance shareholder returns of both the bidder and target firms. If there's no expectation of positive returns through merging with a target firm, then managers should not progress with the merger proffer. Therefore, this theory is useful in cases where both the target and bidder shareholders gain from M&A announcements.

2.2.2 Non -value maximizing theory

This theory was proposed by Halpern (1973, 1983). It views M&A as a strategic move that will seek to achieve other objectives that are beyond positive shareholder returns. These objectives may include; to maximise sales growth, to increase the company's market share, to enhance the company reputation, or to widen a company's geographical coverage. It is more economical for a company to achieve all these through mergers and acquisitions due to government regulations or other legal restrictions. Therefore, the bidding firms will be willing to pay a premium amount to achieve their objective.

Most non-value maximising mergers are horizontal mergers and sometimes create monopoly and oligopoly. Some mergers and acquisitions in the U.S banking industry are motivated by non-value maximizing objectives. This necessitated them to consolidate the merging firms in order to focus on lending to small business Berger *et.al.* (1998). Studies by Bhagat, Sleifer and Vishny (1990), and Kaplan and Weisbach (1992) also showed that operational synergies are better off initiated in mergers between firms of the same or related industries.

The relevance of this theory is that it puts across other objectives of M&A that are beyond maximization of shareholder returns such as to increase on sales, to enter a new market or to increase a company's market share. According to this theory, the bidding firms will focus more on achieving their objective, hence they will be ready to pay a premium to the target company since positive returns to shareholders is not their main motive. This can explain why in most M&A target shareholders receive positive significant returns while the bidding firms incur negative abnormal return surrounding the merger announcement date.

2.2.3 Agency theory

This theory was developed by Jensen and Meckling in 1976 but originated from the work of Berle and Means (1932). Under this theory, managers are seen to be self-centered and will only carry out the process of M&A if it contributes to their personal wealth (Agrawal & Knoeber, 1998; Ghosh &Ruland, 1998). These objectives do not necessarily maximise shareholder returns (Firth, 1980). The Agency theory is harmonious with the argument of Larcker (1983) who states that managers concentrate on the decisions that are short term in nature and try to maximise the available firm resources within the limited time frame. Again, this argument is reasonable because most managers are employed for a short span and consequently they will try to maximise their personal wealth before the termination of their contract. On the other hand, shareholders prefer maximization of their return. To minimize this agency problem between the management and shareholders, it is imperative for companies to provide their managers with incentives such as share options.

On the incentives alignment front, some studies suggest that acquiring firm managers whose personal wealth is more closely linked to firm value make better acquisition decisions. For instance, Tehranian, Travlos and Waegelein (1987) indicated that acquirers with long-term compensation plan in place perform better than acquirers without such plans. Further, Datta and Raman (2001) show that managers with more equity-based compensation (e.g., in the form of stock options) make better acquisitions. In addition, Lewellen, Loderer and Rosenfeld (1985) show that acquirer returns are higher for firms with high managerial stock ownership.

Turning to monitoring, the evidence shows that more intensive supervision of managerial actions through board of directors, leads to better acquisition decisions.

Byrd and Hickman (1992) examine tender offers for public firms and show that acquirer returns increase with the proportion of outsiders on the board. However, Masulis, Wang and Xie (2007) do not find such a relationship, while Bauguess and Stegemoller (2008) report a negative link for a sample of S&P 500 (large) acquirers.

The relevance of this theory is that it tries to explain M&A as a shared goal that serves to align the interests of shareholders to that of managers. Managers conduct M&A if they contribute to their personal wealth. Acquiring managers whose personal wealth is closely linked to firm value make better acquisition decisions. In order for M&A to enhance shareholder returns, managers can be compensated based on stock price changes and performance based incentive plans such as managerial stock ownership. Monitoring is also relevant by intervention of shareholders through representatives in the board.

2.3 Empirical review

A lot of research has been carried out on the impact of mergers and acquisitions, both for the bidding and the target firm, as well as for its shareholders. Recently, financial literature appears to say that majority of empirical analysis of M&A on shareholder returns is based on event studies.

2.3.1 International studies

Mendelker (1974) investigated whether mergers could still take place in a market that experienced a perfect competition in an efficient capital market hypothesis. Using

CAPM as a model, he discovered that shareholders of the bidding firms received positive abnormal returns. This finding contradicted the argument that acquiring or bidding firms pay too much and eventually their shareholders loose from mergers. Mendelker also found constancy on the view that the stock market functions efficiently with respect to the information on mergers.

Mulherin and Boone (2000) investigated on the difference in abnormal returns attributed to the bidding firms' shareholders and those attributed to the target company shareholders. Their findings showed that out that the shareholders of the bidding firms faced an abnormal return of -0.37% while those of the target company experienced an abnormal return of 20.2%. Shareholders of the bidding firms received insignificant abnormal returns while the shareholders of the target company received significant abnormal returns.

Friesen, (2005) used event study methodology to study the stock price reactions of a horizontal merger announcement between Air France and KLM over the period of between September 2003 and May 2004. This merger influenced the rise of Europe's leading airline group. The researcher found out that shareholders of Air France as the acquiring firm earned barely anything while the shareholders of KLM as the target firm gained significant positive abnormal returns.

Moffett and Naserbakht (2012) investigated the stock price behaviour of targets and bidder firms during the event of a M&A announcement from 2000 till 2010. The researchers used event study they found out that Merger and Acquisition announcements enhanced positive average abnormal return for both target and acquirer banks. Liang (2013) also looked at impact of M&A announcement of domestic and cross border firms listed in the Hong Kong stock market over the period of 2007- 2012. He examined whether the M&A announcement have been creating or reducing wealth for the shareholders of the acquiring firms. Using the event study methodology as a method of analysis, the researcher found out that the acquiring firms indeed received significant positive abnormal return. He concluded that the market expectation is main determinant of the impact of M&A announcement on stock price movements.

Khanal, Mishra and Mottaleb (2014) used an event studies to examine the recent M&A announcement on the stock prices and value of the firm of publicly traded ethanol-based bio fuel industry over the period of 2010 and 2012 in the United Sates. The findings showed positive average cumulative abnormal returns of acquiring firms implying that the market responded positively toward recent M&A in the industry. Evren & Ali (2015) investigated the reaction of target firms' stock returns in M&A announcements of twenty emerging markets. Using the event study methodology for a sample of 1,648 M&As' between 1997 and 2013, they found out that announcements of M&A generated a 5.17% average abnormal return for target firm's stocks within a three-day event window.

Lastly, Azeem (2016) studied the impact of mergers on shareholder's wealth in the Indian banking industry. He sampled 5 target and acquiring banks traded on the BSE 500 using an event study standard risk adjusted model. The findings showed that shareholders of target and bidder banks were unable to earn abnormal return neither before nor after the M&A announcement.

2.3.2 Local studies

Constantine (2008) undertook a study on the effect of mergers and acquisition announcement on share prices using eleven firms listed at the NSE and which engaged in M&A between the 1997 and 2006. The study adopted the event study methodology and found that majority of the company's stock returns did not experience a significant positive reaction following M&A announcement. However, the current study looked at a period after 2006 when automation was adopted which has changed the NSE landscape and also improved information efficiency.

Jane (2013) sought to investigate the effect of mergers and acquisitions on shareholder wealth of commercial banks in Kenya. Using market model event study methodology, she examined the stock prices of the acquiring companies just before and after the merger to determine whether shareholders of the acquiring firms eventually lose or gain on an eleven-day event window. The findings showed that the shareholders' total cumulated return had not significantly changed due to announcement of a takeover bid.

Mureithi (2013) carried out a study on the effect of M&A on financial performance of commercial bank in Kenya. The study used causal research design. Sixteen (16) commercial banks engaged in M&A between 2000 and 2012 constituted the unit of analysis for the study. Return on assets and return on equity used as indicators of financial performance. Study found positive relationship and profitability generally increased following post-merger activity. This study did not focus on Operating performance using accounting measures but it was based on event studies.

Mitema (2014) studied the effect of M&A on the value creation focusing on the insurance companies in Kenya. The research used a sample of 4 insurance companies in Kenya that had gone through a merger or acquisition over the period of 2000 to 2014. The study findings showed a positive significance relationship an indication that M&A create value and also have positive impact on both book and fundamental value of the listed firms who engaged in M&A. Descriptive research design and regression analysis was used. This study looked at firms in most industry sector listed and it used event study methodology to see if M&A have an impact on the shareholders returns.

Gathecha (2014) looked at the information content of M&A announcement for listed companies at the NSE using descriptive research design and the standard risk adjusted event study methodology. Five firms were sampled and all were studied over the period of study. The study found that M&A positively affect shareholders' wealth as evidenced by abnormal returns around the declaration date of M&A. The findings contrast that of Constantine (2008) who found that M&A announcement does not have any positive significant relationship. The results are thus mixed.

Barasa (2015) studied the impact of Mergers and Acquisitions on share prices of companies listed at the NSE using CAPM event study methodology. He used a sample of nine firms that had merged during a period of 2007 - 2014. The study found that the merger and acquisition announcements had significant effects on total accumulated share returns for the various listed companies before and after the announcements. He therefore, concluded that M & A are indeed positively influenced returns for shareholders in short term. This study used Market model event study methodology to study the impact of M & A on shareholders return instead of CAPM.

2.4 Determinants of Shareholders Returns

Shareholder returns has become an increasingly important demand among investors now more than ever. Shareholders returns from investments are subject to vary owing to the movement of share prices, which depend on a number of factors. The factors can be classified broadly as firm specific and macroeconomic factors

2.4.1 Firm Specific Factors

Share prices of companies may move or react based on the size of the company, financial fundamentals, previous earnings per share, share turnover ratio, leverage, earnings announcements, dividends, share splits, book value, dividend yield, dividend cover and price to earnings ratio of firms. Apart from merger announcements, the above listed factors are determinants of shareholders returns. Change on above firm specific factors may influence the expectation of investors hence triggering the need to buy, sell or hold onto the shares. For instance, if EPS ratio improves an investor may hold onto the shares or even buy more shares with expectation that firms earnings would continue to improve. This act would trigger the share prices to rise due to increased demand or fall in supply of the shares.

2.4.2 Macroeconomic Factors

A number of studies have been undertaken to determine the effect of macroeconomic factors on shareholders' returns of companies. The factors include but not limited to monetary aggregates, rate of interest, investment level in the economy, consumer price index, producer price index, GDP growth, inflation, financial depth and the degree of market efficiency. Kwon and Song (2011) carried out a research on mergers the Korean market. He found out that the global financial crisis has a significant negative effect on the cumulative abnormal returns of the acquiring company when a merger announcement is made. He also stated that it may be possible that investors are aversive to large outflows of cash during a period of crisis. Flannery and

Protopapadakis (2002) pointed out that inflation and money supply are well documented as the two macro-economic factors that have a significant effect on shareholders returns.

2.5 Event Studies

Event studies was first introduced by Fama, Fisher, Jensen and Roll (1969) as a method of measuring returns. It uses the stock market as an avenue to observe the movement of stock prices as a result of Mergers and Acquisitions announcements. Bishop, Dodd and Officer (1987) argued that using event studies to determine the shareholder returns is a distinct and eminent method of analysing abnormal returns because it is also able to estimate a firm's value after the merger. Fama (1991) also pointed out that event studies give a clear picture on how the stock price adjusts to new information in response to M&A announcements. The information event (M&A announcement) can be dated correctly and the share price will react to any new information obtained.

Traditional event-study method involves the following steps. First, the researcher finds the historical prices of sample firms during the estimation window and the event window, then he calculates the daily return of companies. Second he selects a model of returns and computes the actual returns after which the abnormal returns during some event interval as the difference between actual returns and the expected returns conditioned on the model. Finally, he calculates the cumulative abnormal returns and evaluates the statistical significance of these returns in any of several ways.

2.6 Conceptual Framework

According to Kothari (2004) a conceptual framework defines the interrelationship between variables deemed important in a study. Kenya Institute of Management (2009) further indicates that it is within the conceptual framework where the interrelationship between dependent and independent variables of a study are examined. In this study, Mergers and Acquisitions announcement (X1) was the Independent variable while Shareholder returns (Y1) was the dependent variable.

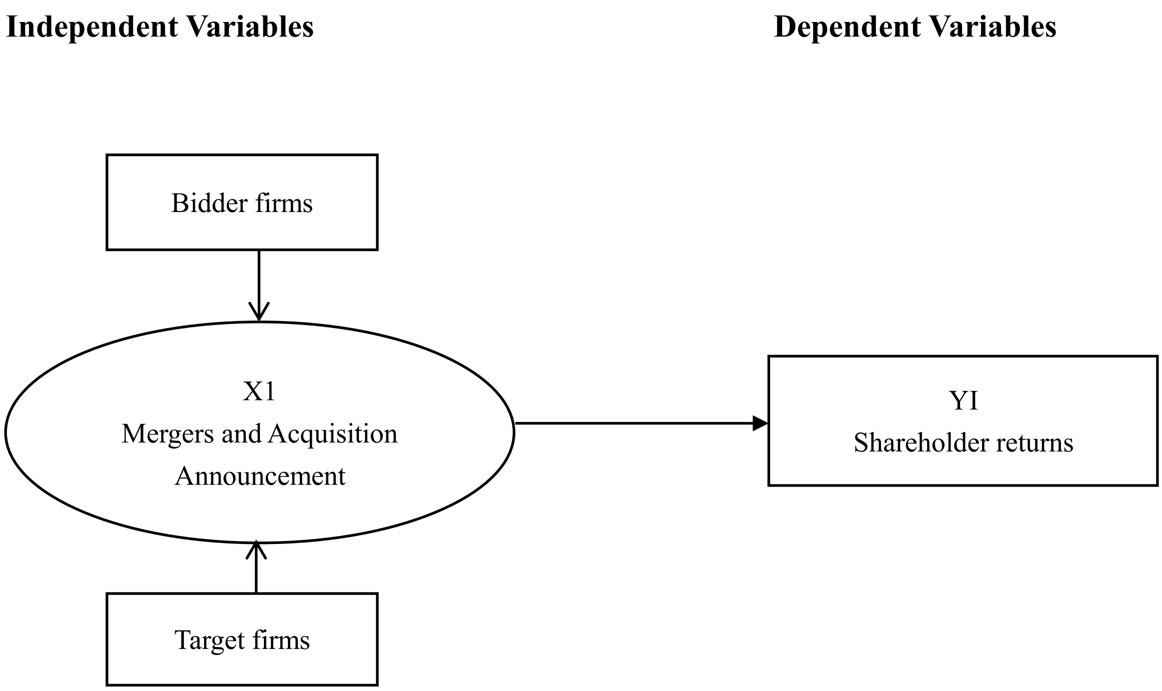
2.6.1 Independent variable (X1)

Mergers and Acquisitions announcement (X1) is the independent variable. When a M&A announcement is made, there usually is a predictable short-term effect on the stock price of both the bidder and the target companies. This paper committed itself to acquiring firms where the impact tends to be more uncertain as to whether M&A announcement is wealth creating or reducing event for its shareholders.

2.6.2 Dependent Variable (YI)

The dependent variable in this study was the shareholder returns in the short-term. Shareholder returns is measured by the abnormal returns attributed to the share price movements. Abnormal return is the difference between the actual returns and the expected returns. A stock's market value can also be largely influenced investors' predictions and expectations. Figure 2.1 below gives a clear picture of the both the independent and the dependent variables

Figure 2.1: Conceptual Framework

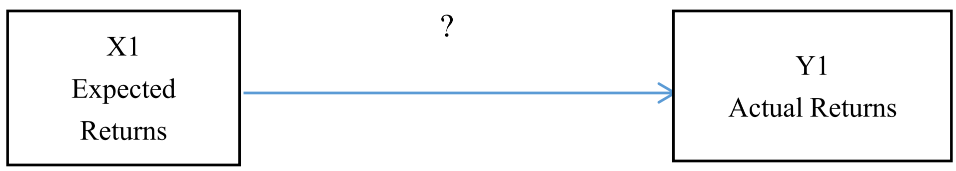


Source: Research Findings

2.6.3 Conceptual model

The purpose of this study was to assess the Impact of Mergers and Acquisitions announcement on shareholders returns of firms listed at the NSE. Figure 2.2 below illustrates the conceptual model of this study. The independent variable is the expected return (X1) while the dependent variable (Y1) is defined as the actual returns. The dummy variable (αi and βi) are determined by ordinary least squares regression. The question mark ought to find the abnormal returns which is not yet known and this study investigate and fill in the question mark hence responding to the research objective.

Figure 2.2: Conceptual model



Independent variable **Dependent Variable**

Source: Research Findings

2.7 Summary of Literature review

The literature review consisted of theories reviewed, determinants of shareholder returns, a brief explanation of the event study and lastly an empirical review of related studies. There were three theories relevant for explaining the rationale behind mergers and acquisitions reviewed in this study. They include: The value maximizing theory, the non-value maximizing theory and the agency theory. The value maximising theory argued that mergers and acquisitions should have a primary goal of maximizing shareholder return, if this objective cannot be met then the firms should consider revoking the merger proposal. The non-value maximising theory stated that mergers and acquisitions are formed for strategic reasons are not necessary to produce shareholder returns. The agency theory stated that mergers and acquisitions are used by the managers of merging firms as an instrument to pursue personal interests. Determinants of shareholder returns are classified as firm specific factors and macro-economic factors which were well discussed in the chapter.

Empirical literature reviewed in this study produced mixed results. Studies both in international and local markets had mixed results on whether mergers and acquisitions have an impact on shareholder returns. Literature available on this subject is conflicting and too general. Focusing on local studies, Constantine (2008) found that majority of the company's stock results did not experience a significant positive reaction following M&A announcement. These findings contradicted with that of Gathecha (2014) who found that M&A positively affect shareholders' wealth as evidenced by abnormal returns around the declaration date. The inconsistent findings could be attributed to the timing of the studies.

Barasa (2015) found that M&A had significant effects on total accumulated share returns both before and after the merger announcement while Jane (2013) findings showed that shareholders total accumulated return did not significantly change due to announcement of a takeover bid. Mureithi (2013) used Return on Asset, Return on Equity and other profitability ratios as a measure of performance. This study used event study which Bishop, Dodd and Officer (1987) argued it as a superior method of analyzing abnormal returns as it provided the best estimates of firm's value after the merger. Jane (2013), Mureithi (2013), Mitema (2014) and Rono (2014) studies focused on banking and Insurance only. This study was a representative of companies in various sectors listed at the NSE. It was difficult to make concrete conclusions based on the existing literature. For this reason, there was need for studies to be done on Impact of Mergers and Acquisitions Announcement on Shareholder returns of listed firms at the NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided a discussion of the research methodology used in the study. It discussed the research design, study population, sample and sampling techniques, data collection and lastly data analysis.

3.2 Research Design

Research Design is a logical and systematic means for directing a research study. The research design utilized in this study was the event study methodology design. Event study methodology was aimed to determine the evidence of abnormal returns related to an anticipated corporate announcement. It maintains that stock prices reflect quick, unbiased, rational, and risk-adjusted expectations based on the arrival of new information.

3.3 Population

Cooper and Emory (1995) define population as a collection of elements which the researcher wishes to make some inferences. The population under study was composed of all the sixty-four firms listed at the Nairobi Securities Exchange.

3.4 Sample and sampling technique

A Sample is an objective list of the population from which the researcher can make a selection (Cooper and Schilder, 2000). The research employed stratified and purposive sampling techniques to arrive at a sample size of nine companies. Stratification made sure that the population subgroups were represented while purposive sampling enabled the researcher to select companies that corresponded to the objectives of the study. The listed companies under the study were stratified into Investment, banking, Insurance, Energy and petroleum and consumer goods sectors. Purposive sampling also ensured that the selected firms had undergone M&A between 2005-2015 while being listed at the NSE at the point of merger and whose trading data are available since 2005. Companies that had not been listed at the time of bidding (or announcement) were excluded.

3.5 Data Collection

The research used secondary data obtained from Nairobi Securities Exchange and other respective company websites. The data that was collected comprised of the name of the company, the company historical prices, the values of the market Index and lastly Mergers and Acquisitions announcement dates.

3.6 Data Analysis

Data analysis commences after data collection and ends at a point of interpretation and processing data (Cooper & Schindler, 2003). The market model event study methodology was used and the following steps were undertaken.

Step one

Find the historical prices of the selected firms and the NSE 20 share index for the event study time of - 120 to + 5 days (with days -5 to days + 5 specified as the event window)

Step two

Calculate the returns of companies:

$$Rc = \frac{\text{Current Day Close Price} - \text{Previous Day Close Price}}{\text{Previous Day Close Price}} \text{X } 100$$

$$\text{Rm} = \frac{\text{Current Day Market Close Price} - \text{Previous Day Market Close Price}}{\text{Previous Day Market Close Price}} \text{X100}$$

Where: Rc= Current Daily Return of a company

Rm= Current Daily Market Return (NSE 20 share index)

A regression analysis was executed whereby the actual daily return for every individual firm (Rc) represented the dependent variable while the NSE 20 share index (Rm) acted as the independent variable over the estimation period (days -120 to -5) to get the alpha (intercept) and beta (slope) for each sample company separately.

Step three

Calculate the Expected returns using the market model. The return of each company stock on each day during the event window (day -5 to +5) was computed as:

$Rit = \alpha i \ \ \beta iRmt \ \ +\varepsilon it$

Where:

Rit = Expected return on security i during period t

αi = intercept of the equation

βi= slope of the equation

Rmt= return on the market during period t (NSE 20 share index)

εit = error term

Step four

Calculation of the abnormal returns: The resulting estimates of the coefficients αi and βi were then included in the model to work out on the abnormal returns for each day around the merger announcement dates:

$$ARit = Rit - (\alpha i + \beta iRmt)$$

Where:

$ARit$ = abnormal returns of company stock i at time t, Rit,αi, βi and Rmt are as defined previously.

Step five

Calculation of the cumulative abnormal return for security i is the sum of all the abnormal returns for each company in a given time period. It was calculated from days -5 to days +5 by simply averaging of all the abnormal returns received by companies in all the event period days. The sum of all the cumulative abnormal return (CAR) of a security i within the event window was calculated as:

$$\mathrm{CAR}\ (\mathrm{t0}, \mathrm{t1}) = \sum_{t=t0}^{t1} \mathrm{ARit}$$

Step six

Calculation of the Cumulative average abnormal returns (CAAR): The average cumulative abnormal return (CAAR) within the event window (t0 to t1) was calculated as follows:

$\mathrm{CAAR}(\mathrm{t0}, \mathrm{t1}) = \frac{1}{N} \sum_{t=t0}^{t1} \mathrm{ARit}$

Where: N is the number of sample companies

Step seven

Test the statistical significance: The study used T test and hypothesis to test the statistical significance

H1: AAR ≠ 0 H0: AAR = 0

H1: CAAR ≠ 0 H0: CAAR = 0

The Null hypothesis (H0) tested if stocks that were affected by M&A announcement did not experience average abnormal returns or cumulative average abnormal returns. The alternative hypothesis (HI) tested if stocks that were influenced by the event experienced positive or negative abnormal returns or cumulative abnormal returns where each security returns were normalized by its estimation period standard deviation.

$$t_{AAR} = \frac{\mathrm{AAR_t}}{\mathrm{S(AAR_t)}}$$

The standard deviation is estimated as:

$$S(AAR_t) = \sum_{t=1}^{t0} \frac{\mathrm{AAR^2{}_t}}{\mathrm{t0} - 1}$$

Where t0 is the number of days in the estimation period

The T test had an assumption that the abnormal returns were cross-sectionally independent and identically distributed. The study also estimated t-statistic for CAAR by dividing CAAR with the standard deviation:

$$t_{CAAR} = \frac{CAAR_t}{\sqrt{\mathrm{T} * \mathrm{S}(AAR_t)}}$$

If statistics test showed that t statistic is higher or equal to 1.96, then hypothesis H0 was rejected which means AARs or CAARs was statistically significant.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter shows the analysis of data collected from the field and discussions of the major findings. The results of the analysis were presented in graphs and tables to highlight the key findings. The study made use of the NSE 20 Share Index as a preference for market index. The researcher also utilized the market model event study methodology to compute the abnormal returns attributed to shareholders on days surrounding the M&A announcement of the listed firms. This methodology was appropriate since it helped determine whether listed firms can generate abnormal return to shareholders both immediately before and after the M&A announcement.

4.2 Response rate

The sample comprised of nine acquiring firms that were listed at the time of bidding. These companies included Unga group Limited, British American Insurance Company, CFC bank, Kenya Commercial Bank, Kenol Limited, Total Kenya Limited, Centum Investments Company Limited, Trans century Limited and EABL. Companies that were not listed at the time of merging were eliminated from the study since the historical share prices could not be accessed. The study majorly used historical prices obtained from the Nairobi Security Exchange. The historical prices of listed firms that could not be accessed from the NSE website was retrieved from past newspapers at the University of Nairobi library.

4.3 Data Validity

The historical share prices of companies and the market index obtained from the NSE website was compared to that recoded from past newspapers and the historical prices obtained from the Financial times website. All the historical price figures were found to be the same for all the three sources. The market model event study methodology also employed in the study has been a reliable measurement of abnormal returns. The findings are therefore genuine and if done for the second time would yield the same results.

4.4 Descriptive statistics

The researcher used eviews statistical software version 7 to measure the descriptive statistics of the sample firms under the study. The company returns were first calculated from the daily stock prices during the event window period of -5 days to +5 days. These company returns were then exposed to analysis. The results of the descriptive statistics are discussed in the table 4.1 below.

Table 4.1: Descriptive statistics

Company	Min	Max	Std Dev	Mean	Correlation	R squared
Kenol Ltd	-0.09565	0.07477	0.05033	-0.00210	0.05266	0.00277
CFC Limited	-0.06034	-0.06035	0.02895	0.00506	0.31679	0.10036
Total Kenya Ltd	-0.05084	0.05357	0.02543	0.00045	0.08202	0.00678
EABL Limited	-0.01886	0.03922	0.01702	0.00642	0.25290	0.06269
KCB	-0.02222	0.02222	0.01357	-0.00093	0.25703	0.06606
BRITAM Insurance Ltd	-0.12721	0.14394	0.07398	0.02347	0.20639	0.04723
Centum Investments Ltd	-0.03174	0.01639	0.01313	-0.00065	0.36807	0.13016
Unga group Ltd	-0.05814	0.06818	0.03438	0.01916	0.12487	0.01544
Trans century Ltd	-0.01052	0.04167	0.01578	0.00581	0.04336	0.00221

Source: Research Findings

The results above show that there were small spreads between the minimum and maximum values of all the companies. This means that there were no extreme values detected. The company with the largest spread recorded was BRITAM Insurance while that with the smallest spread was KCB bank. Standard deviation was a measure of the return volatility from the mean. A company with a higher standard deviation of returns tends to have greater variations from the mean than the investment returns with a lower standard deviation. From the above table, BRITAM insurance had the highest standard deviation and mean. R squared measures how close the data gets fitted to the regression line. The higher the R square, the better the model fits the data. In this study, R squared ranged from 0.002211 to 0.130162 which was very low. The variability in returns was poorly explained by the dummy variables. The low values of R squared indicated that this research may have been based on human behavior and market perceptions. The correlation of all the companies were positive but less than one.

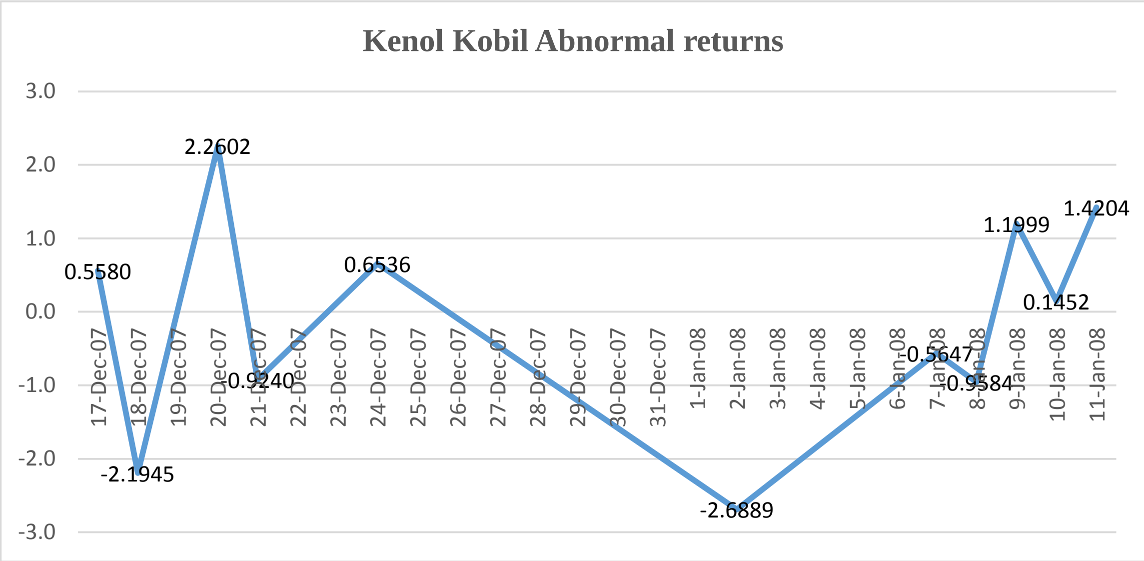
4.5 Data Analysis and test results

Appendix 2 shows the company historical prices, the market index, the expected returns, abnormal return, Average Abnormal Returns and Cumulative Average Abnormal Returns for the event window of -5 to +5 days. This data was used throughout this chapter. Graphical presentations of the rise and fall in the abnormal returns of the companies under study are discussed below. The abnormal returns within the event window were tested for the significance in order to know the possibility to outperform the stock market with respect to Merger and Acquisitions announcement.

4.5.1 Kenol Kobil Merger

The announcement of a merger between Kenol and Kobil was on 2nd January 2008. The daily abnormal return during the event window is shown in the graph below. The graph elucidates that the abnormal returns rises and falls in reaction to the merger results. On the fourth day (-4) before the announcement we observe a statistically significant negative abnormal return (-2.1945) and the next day (-3) we then observe a statistically positive significant return (2.2602). When the outcome is known to the public (t=0), the abnormal returns has the highest significant negative abnormal return value (-2.6889). The negative abnormal return continues for the next two days after the merger announcement and then the investors starts experiencing positive insignificant abnormal returns for the next 3 days after the announcement.

Figure 4.1: Daily Kenol Kobil Abnormal Returns

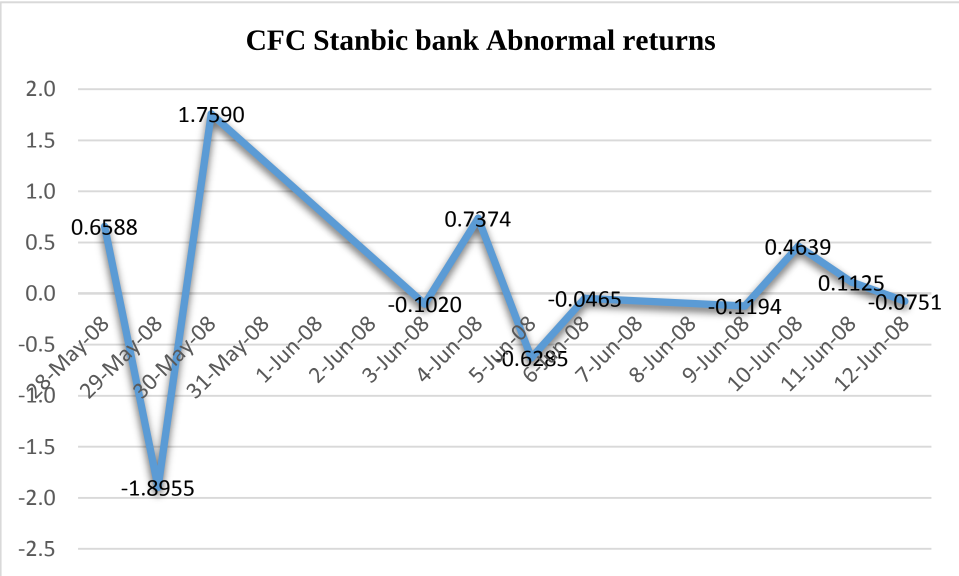


Source: Research Findings

4.5.2 CFC Stanbic Bank Merger

A merger announcement between CFC and Stanbic bank happened on 5th June 2008. The graph of the daily abnormal return from -5 to +5 days after the announcement is shown below. The volatility in the abnormal returns is sharper before the announcement period than after the announcement period. The highest negative abnormal return is experienced on the fourth day before the merger announcement while the highest positive abnormal return is observed on the third day before the announcing date. On the announcement date (t=0) investors experience a negative abnormal returns. All the abnormal returns from (-5 days to +5 days) are not statistically significant.

Figure 4.2 Daily CFC Stanbic Bank Abnormal Returns

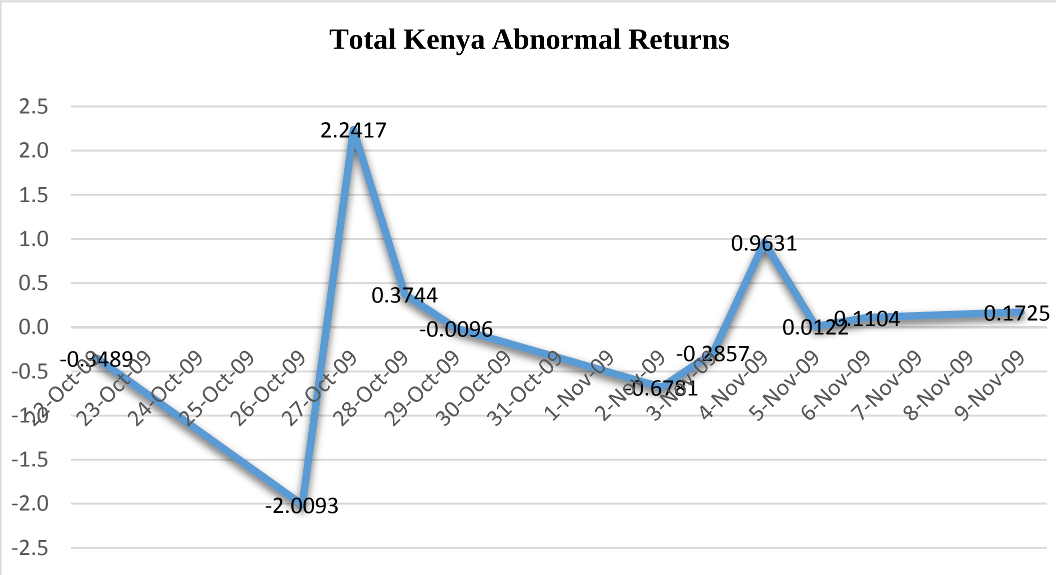


Source: Research Findings

4.5.3 Total Kenya Limited acquisition of Chevron Oil

Total acquired Chevron oil on 2nd November 2009. The graph of the daily abnormal returns is shown in the figure below. Significant abnormal returns were observed on the fourth (-2.0093) and the third day (2.2417) before the merger announcement. Negative insignificant abnormal returns were observed a day before the merger announcement (-0.00962), on the announcement date (-0.67812) and on one day after the merger announcement (-0.28566). After that the investors started experiencing positive insignificant abnormal returns up to the fifth day window (t=+5).

Figure 4.3 Daily Total Kenya Limited Abnormal Returns

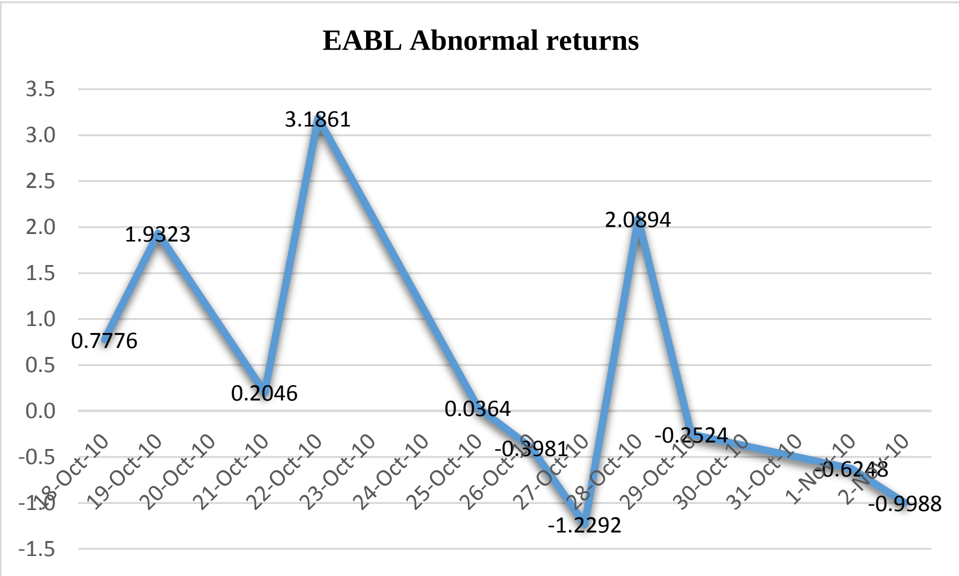


Source: Research Findings

4.5.4 EABL Acquisition of Serengeti Breweries

EABL made an announcement of its acquisition of Serengeti breweries on 26th October 2010. The graph below shows the abnormal returns during the event window of -5 to +5 days. From the graph, investors enjoyed positive abnormal returns before the announcement of the merger with positive significant abnormal returns of (3.1861) achieved on day 2 before the announcement. On the day of the announcement (t=0) investors started exhibiting insignificant negative abnormal returns until the end of the. Positive significant abnormal return of (2.0894) was only realized on day 2 after the merger announcement.

Figure 4.4 Daily EABL Abnormal Returns

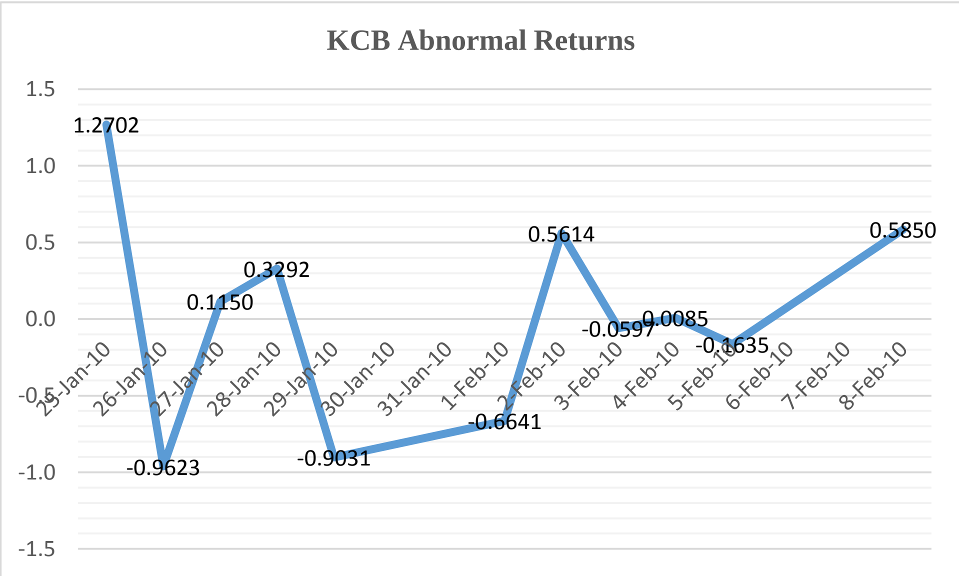


Source: Research Findings

4.5.5 KCB acquisition of Savings and Loan Limited

KCB acquisition announcement of savings and Loans Limited was made on 01st February 2010. The graph below shows demonstrates the abnormal returns attributed to the announcement. There were no significant differences in abnormal returns. The highest positive abnormal return of (1.2702) was obtained at -4 days to the announcement day while the lowest negative abnormal return of (-0.9623) was obtained on the -3 day to the announcement day. There were negative abnormal returns on the announcement day (-0.6641)

Figure 4.5 Daily KCB Abnormal Returns

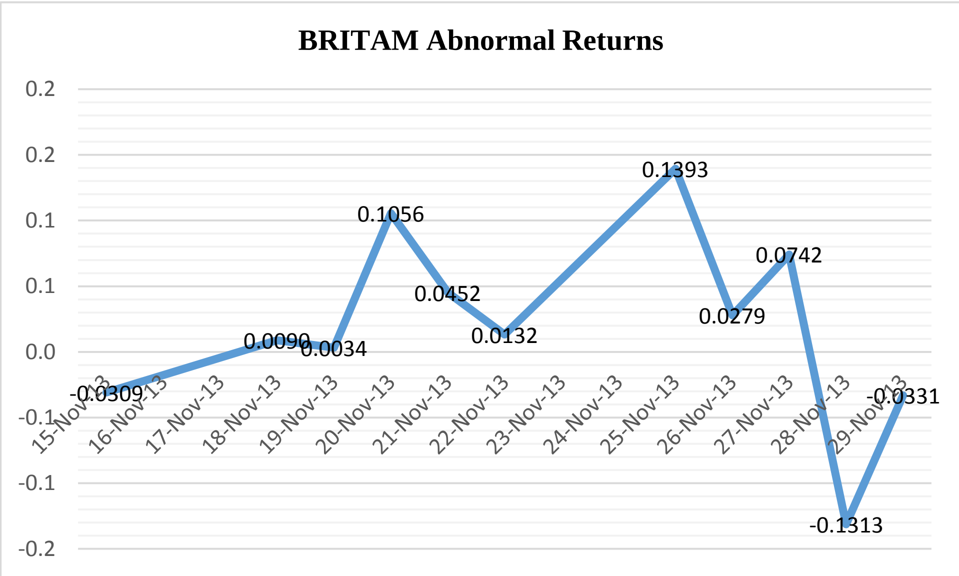


Source: Research Findings

4.5.6 BRITAM acquisition of First Insurance

British American Insurance Company acquisition of First Insurance was announced on 22nd November 2013. There were positive abnormal returns attributed to investors around the announcement dates. Significant positive abnormal returns were observed on -2 days (5.6117) and -1 days (2.4029) before the announcement and the same was also achieved on day one (7.4031) and day three (3.9435) after the merger announcement. On the announcement day (t=0) there were also positive insignificant abnormal returns (0.7028). On day 4 after the announcement investors started receiving negative abnormal returns.

Figure 4.6Daily BRITAM Abnormal Returns

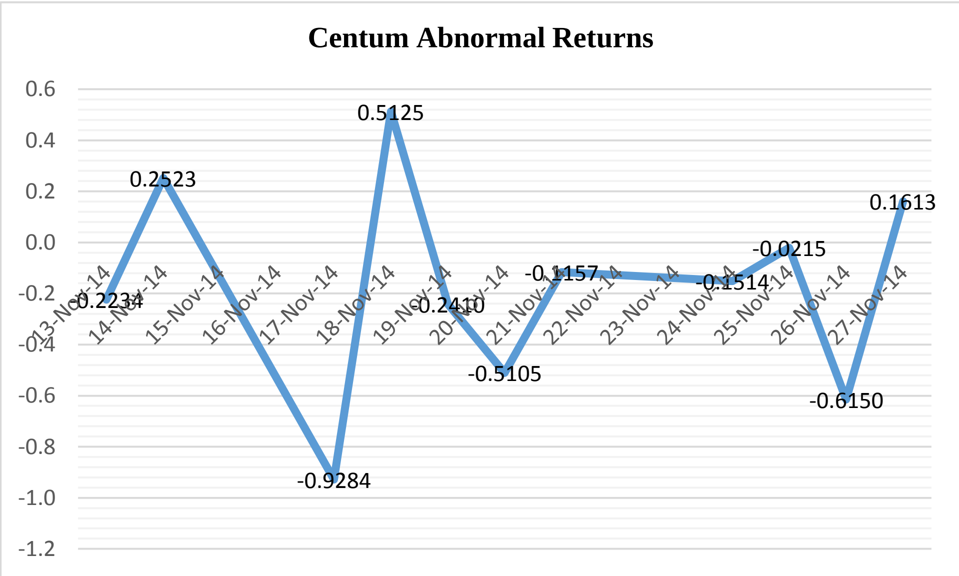


Source: Research Findings

4.5.7 Centum Investments acquisition announcement of K-rep bank

Centum Investment announced its acquisition in K-rep bank on 20th November 2014. Around the announcement date Investors received abnormal returns that were not significant. The highest negative abnormal return was observed 3 days before the announcement date (-0.9284) while the highest positive abnormal return of (0.5125) was received 2 days before the announcement date. On the announcement date investors received negative abnormal returns (-0.5105). The negative abnormal returns continued until the end of the event period. But on the fifth day after the announcement date, insignificant positive abnormal returns of 0.161307 were observed.

Figure 4.7 Daily Centum Investments Abnormal Returns

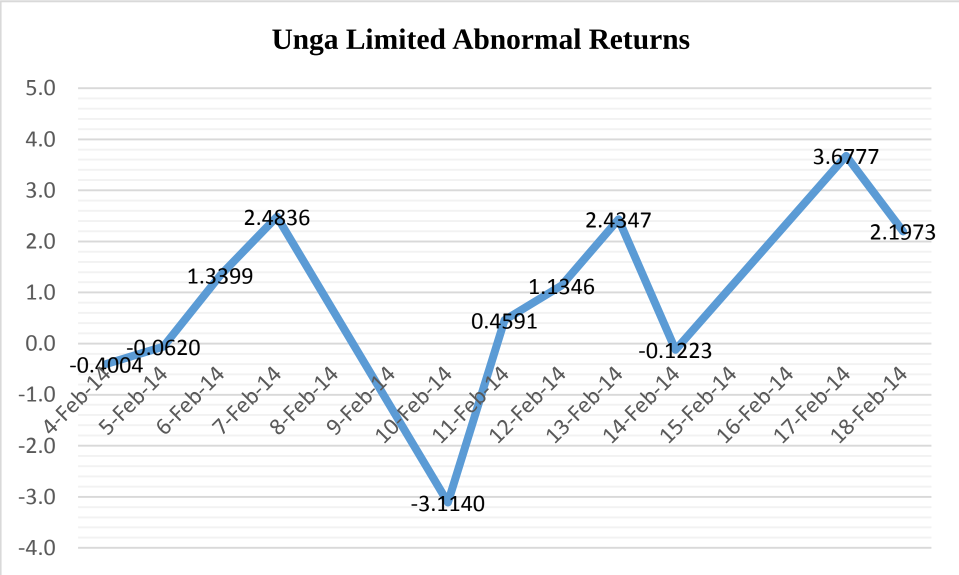


Source: Research Findings

4.5.8 Unga group acquisition of Ennsvalley Barkery

Unga group announced its acquisition of Ennsvalley Bakery Limited on 11th Feb 2014. There were no significant differences in abnormal returns 3 days before the announcement. On day 2 before the announcement there was a positive significant differences in the abnormal return (2.4836) and on day one before the announcement investors received significant negative returns (-3.1140). From the announcement date (t=0) to (t=+5) investors started receiving positive abnormal returns.

Figure 4.8Daily Unga group Abnormal Returns

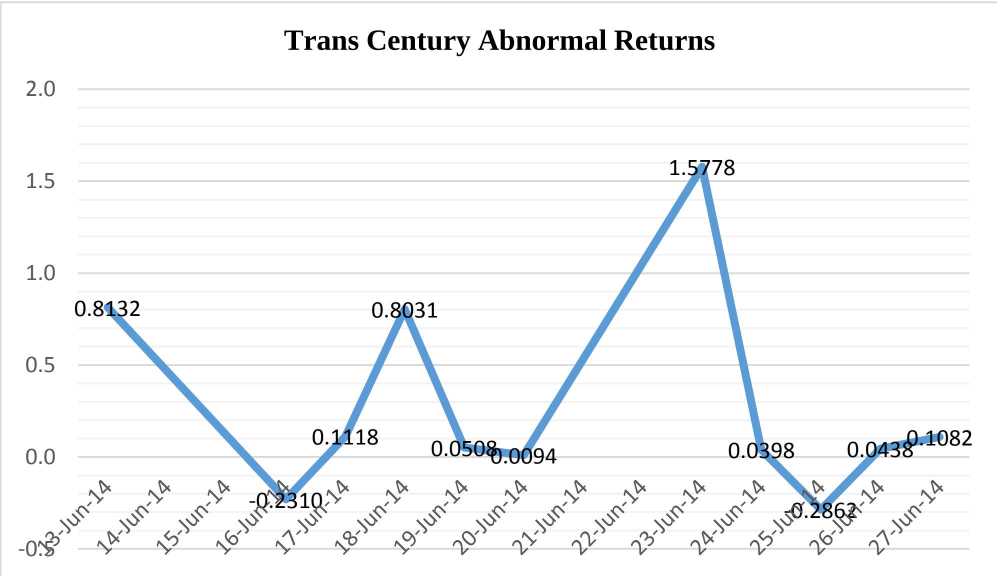


Source: Research Findings

4.5.9 Trans century Limited acquisition of Cable holdings

Announcement on acquisition of cable holdings by Trans century Limited was made on 20th June 2014. Three days before the announcement date (t=-3, t=-2, t=-1), the announcement date (t=0) and the rest of the days after the announcement date, investors received positive abnormal returns that were insignificant. However, on day (t=+3) a negative abnormal return of (-0.28625) was observed.

Figure 4.9 Daily Trans century Limited Abnormal Returns



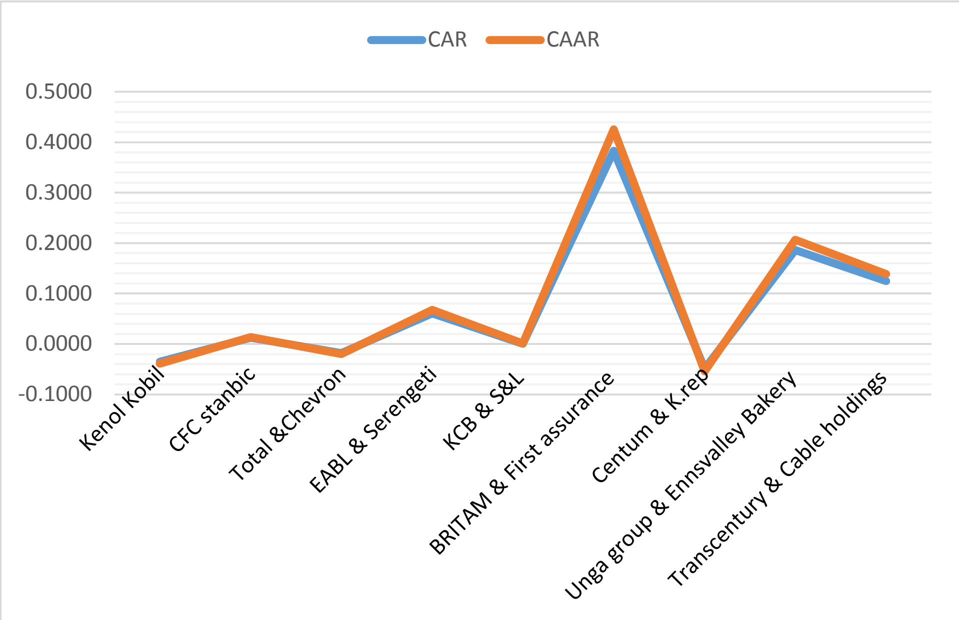
Source: Research Findings

4.6 Hypothesis testing

The study analyzed the Average Abnormal Returns and the Cumulative Average Abnormal Returns over time for each company and presented the data in figures. The results are presented in two forms: graphical presentation of the average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) for the nine firms under study and the tables of significance of average abnormal returns calculated from t test.

The graph below shows that Kenol kobil Ltd, Total Ltd, and Centum Investments had negative overall Average Abnormal returns and Cumulative average abnormal returns. Companies like CFC stanbic bank, EABL, KCB, BRITAM, Unga Group and Trans century Holdings showed positive AAR and CAAR.

4.10 Overall CAR and CAAR



Source: Research Findings

Cumulative abnormal returns (CAR) measured the shareholders' total return over a period over the 11-days event windows for each firm. CAR was computed as shown in step 5 page 23. The changes in cumulated abnormal return were performed using t-test to detect whether or not there was significant gain in the total shareholder returns over the sample event windows. The findings are presented in Table 4.1 below. It shows whether the average cumulative returns as a result of merger and acquisition announcements were significantly different from zero. If significant, the announcement was assumed to have an impact on the shareholder returns. From the table below, three out of the nine companies felt the effect of the merger and acquisition announcements. The three companies showed a significant difference in the Average abnormal returns which showed that the stock market responded to the merger and acquisition announcements. The critical value of T was 1.96 at 95 % confidence level.

Table 4.2: Analysis of the Cumulative Abnormal Returns

Company	CAR	CAAR	CAR t	Significance	DECISION
Kenol Kobil Limited	-0.03520	-0.00391	-1.09133	No	Accept Ho
CFC Bank	0.01246	0.00139	0.38633	No	Accept Ho
Total Kenya Limited	-0.01820	-0.00202	-0.56438	No	Accept Ho
EABL	0.06081	0.00676	1.88526	No	Accept Ho
KCB	0.00061	0.000068	0.018939	No	Accept Ho
BRITAM	0.38302	0.04256	11.87431	Yes	Do not accept Ho
Centum Investments	-0.04902	-0.00545	-1.51983	No	Accept Ho
Unga group	0.18615	0.02068	5.77095	Yes	Do not accept Ho
Transcentury Limited	0.12492	0.01388	3.87289	Yes	Do not accept Ho

Source: Research Findings

The research findings presented in Table 4.3 demonstrate that the null hypotheses representing no significant change in the CARs over the 11-day event windows were accepted for six sampled firms and not accepted for the three sampled firms. The findings therefore indicate that the shareholders' total cumulated return had not significantly changed in most companies the event of announcement of a merger and acquisition.

4.7 Discussion of Research Findings

Generally, investors view M&A announcement as an opportunity for value creation. This study has empirically investigated the impact of M&A announcement on shareholder returns in various sectors that are listed on the NSE. The study shows that to earn significant positive abnormal return the investor or shareholder must actually have information about a merger prior to announcement. This can be observed in most sample companies that most positive abnormal returns were realized before M&A announcement than after the announcement.

Figure 4.2 showed calculation of both AAR and CAAR. The results indicated that Mergers and Acquisitions had an effect on shareholder returns of companies under the study. This had been observed by the bidding firms under the study gaining a positive but small overall cumulative abnormal returns.

Companies like CFC stanbic bank, EABL, KCB, BRITAM, Unga Group and Trans century Holdings showed positive AAR and CAAR while companies like Kenol kobil Ltd, Total Ltd, and Centum Investments had negative overall Average Abnormal returns and Cumulative average abnormal returns. Unga group limited, BRITAM and Trans century limited were the only companies that showed positive significant changes in the Average abnormal returns which showed that the stock market responded favourably to the merger and acquisition announcements. The results also showed that before the M&A announcement, there had been an increase in the trading activities and most companies had a sharp rise and fall in the abnormal returns as compared to after the announcement within the event window.

This means that there was a lot of speculation as a result of leakage of information just days before the M&A announcement and around the announcement date. In conclusion majority of the companies received positive but insignificant Average abnormal returns. These research findings concur with study of Gathecha (2014) also looked at the information content of mergers and acquisitions announcement for listed companies at the NSE and found that indeed these announcements positively influenced shareholders' wealth as manifested by the abnormal returns around the declaration date of mergers and acquisitions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter includes a summary of the major findings as discussed in chapter four, conclusions of the study, recommendations based on findings, shortcomings of the study and suggestions for further research. The aim of the study was to give an answer to the question; what is the impact of mergers and acquisitions announcement on shareholder returns of firms listed at the NSE?

5.2 Summary

The study aimed at answering the question what is the impact of mergers and acquisitions announcement of firms listed at the NSE? It looked at 9 merger cases that cut across a number of sectors focusing on the bidding firms to determine whether shareholders of the bidding firms earned abnormal returns. The study readily adopted secondary data obtained from the Nairobi Securities Exchange and past newspapers. Using the market model Event study methodology, an estimation window of 120 days was used to find the alpha and beta. An event window of -5 to +5 days was used to avoid confounding factors. The pre-event period was considered to estimate any leakages of information and analyze the effects of the same. The post-event period was considered to estimate any delay in the reach of the information being disseminated. The research findings showed that most mergers and acquisitions of bidding firms gain small but positive insignificant cumulative abnormal returns for its shareholders

5.3 Conclusions

The study found out that Mergers and Acquisitions of bidding firms gain small but positive abnormal returns that are not significant. In some special cases, the bidding firms may gain positive or negative significant abnormal returns depending on the market perceptions. For instance, in the study, out of nine companies Unga group Limited, Trans century Limited and British American Insurance Company shareholders earned positive Cumulative abnormal returns. This may be attributed to bidders obtaining a better price for their targets especially if it was acquired through stock. The acquiring firms can also earn significant abnormal return when competitors cannot facsimile the synergy and its resulting cash flows, which hinder the competitive bidding process from fully transpiring. The study therefore concluded that the merger and acquisition announcements have significant effects on total accumulated share returns for the various listed companies before and after the announcements. Therefore, they are 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.

5.4 Recommendations for Policy and Practice

This study recommends that as an investor with the aim of earning significant positive abnormal returns an investor should be alert and have knowledge of the upcoming

M&A announcement. After having the knowledge, he should purchase the shares of an acquiring company early, preferably two days before the announcement day and sold two days after the announcement day, but the earlier he sells the better. The moment the M&A announcement is announced, investors start responding and the stock price becomes volatile, yielding either positive or negative abnormal returns to the investors.

The actual purpose of Mergers and Acquisitions should be to create an incremental value. There are varied reasons why companies engage in mergers and acquisitions. Whether the reason is to increase sales, control a larger market share, or even diversification. Due diligence should be properly done and the managers should be absolutely positive of an incremental value in the long run. This will benefit both the shareholders and the companies as well.

M&A announcements in some cases create significant positive returns for target firm's shareholders but have negative or zero returns of bidding firms' shareholders owing to the fact that bidder companies pay a premium to the target companies. The study recommends that managers of the bidding firms should only acquire the targets if the cost of acquisition is substantially less than the actual value created. Also prior and thorough research should be done before the deal takes place to avoid paying more than the company to be acquired is worth. Experienced board members should form the board to enable the mergers and acquisitions transition successfully.

When bringing organizations together that have different set of values, its critical to be able to understand the differences and manage them. Cultural differences can make it difficult for employees and leadership of companies to come together to create a high performing organization. The way around that is understanding from the word how the companies are wired, their core values, the foundation, the gaps and misalignments between the two and how they need to be aligned to move forward. Mergers should also be able to enhance revenue synergies. The data should be convincing. Deals that are driven by revenue synergies that tends to perform better than deals that are primarily driven by cost savings.

5.5 Limitation of the Study

This study was not able to capture the impact of M&A announcement on shareholder returns of the target companies due to unavailability of their historical prices since they are not listed at a stock exchange. The researcher used the company historical prices and the market index to find the abnormal returns and the cumulative abnormal returns before and after merger announcement. The researcher did not determine the effects of mergers on non-financial performance indicators for instance increased customer and market share. Additionally, other measures of financial performance for instance profitability ratios were not addressed by this research.

The event study methodology depends on the assumption of an efficient market. This assumption is not justifiable in some cases. The amount of time taken by investors to react to event signals tends to vary and therefore, the implication is that markets could display market inefficiencies because prices do not reflect the available information immediately. Another difficulty has to do with interpreting the results. Interpretations are more difficult in the context of international standards than from domestic perspective because the number of confounding factors multiplies when moving out of a strictly domestic setting. Data on firms that had listed before 1996 could not have their daily historical data sourced from the NSE since it is not expressly documented. Such firms were technically eliminated from the sample, even though they could have been listed at the time of the merger. In addition, one should also compare the short-run and long-run effects of M&A.

5.6 Suggestions for Further Studies

Further research should be carried out on the industry determinants that influences shareholder returns in cases of mergers and acquisitions. The focus should be on the combined value creation from M&A by looking at the net economic gain from a transaction instead of just looking at the bidders and targets gains that is achieved on short term. Future assessment on whether method of payment of mergers and acquisitions affects shareholder returns should be studied. This would help to shareholders understand the potential gains attributed to them when there are merger speculations circulating.

Research should also be expounded from domestic deals to look at whether cross border deals yield greater return to the acquiring firms shareholders. Cross border M&A create an entry to new attractive markets, expand the investment opportunity, reduce the macroeconomic risks and may offer the opportunity to exploit tax differences. Due to all these upside potential of cross border deals it may be of interest to the researcher to find out if they create short term wealth to the acquiring shareholders. This study made use of the market model event study methodology to determine abnormal returns.

There is need for further research in this area and a necessity to include more independent variables such as those relating to the size of a firm and expectations of dividend in order to determine whether when other factors are put into consideration their market would still react positively to mergers and acquisitions announcements. The study was also limited to effects of speculative tendencies that are determined by information leakages around the event windows, where the trading patterns are in most times not driven by market fundamentals but speculative behaviour due to huge participation of investors who are interested in making short-term profits and those positioning themselves for the post-merger purchase bids.

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APPENDICES

APPENDIX 1: List of Mergers and Acquisitions between 2005 and 2015

COMPANY	**MERGED WITH**	**ANNOUNCEMENT DATE**
Kenol Ltd	Kobil Petroleum Ltd	02.01.2008
CFC Bank Ltd	Stanbic Bank Ltd	05.06.2008
Total Kenya	Chevron Kenya	02.11.2009
East African Breweries	Serengeti Breweries Ltd	26.10.2010
Kenya Commercial Bank Limited	Savings and Loan Limited	01.02.2010
Britam	Real Insurance	22.11.2013
Centum Investments	K - Rep bank	20.11.2014
Unga Group Limited	Ennsvalley Barkery	11.02.2014
Trans century	Cable Holdings	20.06.2014

Source: Capital Market Authority

APENDIX II: TIME SERIES DATA AROUND M&A ANNOUNCEMENT

Kenol Kobil Ltd	Share prices	Market Index	Company return	Market return	Expected Return (Er)	Abnormal Return(AR)	Average Abnormal Return(AAR)	Abnormal Return (t test)	Significance
17-Dec-07	115	5,291.69	0.01770	-0.00901	-0.00027	0.0179689	0.0179689	0.01796885	No
18-Dec-07	107	5,278.73	-0.06957	-0.00245	0.0011037	-0.070669	-0.0527	-0.0347312	yes
20-Dec-07	115	5,287.93	0.07477	0.00174	0.0019813	0.072785	0.0200849	-0.0146463	yes
21-Dec-07	112	5,339.75	-0.02609	0.00980	0.003668	-0.029755	-0.00967	-0.0243164	No
24-Dec-07	115	5,444.83	0.02679	0.01968	0.0057363	0.0210494	0.0113794	-0.012937	No
2-Jan-08	104	5,167.18	-0.09565	-0.05099	-0.009059	-0.086593	-0.075214	-0.0881507	yes
7-Jan-08	103	5,338.77	-0.00962	0.03321	0.0085686	-0.018184	-0.093398	-0.1815484	No
8-Jan-08	100	5,341.82	-0.02913	0.00057	0.0017361	-0.030862	-0.12426	-0.3058083	No
9-Jan-08	104	5335.23	0.04000	-0.00123	0.0013582	0.0386418	-0.085618	-0.3914264	No
10-Jan-08	105	5,419.93	0.00962	0.01588	0.0049401	0.0046753	-0.080943	-0.4723692	No
11-Jan-08	109	5,180.14	0.03810	-0.04424	-0.007646	0.045741	-0.035202	1.42037515	No

CFC bank

28-May-08	116	5,094.21	0.017544	-0.00487	-0.00371	0.021249	0.021249	0.658774	No
29-May-08	109	5,101.04	-0.06034	0.001341	0.000795	-0.06114	-0.03989	-1.89547	No
30-May-08	115	5,090.36	0.055046	-0.00209	-0.00169	0.056739	0.016848	1.759027	No
3-Jun-08	116	5,175.83	0.008696	0.016791	0.011986	-0.00329	0.013557	-0.10202	No
4-Jun-08	120	5,253.53	0.034483	0.015012	0.010698	0.023785	0.037342	0.737374	No
5-Jun-08	119	5,341.41	-0.00833	0.016728	0.011941	-0.02027	0.017068	-0.62855	No
6-Jun-08	121	5,477.70	0.016807	0.025516	0.018307	-0.0015	0.015568	-0.04651	No
9-Jun-08	120	5,445.67	-0.00826	-0.00585	-0.00441	-0.00385	0.011715	-0.11943	No
10-Jun-08	120	5,334.50	0	-0.02041	-0.01496	0.014964	0.026679	0.46392	No
11-Jun-08	120	5,309.08	0	-0.00477	-0.00363	0.003628	0.030307	0.11248	No
12-Jun-08	120	5,328.13	0	0.003588	0.002423	-0.00242	0.027884	-0.07512	No
Total Kenya									
22-Oct-09	29.5	3,049.99	-0.0084	0.006232	0.000311	-0.00871	-0.00651	-0.34891	No
26-Oct-09	28	3,057.23	-0.05085	0.002374	-0.00066	-0.05019	-0.0567	-2.00933	Yes
27-Oct-09	29.5	3,043.22	0.053571	-0.00458	-0.00242	0.055988	-0.00071	2.241686	Yes
28-Oct-09	29.75	3,047.87	0.008475	0.001528	-0.00088	0.00935	0.008639	0.374368	No
29-Oct-09	29.75	3,066.01	0	0.005952	0.00024	-0.00024	0.008399	-0.00962	No
2-Nov-09	29.25	3,082.92	-0.01681	0.005515	0.00013	-0.01694	-0.00854	-0.67812	No

3-Nov-09	29	3,081.07	-0.00855	-0.0006	-0.00141	-0.00713	-0.01567	-0.28566	No
4-Nov-09	29.65	3,076.44	0.022414	-0.0015	-0.00164	0.024054	0.008381	0.96308	No
5-Nov-09	29.65	3,088.11	0	0.003793	-0.0003	0.000304	0.008685	0.012181	No
6-Nov-09	29.7	3,090.44	0.001686	0.000755	-0.00107	0.002757	0.011443	0.11039	No
9-Nov-09	29.8	3,094.36	0.003367	0.001268	-0.00094	0.004308	0.015751	0.172491	No
EABL									
18-Oct-10	198	4,629.26	0.010204	0.000713	0.00121	0.008994	0.016537	0.777605	No
19-Oct-10	203	4,648.20	0.025253	0.004091	0.002903	0.02235	0.038887	1.932314	No
21-Oct-10	204	4,664.03	0.004926	0.003406	0.002559	0.002367	0.041254	0.204648	No
22-Oct-10	212	4,678.10	0.039216	0.003017	0.002364	0.036851	0.078105	3.186094	Yes
25-Oct-10	212	4,666.21	0	-0.00254	-0.00042	0.000421	0.078526	0.036399	No
26-Oct-10	212	4,701.15	0	0.007488	0.004605	-0.0046	0.073922	-0.39811	No
27-Oct-10	208	4,649.52	-0.01887	-0.01098	-0.00465	-0.01422	0.059704	-1.2292	No
28-Oct-10	213	4,640.42	0.024038	-0.00196	-0.00013	0.024167	0.083871	2.089389	Yes
29-Oct-10	213	4,659.56	0	0.004125	0.002919	-0.00292	0.080952	-0.2524	No
1-Nov-10	212	4,675.17	-0.00469	0.00335	0.002531	-0.00723	0.073726	-0.62475	No
2-Nov-10	210	4,686.98	-0.00943	0.002526	0.002118	-0.01155	0.062173	-0.99879	No
KCB									

25-Jan-10	23	3,607.45	0.022222	-0.00585061	-0.00588	0.028102	0.028431	1.270214	No
26-Jan-10	22.5	3,607.14	-0.02174	-8.5933E-05	-0.00045	-0.02129	0.00714	-0.96233	No
27-Jan-10	22.5	3,598.81	0	-0.00230931	-0.00254	0.002543	0.009684	0.114963	No
28-Jan-10	22.5	3,572.39	0	-0.00734132	-0.00728	0.007284	0.016968	0.329244	No
29-Jan-10	22	3,565.28	-0.02222	-0.00199026	-0.00224	-0.01998	-0.00301	-0.90307	No
1-Feb-10	21.75	3,579.27	-0.01136	0.003923955	0.003329	-0.01469	-0.0177	-0.66411	No
2-Feb-10	22	3,577.15	0.011494	-0.0005923	-0.00093	0.01242	-0.00528	0.56139	No
3-Feb-10	22	3,583.56	0	0.001791929	0.00132	-0.00132	-0.0066	-0.05968	No
4-Feb-10	22	3,584.24	0	0.000189755	-0.00019	0.000189	-0.00642	0.008544	No
5-Feb-10	22	3,599.40	0	0.004229627	0.003617	-0.00362	-0.01003	-0.16349	No
8-Feb-10	22.25	3,594.77	0.011364	-0.00128633	-0.00158	0.012943	0.002911	0.58504	No
BRITAM									
15-Nov-13	11	5,043.58	-0.02655	0.0025483	0.00438	-0.03093	0.052806	-1.64328	No
18-Nov-13	11.15	5,058.16	0.013636	0.0028908	0.004686	0.008951	0.061756	0.475557	No
19-Nov-13	11.2	5,052.63	0.004484	-0.001093	0.001128	0.003356	0.065112	0.178318	No
20-Nov-13	12.35	5,024.08	0.102679	-0.005651	-0.00294	0.10562	0.170732	5.611726	Yes
21-Nov-13	13	5,053.91	0.052632	0.0059374	0.007406	0.045225	0.215957	2.402882	Yes
22-Nov-13	13.2	5,054.21	0.015385	5.936E-05	0.002157	0.013227	0.229185	0.70278	No

25-Nov-13	15.1	5,068.36	0.143939	0.0027996	0.004604	0.139335	0.36852	7.403057	Yes
26-Nov-13	15.6	5,085.83	0.033113	0.0034469	0.005182	0.02793	0.39645	1.483972	No
27-Nov-13	16.9	5,125.74	0.083333	0.0078473	0.009112	0.074222	0.470672	3.943494	Yes
28-Nov-13	14.75	5,137.21	-0.12722	0.0022377	0.004103	-0.13132	0.33935	-6.97729	Yes
29-Nov-13	14.2	5,100.88	-0.03729	-0.007072	-0.00421	-0.03308	0.306272	-1.75746	No
Centum									
13-Nov-14	62	5,123.45	-0.008	-0.00292	-0.00196	-0.00604	0.008829	-0.22342	No
14-Nov-14	63	5,139.37	0.016129	0.003107	0.009309	0.00682	0.015649	0.25226	No
17-Nov-14	61	5,111.47	-0.03175	-0.00543	-0.00665	-0.0251	-0.00945	-0.92838	No
18-Nov-14	62	5,108.84	0.016393	-0.00051	0.002539	0.013855	0.004405	0.512465	No
19-Nov-14	62	5,117.08	0	0.001613	0.006516	-0.00652	-0.00211	-0.24101	No
20-Nov-14	62	5,145.28	0	0.005511	0.013802	-0.0138	-0.01591	-0.51053	No
21-Nov-14	62.5	5,166.45	0.008065	0.004114	0.011192	-0.00313	-0.01904	-0.11568	No
24-Nov-14	62	5,145.98	-0.008	-0.00396	-0.00391	-0.00409	-0.02313	-0.15144	No
25-Nov-14	62	5,137.94	0	-0.00156	0.00058	-0.00058	-0.02371	-0.02146	No
26-Nov-14	62	5,174.02	0	0.007022	0.016627	-0.01663	-0.04034	-0.61503	No
27-Nov-14	62	5,152.26	0	-0.00421	-0.00436	0.004361	-0.03598	0.161307	No
Unga group									

4-Feb-14	20	4,883.90	0	0.011507	0.00748	-0.00748	-0.00732	-0.40038	No
5-Feb-14	20	4,870.43	0	-0.00276	0.001159	-0.00116	-0.00848	-0.06202	No
6-Feb-14	20.5	4,843.90	0.025	-0.00545	-3.3E-05	0.025033	0.016551	1.339934	No
7-Feb-14	21.5	4,843.90	0.0487805	0	0.002381	0.0464	0.062951	2.483619	Yes
10-Feb-14	20.25	4,818.28	-0.0581395	-0.00529	3.7E-05	-0.05818	0.004775	-3.11399	Yes
11-Feb-14	20.5	4,833.36	0.0123457	0.00313	0.003768	0.008578	0.013352	0.45915	No
12-Feb-14	21	4,842.22	0.0243902	0.001833	0.003193	0.021197	0.03455	1.134611	No
13-Feb-14	22	4,839.52	0.047619	-0.00056	0.002134	0.045485	0.080035	2.434677	Yes
14-Feb-14	22	4,838.47	0	-0.00022	0.002285	-0.00228	0.07775	-0.12229	No
17-Feb-14	23.5	4,806.73	0.0681818	-0.00656	-0.00053	0.068708	0.146458	3.677705	Yes
18-Feb-14	24.5	4,797.20	0.0425532	-0.00198	0.001502	0.041051	0.187509	2.19732	yes
Trans century Ltd									
13-Jun-14	23.75	4,836.71	0.021505	0.005344	-0.00038	0.021888	0.035611	0.813206	No
16-Jun-14	23.5	4,787.94	-0.01053	-0.01008	-0.00431	-0.00622	0.029393	-0.231	No
17-Jun-14	23.5	4,764.11	0	-0.00498	-0.00301	0.003009	0.032403	0.111806	No
18-Jun-14	24	4,790.38	0.021277	0.005514	-0.00034	0.021616	0.054018	0.803097	No
19-Jun-14	24	4,797.42	0	0.00147	-0.00137	0.001369	0.055387	0.050845	No

20-Jun-14	24	4,825.52	0	0.005857	-0.00025	0.000252	0.055639	0.009355	No
23-Jun-14	25	4,843.36	0.041667	0.003697	-0.0008	0.042468	0.098107	1.57784	No
24-Jun-14	25	4,856.15	0	0.002641	-0.00107	0.00107	0.099178	0.039771	No
25-Jun-14	24.75	4,845.60	-0.01	-0.00217	-0.0023	-0.0077	0.091473	-0.28625	No
26-Jun-14	24.75	4,856.35	0	0.002219	-0.00118	0.001178	0.092651	0.043764	No
27-Jun-14	24.75	4,834.02	0	-0.0046	-0.00291	0.002913	0.095564	0.108223	No