THE EFFECT OF MERGERS ON PROFITABILITY OF FAMILY OWNED BUSINESSES IN KENYA

BY

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A management research project proposal submitted to the Department of Finance and Accounting in partial fulfillment of the requirements of the Degree of Master of Business Administration of University of Nairobi

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DECLARATION

I hereby declare that this project proposal is my own work and effort and that it has not been submitted anywhere for any award.

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This research project proposal has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This study is dedicated to my supervisor for his assistance, support and patience during the entire period of my study.

Further, to my parents, Raphael and Grace, who bequeathed me with excellent upbringing and inspiration coupled with a good education to ensure that I have reached this level of education.

My brothers and sisters who went out of their way to encourage me through continued support and prayers towards the successful completion of this course.

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Thank you and God bless you abundantly.

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May God bless you all!

ABSTRACT

Family owned businesses in Kenya develop from small outfits and grow to businesses which contribute positively to the growth of the economy. According to the Kenya Bureau of Statistics Data, the Kenyan GDP grew by 0.3 percent from 4.4 percent in 2011 to 4.7 percent 2012, and rose to 5.7 percent in 2013. This growth was mainly attributed to the growth of the small-scale sector in the economy that was mainly composed of family owned businesses. The objective of this research was to determine the effects of mergers on the profitability of family owned businesses in Kenya after dilution of the concentrated ownership. Theoretically, it's assumed that mergers improve company performance due to increased market power, enhanced profitability, and risk diversification. The research focused on the financial performance of the family owned businesses in Kenya which merged between 2006 and 2013 in Kenya. The study sampled four companies. Profitability was compared for the three years after the merger against three years before the merger. Secondary data from the financial statements was collected for the 3 years period before and after the merger. The data was then analyzed with the help of excel spreadsheets. The study found that the mergers did indeed have a significant effect on profitability of family owned. Three companies out of the four had their profitability decline in the year immediately after the merger. One company displayed an increase in the whole period before and after the merger.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence, firms are facing intense competition (Kumar & Bansal, 2008). Firms have therefore adopted various strategic alternatives such as mergers, acquisitions, joint ventures, strategic alliances and other related strategies to foster growth, expansion and survival of the firm in the fast changing environment. Family owned business firms have also embraced these strategies.

1.1.1 Mergers

A merger is a combination of two corporations in which only one survives. The merged corporation goes out of existence. An acquisition is a takeover which refers to the transfer of control of a firm from one group of shareholders to another. Through mergers, the acquiring company gets an expanded client base and the acquired company gets additional lifeline in the form of capital invested by the purchasing company (James, 2002).

In today's global environment where business is becoming more and more complex, companies may have to grow to survive. One of the best ways to grow is by merging with another company or acquiring other companies (Banerjee, 2007). The ability to outperform competitors and produce above average profits lies in the pursuit and

execution of an appropriate business strategy (Yoo, et al., 2006).The incessant variability of environmental factors affecting the firm leads to creation of new opportunities and threats for business firms. The firm must thus be adaptable to these changes by reassessing its business strategies through various restructuring activities some of which are mergers. This also applies to the family owned firms that have concentrated ownership.

1.1.2 Profitability

In accounting, profit is the difference between price and the costs of bringing to market whatever it is that is accounted by an enterprise (whether by harvest, extraction, manufacture, or purchase) in terms of the component costs of delivered goods and/or services and any operating or other expenses. Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. Therefore, profitability takes a very important role in company performance (Narjess, 2005).

Profitability is measured with income and expenses. Income is money generated from the activities of the business. Expenses are the cost of resources used up or consumed by the activities of the business. Profitability is measured with an "income statement" (Larson, 1981). Whether you are recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a

large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability (Narjess, 2005).

A variety of profitability ratios can be used to assess the financial health of a business. These ratios, created from the income statement, can be compared with industry benchmarks. The income statement trends can also be tracked over a period of years to identify emerging problems (Pyle, 1981).

1.1.3 Mergers and profitability

Twenty years back, few companies made mergers a key element of their growth strategy. Mergers were an afterthought or episodic. Today, many companies look to achieve over 50 percent of their growth from mergers and acquisitions (Thomas and Weston, 1992). There is no question that the pent-up demand for mergers has been brought back to life due to various factors such as convergence of low interest rates, debt availability, private equity and venture capital, cash infusions from initial public offers and the perceived lack of organic growth opportunities due to a saturated marketplace. But well-conceived and effectively implemented mergers and acquisitions activity can yield returns to shareholders in excess of broad stock market indexes. (Wanguru, 2011)

In the specific context of mergers and acquisitions, Ben-Amar and Andre (2006) find that, in Canada, abnormal returns to the stocks of the acquiring companies were largely positive during the 1998-2002 period, and the (positive) abnormal returns to stocks of

family controlled companies were higher than those of other companies. They conclude that this is a manifestation of the faith that investors have on the ability of the Canadian regulators to protect the interests of the minority shareholders. The outcome in other contexts has not been as favourable for firms with concentrated shareholding. For example, Bae, Kang and Kim (2002) found that in South Korea share value of acquiring companies decline subsequent to mergers and acquisitions, resulting in a loss for the minority shareholders. But the insiders who control these companies gain because of a subsequent increase in the value of the related group companies, presumably on account of tunnelling.

Wanguru (2011) carried out a study to assess the effects of mergers on profitability of banks in Kenya between 2004 and 2008. This study concluded that the bank's profitability increased post-merger. This consequently also led to the improved financial performance. It is with this in mind that the researcher has focused on family owned private firms with concentrated ownership to determine whether merger restructuring activities impact the profitability of the firms.

1.1.4 Family owned businesses in Kenya

Family owned businesses are a key factor in the growth and development of national and regional economies worldwide. They have been recognized globally as key ways of creating employment opportunities where the capital investment held by the business is of a small amount. This sector is considered to be an engine of growth, especially in developing countries like India, Brazil, South Africa and Kenya due to their contribution

to income generation, employment, GDP and export earnings (Kiran, Kishore & Majumdar, 2012).

According to the Kenya Bureau of Statistics Data, the Kenyan GDP grew by 0.3 percent from 4.4 percent in 2011 to 4.7 percent 2012, and it is expected to rise to 6.0 percent in 2013. This growth was mainly attributed to the growth of the small-scale sector in the economy. Consequently, a lot of effort should be exerted to ensure family owned businesses grow and survive. It is with this in mind that the family owned businesses have become a subject of interest for the government, the corporate community and researchers. We add to this growing literature by examining the impact of mergers on firm performance in Kenya, where many of the firms are family-controlled, and where most of the larger family-controlled firms are part of larger business groups (Piramal, 1996).

The existing empirical evidence about these firms is mixed. On the one hand, for example, Khanna and Palepu (2000) have argued that stock market and financial performances of family owned firms that belong to business groups initially decline with group diversification but improve once the extent of diversification exceeds a certain threshold. They conclude that in emerging markets business groups replicate the functions of institutions that are otherwise missing. This view is supported by research that argues that group affiliation in countries with underdeveloped capital markets and low levels of creditor protection, business group affiliation provides greater access to external funds (Ghatak and Kali, 2001; Lesnik, van der Molen and Gangopadhyay, 2003).

On the other hand, Chacar and Vissa (2005) have suggested that family owned firms with group affiliation have greater persistence of poor performance than those that are not part of such organisational structure. They conclude that market based governance structures function better in emerging market conditions than internal or "allocative" governance structures. This, in turn, is consistent with the argument that, in matters of succession, family-owned businesses value blood and family ties more than entrepreneurial and managerial skills (Sharma and Rao, 2000), implying that the quality of management and strategic decision-making at these firms may not be of the highest quality. The adverse impact of succession on firm value has been documented elsewhere in the literature (Villalonga and Amit, 2006).

The global market has seen a rise in the amount and volume of mergers and acquisitions which have attained record breaking levels. This has cut across all forms of business firms including family businesses where the main role is taken up by cross-border deals, as businesses gain from low-cost funding to chase their mergers and acquisitions strategies. In Africa, in 2013, the total merger and acquisition deals were valued at US$ 14.9 billion. This represents a 55.2% increase from 2012 where deals totaled US$ 9.6bn. The regions highest valued deal saw Eni East Africa acquired by China National Petroleum for US$ 4.2bn. The existing empirical evidence lacks information on the profitability of the family owned firms post-merger.

In this research project, the term 'Kenyan firms' will be used to denote companies that are domiciled in Kenya (and operate in the country) as well as other firms with operations in the country but whose holding company is domiciled in a foreign country.

1.2 Statement of the Problem

The knowledge on the effect of mergers on various forms of business entities is crucial for purposes of determining if this strategy is beneficial to the firm. In spite of the vast discussions held on mergers, it is queer that the effect of mergers on profitability of firms with concentrated ownership within a family did not attract as much attention of the researchers. A brief review of the different efforts of research in the field of mergers is attempted in the following paragraphs.

Mergers and acquisitions have become the main means of attaining higher performance which is the main goal of any company. Many studies have been carried out in this field (Thomas and Weston 1992). Studies on the value effect of mergers have produced a wealth of evidence on the financial gains of mergers largely using event study methodology.

However, the post-merger performance is also somehow controversial. Asquith (1983) reported negative bidder returns from the day of takeover announcement to the outcome announcement, while Malatesta (1983) identified a negative return of 13.7% of the combined firm in the 12 months after the completion of the merger. Kaplan and

Weisbach (1992) found that 44% of target companies purchased are eventually divested, and they classify about one third to one half of the divestitures as unsuccessful.

On the other hand, Frank et al. (1991) and Healy et al. (1992) found positive developments in the merged firms. Rau and Vermaelen (1998) attribute long-term bidder underperformance to the poor post-acquisition performance of low book-to-market "glamour" firms. Some studies concluded that mergers and acquisitions might actually be value and performance preserving for the firms (Franks, Harris and Tittman, 1991; Healy, Palepu and Ruback, 1992).

Thomsen and Pedersen (2000) found, broadly speaking, a positive correlation between ownership concentration and both shareholder value and profitability in the European context. Kuehn (1975) observes that acquiring firms tended to be faster growing than firms in their respective industries. This being the case, a merger of these two firms is expected to lead to improved performance.

As evidenced by the foregoing paragraphs, the impact of mergers and acquisitions on the performance of the acquiring firm remains, at best, "inconclusive" and, at worst, "systematically detrimental" (Dickerson et al., 1997). Mergers fail to create value, it is suggested – with somewhere between 60 and 80% classified as 'failures' (Puranam and Singh, 1999) – and a number of value destroying theories have been put forward in explanation.

Korir (2006) carried out a study on the effects of mergers on financial performance of companies listed at the Nairobi Stock Exchange. His study focused only on the companies that are listed on the Nairobi stock exchange. His findings were that mergers improve performance of companies listed at the N.S.E. The findings of his study cannot be generalized since there are many other unlisted companies operating in Kenya. Marangu (2007) undertook a research to investigate the effects of mergers on financial performance of non-listed banks in Kenya. The study covered a period of five years before the merger event and five years after the merger. This study concentrated on the banking industry alone.

According to the Kenya Bureau of Statistics Data, the Kenyan GDP grew by 0.3 percent from 4.4 percent in 2011 to 4.7 percent 2012, and rose to 5.7 percent in 2013. This growth was mainly attributed to the growth of the small-scale sector in the economy that is mainly composed of family owned businesses. There is therefore need to carry out a study on family owned businesses to establish whether profitability does improve post-merger after the dilution of family ownership. In view of the foregoing, this study is set to investigate whether or not mergers enhance profitability of family owned firms in Kenya.

1.3 Objective of the Study

To establish the effect of mergers on the profitability of family owned businesses in Kenya.

1.4. Research questions

The study is undertaken to answer the following research questions:

1. What is the effect of mergers on profitability of family owned businesses?
2. What is the effect of the merger on returns on equity for the family shareholders 'post-merger?
3. What is the effect of the merger on returns on assets for the family owned business post-merger?
4. What is the effect of the merger on returns on investment for the family owned business post-merger?

1.5 Importance of the study

This study will be of value to different category of people. It will be useful to owners of family businesses in Kenya and elsewhere in the world as it will add knowledge on the understanding of the importance of mergers in analyzing company performance. The shareholders in family businesses can therefore use the findings from the study to help them in making decisions for or against mergers.

This study would be of use to prospective investors. Restructuring decisions are likely to impact current and future returns of a firm. These decisions are also likely to affect a certain industry in a given economy. This would influence prospective investors' decisions on which firm to invest in or indeed, which industry to invest in.

It will benefit the family business executives and managers as they make strategic decisions that could include restructuring. This study will demonstrate how such decisions would impact on the financial performance of their firms. It will also benefit academicians and researchers by providing more insight into the relationship between mergers and company performance after the merger. It will provide more empirical evidence on the issue which can be used to formulate or validate already existing theories on the relationship.

The study will contribute to the bulk of knowledge and research at the School of Business at the University of Nairobi. It will be useful to students as a basis of reference for any future study in the field of mergers, acquisition and restructuring of companies. It will also expose any knowledge gaps in this field that would give a base for further studies in the topic.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, we shall consider underlying previous research and other literature that was carried out on mergers. The study shall critically review the theoretical foundations of mergers and both global and local empirical evidence. The chapter has thereafter been summarized to highlight the conclusion from literature review and eliminate duplication of what has been done. This will provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations

2.2 Theoretical Framework

Businesses now increasingly recognize the uncompromising demand to venture overseas, or within their region, so as to seek out growth and profits. Mergers and acquisitions are explained by two main classes of theories: first is the “value-maximizing theories” and secondly is the “managerial theories” (Seth 1990). According to the value increasing school, mergers occur, broadly, because mergers generate ‘synergies’ between the acquirer and the target, and synergies, in turn, increases the value of the firm (Hitt et al., 2001).

The theory of efficiency suggests, in fact, that mergers will only occur when they are expected to generate enough realisable synergies to make the deal beneficial to both

parties; it is the symmetric expectations of gains which results in a ‘friendly’ merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the target firm’s owners would not sell or submit to the acquisition, and if the gains were negative to the bidders’ owners, the bidder would not complete the deal. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Banerjee and Eckard (1998) and Klein (2001) evidence this suggestion.

Trautwein (1990) lists seven main theoretical explanations of merger motives that take either a micro or a macroeconomic perspective. The form of these motives can be from purely financial to personal. In addition there exists the traditional cost efficiency theory based on the notion of economies of scale and scope, as well as the resource based view based on enhanced utilization of core competences and resources (Prahalad and Hamel 1990).Other theories have been advanced to explain the motives and reasons behind mergers and acquisitions. There is no single one reason behind a merger, but rather a complex pattern of motives (Ravenscraft and Scherer 1987). The seven acquisition motives identified by Trautwein (1990) are efficiency theory, monopoly theory, valuation theory, empire building theory, process theory, raider theory and disturbance theory. These are discussed herein:

2.2.1 Efficiency Theory

This theory held that acquisitions were executed to achieve synergies. Three types of synergies are identified. First, financial synergy aimed achieving a lower cost of capital through lowering the systematic risk of the acquirer. Second, operational synergy targeted achieving operational excellence from a combined firm's operations. Third, managerial synergy was used to enhance a target's competitive position by transferring management expertise from the bidder to the target firm. The view of financial synergy has been attacked by saying that there is no evidence for a lower systematic risk or an advantage of internal capital market. It was determined that operational and managerial synergies are rarely motivations for acquisitions. Trautwein concluded that the efficiency theory performance is unfavorable. (Trautwein, 1990)

2.2.2 Monopoly Theory

This theory viewed that acquisitions were executed to achieve market power. The implications of this type of acquisition are that conglomerates use cross-subsidized products, to limit competition in more than one market simultaneously, and to deter the potential entrance of competitors into its market. These three advantages of the monopoly theory supported the idea of a collusive synergy (Trautwein 1990) concluded that the monopoly theory's overall performance is even worse than that of the efficiency theory.

2.2.3 Valuation Theory

This philosophy viewed acquisitions as being executed by managers who have superior information than the stock market about their exact target's unrealized potential value. The assumption here is that the acquirer possesses valuable and unique information to enhance the value of a combined firm through purchasing an undervalued target or deriving benefits from combining the target's business with its own. The leveraged buyout can be categorized into this theory. (Trautwein 1990) mentioned that one of the most common criticisms about this valuation theory is that it is impossible to acquire accurate and tangible information about the acquisition results, and further stated that "the concept of private information as a basis for mergers warrants further consideration, since it shows why the problematic assumption of capital market efficiency can be avoided"

2.2.4 Empire-Building Theory

This theory holds that managers maximize their personal goals, rather than their shareholders' value maximization through acquisitions. This theory stems from (Berle & Means's 1933) early study on the relationship between ownership and corporate governance structure. Trautwein (1990) concluded that "the empire-building theory has to be given the most credit of the theories investigated up to this point"

2.2.5 Process Theory

This approach indicated that strategic decisions are described as outcomes of processes governed by bounded rational theory. Roll (1986) found that the managers' behavior was overoptimistic in the acquisition decision process. Jemison & Sitkin (1986) proposed a systematic acquisition process perspective..

2.2.6 Raider Theory

Holderness & Sheehan (1985) portrayed the term, "raider," as meaning a person who causes wealth transfers from the shareholders of a target firm. Wealth transfer refers to the huge compensation after a successful acquisition transaction. This theory therefore suggests that the acquirer sets off to make huge benefits at the expense of the target firm. The primary problem with this assertion is its illogical hypothesis of wealth transfer. Against this background, the empirical evidence shows that the presence of a well known raider in a takeover bid results in greater benefits to both target and acquiring shareholders than bids by non – raiders (Holderness & Sheehan 1985).

2.2.7 Disturbance Theory

This approach holds that the motives of acquisitions occurred as a result of economic disturbances. Economic disturbances cause changes in individuals' expectation and increase the general degree of uncertainty. Thus, they alter the array of individual expectations. Trautwein (1990) commented that this theory is no longer examined.

Trautwein (1990) argued that among the seven competing theories, the valuation theory, empire building theory, and process theory are the most plausible ones, in the order introduced. He also argued that the most dominant theory, the efficiency theory, has produced only limited validity. Thus organizations are contingent upon their external environments, therefore, they should try to gain control over their processes of input resource acquisition and output disposal.

2.3. Determinants of profitability

According to Andreas S. (2010), profitability is a product of a dynamic profit model that, unlike most existing research, directly includes measures of productivity and productivity persistence. Based on his research, there was a large amount of profit heterogeneity, and there were substantial differences existing between industries and across firms. In his study, he concluded that firm profitability is predominantly determined by firm-level characteristics, and that sector effects are relevant, but to a much smaller extent. The analysis also reveals that, among firm effects, productivity and productivity persistence enhance profitability.

Further research by Onowa S. (2008) on determinants of profitability on banks concluded that major factors influencing commercial banks' profitability are shareholders fund, total assets and number of branches. The study recommends the initiation of good policies, revitalization of financial institutions, continued recapitalization of commercial banks, and further resulted oriented, detailed researches.

Profitability is measured with income and expenses. Income is money generated from the activities of the business. Expenses are the cost of resources used up or consumed by the activities of the business. Profitability is measured with an “income statement” (Larson, 1981). Whether you are recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability (Narjess, 2005).

2.4 Empirical Evidence on Mergers

Agrawal et al. (1992) studied post merger performance. They developed a larger sample of 937 mergers and 227 tender offers. Their sample included firms smaller than those of the Healy et al. study, which focused on the 50 largest mergers. They used data analysis method of historical data. They adjusted for size effect and for beta-weighted market returns. They found that shareholders of acquiring firms experienced a wealth loss of about 10% over the five years following the merger completion. This finding provided some implications. First, it represents an anomaly in the sense that ‘it provides an opportunity for a positive abnormal investment return.If acquiring firms always lose after a merger, this suggests that investors short the acquiring firm on a long-term basis at the time of a merger announcement. Of course, over time this anomaly should be wiped out.

Another implication may be that merger activity took place mainly in industries where performance was subpar compared to the market or the economy as a whole.

Alkhavein (1997) studied merger profitability using measures including security price changes. The sample consisted of 42 firms matched in 21 pairs of one merging and one non-merging. He compared pre and post-merger performance based on five measures of profitability i.e. percentage change in stock prices, price earnings ratio, earnings per share, sales per share and profit margin. He used pre-merger period calculated average returns (five years pre mergers and five years post-merger) using stock returns. He concluded that operational restructuring as a result of merger activity positively affects profitability due to renewed attention to business, improved management, accounting and legal regulatory systems, better credit assessment and approval techniques, reduced branches and staffing levels.

Desai and Kim (1988) measure the changes in total dollar value associated with completed takeovers. They examine a matched sample of targets and their bidders in 30 successful mergers. Descriptive statistics, based on the time-series average values of the explanatory variables was used in this analysis, The average values of Size, R&D/Sales, Advt/Sales and Tobin's Q are given for the five-year periods 1983-88, while the binomial Z- statistics measure of firm-specific risk pertains to the latter time period. They found a significant average increase of $32.4 million ($t$ = 2.07) in their combined equity value in the month before and month of outcome announcement. The acquired firms earned $18.6 million ($t$ = 5.41) of the combined increase in equity value, and acquiring firms earned

\$13.8 million (t = 0.91). Bradley, Desai and Kim (1982) report positive but statistically insignificant total dollar gains to bidders and targets in 162 tender offers of \$17.2 million (t = 1.26). However, the average percentage change in total value of the combined target and bidder firms is a significant 10.5% (t = 6.58). This evidence indicates that changes in corporate control increase the combined market value of assets of the bidding and target firms.

Ghosh [2001] extended the earlier Healey et al. (1992) study -post acquisitions performance. He used a sample of 315 of the largest acquisitions during the period 1981—1992. He initially replicated the Healy et al. [1992] results that cash flow margins are higher than industry-median benchmarks after acquisitions. But he found that the merging firms also have superior pre-acquisition performance; when he adjusted for this in his regression model, the cash flow margins are no longer higher. Alternatively, when control firms are matched by performance and size from pre-event years, the merging firms no longer show superior performance. For cash acquisitions, cash flows improve 3% per year (significant), with the improvements coming from higher sales growth rather than cost reductions. In stock acquisitions, he finds that both operating cash flow margins and sales growth decline, but not significantly. The Ghosh study confirmed the Healy et al. results, which also reinforced their finding that the initial event returns were consistent with the longer-term accounting performance.

Healy et al. (1992) studied the post acquisition performance of the 50 largest U.S. mergers between 1979 and 1984. They used accounting data primarily but tested their

results by using market valuation measures as well. They analyzed both operating characteristics and investment characteristics, the first two measures of operating characteristics are the cash flow margin on sales and asset turnover. When these two measures are multiplied they obtain the margin on the market value of assets. Their third variable measures the effect of the merger on employment. They calculate the change in the number of employees during a given year as a percentage of the number of employees in the previous year. This is to test the hypothesis that gains in mergers are achieved by downsizing and reducing the number of employees. Their fourth measure is pension expense per employee. Again, this is to test whether gains from mergers came at the expense of reducing pension protection for employees. Next they consider a number of effects on investment. Here they are testing whether gains may come from under investing for the future, from selling off assets, or force reducing research and development activities. They looked at the results for the firms themselves and then made a further adjustment. They made an industry adjustment to test whether the changes in the variables occurred because of industry effects as distinguished from the effects of the mergers on the individual firm. Their findings were that; industry employment decreased which implies that the merging firms did more restructuring and reorganization than other firms in the industry. But the cash flow margin on sales did not significantly change. However, asset turnover significantly improved. The return on the market value of assets also improved significantly. Pension expense per employee was reduced somewhat but not by statistically significant degree. None of the investment characteristics were significantly changed on the basis of industry-adjusted performance.

Korir (2006) carried out a study on Effects of Mergers on Financial Performance of Companies listed at the Nairobi Stock Exchange. The objective of this study was to find out the effects of mergers, if any on performance of companies listed at the NSE. The population used in this study was 48 companies listed on the Nairobi Stock Exchange. The financial statements for the listed companies were easily found and majority of the companies which merged during the same period of study were listed at the NSE. Shares of some of these sampled companies were heavily traded at the NSE. A sample of 20 listed companies was contacted, it consisted of 10 companies that merged and 10 that never merged and were continuously in operation for the period counterparts were merged. Prior to paired t-test, data was analyzed on the basis of descriptive statistics. Descriptive statistics describe data on variables with single numbers while analysis of variance (ANOVA) tests for any significance difference between mean values of variables. The standard deviation is a measure of variation and is used to determine how the mean is a representative of the observations. Based on the measures of performance; Turnover, Volume, Market Capitalization and Profit, It was concluded that mergers improves performance of companies listed at the Nairobi Securities Exchange. This is explained by low variation in paired t-test below 0.005 for turnover, volume, market capitalization, and profit.

Mitchell and Lehn (1990) studied stock price reactions to acquisitions during the period 1982- 1986. One sample was composed of firms that became targets of takeovers after they had made acquisitions. A control group consisted of acquiring firms that did not subsequently become targets of takeover bids. The stock prices of acquirers that became

targets declined significantly when they announced acquisitions. The stock prices of acquiring firms that did not become subsequent targets increased significantly when they announced acquisitions. They found that for the entire sample of acquisitions, those that were subsequently divested had significantly negative returns. On the other hand acquisitions that were not subsequently divested had significantly positive returns.

Nyagah (2007) did a study on Doctors Perception of Mergers and Acquisitions in the Pharmaceutical Industry Kenyan based firms in 2007. The objective of the study was to determine the perception of doctors on mergers and acquisitions on the pharmaceutical industry in Kenya. The population of interest in this study comprised of medical doctors in Nairobi. According to the Kenya Medical Directory (2006), there are 900 practicing medical doctors in Nairobi. A sample size of 50 doctors was considered fairly adequate and representative. The data was analyzed using descriptive statistics. Data in this study was summarized and presented in terms of means scores graphs and proportions. Data was analyzed using frequencies and percentages and means scores and standard deviation to determine doctor's perception of mergers and acquisitions. The findings were that, respondents strongly agreed that merged pharmaceutical companies in Kenya were profit and market oriented. They also agreed that the companies were domineering and arrogant .However, they disagreed with the fact that merged pharmaceuticals companies are caring partners. The research was undertaken at one point in time. Since there are many changes that occur over time as well as motives in mergers and acquisitions, the researcher recommends a longitudinal study over time.

Most of the empirical literature on merger outcomes is based on stock price studies. These studies rely on widely available information on stock prices and apply event study methodology, to single out the effect of the announcement of mergers and acquisitions on stock price performance by focusing on abnormal returns. A major drawback of this approach lays in the fact that stock price movements rely on the anticipation of investors as to the benefits and costs of mergers and acquisitions rather than on actual value creation (Vander Vennet, 1996; Lepetit, Patry and Rous, 2004).

2.5. Summary of Literature Review

The reasoning behind mergers and acquisitions (M&A) is that two companies together are more valuable than two separate companies. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. This rationale is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost-efficient company. The companies will come together hoping to gain a greater market share or achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone (Brigham, 1986; Cybo-Ottone and Murgia, 2000; Brealey and Myers, 2003).

Mergers and acquisitions can be seen as instruments used by companies externally to acquire capabilities developed by their partners. As such they can have a positive economic effect on companies that are active in the mergers and acquisitions market. However, overview of studies on the economic effects of mergers and acquisitions

performed during the late fifties and sixties reveals that there is substantial ex post evidence that mergers and acquisitions have positive effects on the performance of firms. Hoskisson and Hilt (1994), suggest that related acquisitions can have a positive effect on company performance if these acquisitions support innovative activities of firms. These studies however concentrated on all firms in general without a focus on a specific industry.

A study that has been carried out in Kenya focused only on the companies that are listed on the Nairobi stock exchange. Korir (2006) concluded that mergers improve performance of companies listed at the NSE.

Marangu (2007) undertook a research to investigate the effects of mergers on financial performance of non listed banks in Kenya. This study was carried out for a pre-merger period of five years and five years period after the merger. The findings of the study were that overall financial performance on average indicates an improvement after merger period compared to premerger period. This study concentrated on the banking industry alone. Wanguru (2011) carried out a research on the effects of mergers on profitability of banks in Kenya between 2004 and 2008.

A knowledge gap therefore exists on the impact of mergers on family owned Kenyan firms. These firms have concentrated ownership that is diluted upon merging with another firm. This study will cut across all firms in various industries. This will eliminate influences from factors that could be industry specific. It will also concentrate on family

owned firms that have been involved in mergers and acquisition in the period between 2006 and 2013 since these have not been looked into.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology used in the research project to assist in ascertaining the results of the study. It details a description of the study design, target population, sample design, data collection methods, research procedures and data analysis and presentation.

3.2 Research design

A descriptive research design was adopted to establish the effect of mergers on profitability of family owned businesses in Kenya across various industries. A descriptive research design is one that describes the state of affairs as they are at present. It includes surveys and fact finding enquiries of different kinds. Descriptive research design is a valid method for researching specific subjects and as a precursor to more quantitative studies. It is therefore appropriate in carrying out a statistical assessment of the impact of a merger on the value and profitability of the firm (Dimson & Marsh, 1986).

The study made use of a descriptive research design in its data collection, analysis and presentation. This is because descriptive research involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data collection. It often uses visual aids such as tables, graphs and charts to aid the reader in understanding the data distribution. Descriptive research also uses description as a tool to organize data into

patterns that emerge during analysis which aid the mind in comprehending a qualitative study and its implications. Descriptive research design and statistics is very important in reducing data into manageable form (Glass & Hopkins, 1984).

The event as well as the pre and post-event windows were identified before the methodology was employed. This involved a review of the firm's performance during the premerger period and compared this with the performance after the merger. This study collected data on the firms' profitability for a three year period before the merger and compared this with the profitability of the same firms for a period of three years after the merger.

3.3 Population

According to Mbokane (2009), a population is an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. There were a total of forty eight firms with family ownership, per the Competition Authority of Kenya Registry, that were involved in publicized mergers. These included companies from different industries such as agriculture, manufacturing, oil and gas, telecommunication, service industry et al.

3.4 Sampling

A sample of four Kenyan firms that engaged in mergers and have over 15% shareholding vested in family post-merger for the period between 2006 and 2013 were selected. The eight year period was chosen since it provided a sufficient sample that is representative of family owned firms in Kenya that had participated in publicized mergers. This period saw

some of the biggest mergers and acquisitions in Kenyan history such as the merger between CFC bank limited and Stanbic bank Kenya Ltd, Shell Petroleum Company and BP Africa, BOC Kenya Limited and Carbacid Investments, Kenya Commercial Bank and S&L etc. The period was therefore appropriate since it provided a sample that was large enough to give sufficient precision, as well as a representative sample to make inferences to the entire population.

3.5 Data Collection

The data used was secondary that was collected from published financial statements; that is the statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity. Other relevant published facts and figures during the period of study were also be used. The data collected was on profitability. The following ratios were computed from the financial statements; return on assets, return on equity and return on investment.

3.6 Data Analysis

In this paper, the use of accounting ratios was employed to analyze the profitability of the selected family owned companies that had been involved in mergers. For the pre-merger period, ratios of the companies were examined so as to get an indication of the relative performance. Pre-merger average data was then be compared with the post-merger average data in order to determine the changes that had occurred in performance following the merger. The analysis of operating performance prior to and post-merger was conducted in line with the method specified in Barber and Lyon (1996).

The units of analysis were the family owned firms that had been involved in mergers. The data collected was analyzed quantitatively as well as qualitatively using descriptive statistics.

3.6.1 Measure of Performance

Measures of performance included Return on Assets (ROA), Return on Investment (ROI) and Return on Equity (ROE). These profitability measures were chosen since they simplify the comprehension of the financial statements. They are a good indicator of changes in the financial condition of the business. This was very helpful in this study as it sought to establish changes (in terms of profitability) of firms involved in mergers. These ratios also provided data for inter-firm comparison. This was needed in the study since the period sampled included firms from all industries in the country. The ratios are calculated as follows:

$$ROA = \frac{NP}{TA} \qquad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (1)$$

Where NP = Net profits after taxes and TA = Total Assets.

Return on Assets (ROA) is an index that shows profitability in relation to assets utilization. It indicates the firm's efficiency of operation. If the expected synergies from acquisition are realized, asset utilization efficiency of the company should improve.

$$ROE = \frac{NP - PDV}{EQ} = \qquad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (2)$$

Where NP = Net profits after taxes; PDV = Preference Dividends and EQ = Equity.

Return on Equity (ROE) is another measure of profitability that gives profitability in relation to investment by the shareholders.

$$ROI = \frac{NP}{TA} \times \frac{TA}{EQ} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (3)$$

Where NP = Net profits after taxes; TA = Total Assets and EQ = Equity.

Return on Investment (ROI) indicates the firm's efficiency of operation by indicating profitability in relation to investment.

3.6.2 Hypothesis Testing

The study had one dependent variable i.e. profitability of family owned businesses (measured by ROA) and one independent variable i.e. mergers of companies which took two values (0 and 1). The profitability of family owned businesses was measured when the independent variable was 0 i.e. prior to the merger. Thereafter, the dependent variable was measured when the independent variable was 1 i.e. after the merger. A comparison was then made using a statistical analysis model, specifically the paired t test (also called dependent t test) to ascertain whether mergers had an impact on the profitability of family owned businesses or not.

The paired/dependent t test takes the following formula:

$$t = \frac{\bar{D}}{\sqrt{\frac{SSD}{n(n-1)}}}$$

Whereby:

- n refers to the number of pairs of ROAs (Xi and Yi).
- Xi is the pre merger ROA while Yi is the post-merger ROA
- D is the difference between Xi and Yi

  D= Xi - Yi
- SSD is the standard deviation of the population means under study
- $\bar{D}$ is the mean of the difference between projected ROA (Xi) and actual ROA (Yi)

$$\bar{D} = \frac{\Sigma D}{n}$$

The Null and Alternative Hypothesis for the paired t test shall be:

- H0: $\mu 1 = \mu 2$ (there is a difference in profitability as a result of the mergers)
- H1: $\mu 1 \neq \mu 2$ (there is no difference in profitability as a result of the mergers)

The following main steps shall be followed in the analysis:

Step one:

Computation of Return on Assets (ROA) for the family owned businesses for the 3-year period prior to the merger.

Step two:

Computation of Return on Assets (ROA) for the family owned businesses for the 3-year period after the merger.

Step three:

This step shall constitute statistical analysis using a Microsoft excel analysis tool referred to as the “t test: paired two sample for means”.

Interpretation of Results

The results of the computation per excel analysis shall be displayed as follows for each of the sampled companies:

	Variable 1	***Variable 2***
Mean	-	-
Variance	-	-
Observations	-	-
Pearson Correlation	-	
Hypothesized Mean Difference	-	
Df	-	
t Stat	-	
P(T<=t) one-tail	-	
t Critical one-tail	-	
P(T<=t) two-tail	-	
t Critical two-tail	-	

The value of t (t Stat per excel results) shows the difference in the sample means. The t Stat value is used to determine the P value {P (T<=t) two-tail}. If the P value is less or equal to 0.05 then the null hypothesis shall be rejected and the result shall be deemed to be statistically significant. This means that there is a significant difference in profitability (dependent variable) as a result of the mergers (independent variable). If the P value is more than 0.05 then the null hypothesis shall be accepted meaning that there is a significant difference in profitability (dependent variable) as a result of the merger (independent variable).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter presents the data analysis and interpretations of the findings. The research covered family owned businesses in Kenya in different industries which were involved in mergers between 2006 and 2013. In order to achieve this, financial data of net profit after tax, total assets and total equity for three years prior to the merger and three years after the merger was obtained where possible with a view of testing the hypothesis below:

H0: $\mu 1 = \mu 2$ (there is a difference in profitability as a result of the merger)

H1: $\mu 1 \neq \mu 2$ (there is no difference in profitability as a result of the merger)

Given that there is a high level of mistrust and heavy competition amongst family owned businesses within the country, obtaining the annual reports was difficult. The researcher therefore sampled financial information from companies required by law to publicly avail the financial information.

4.2. Analysis, Results and Discussion

The data for the study was obtained from the financial statements of four listed companies that have more that 15% family ownership and which have been involved in mergers in the last eight years. The companies included Scangroup limited, I&M Holdings limited, Access Kenya limited and Sameer Africa limited. These listed companies were chosen due to the reliability of their financial statements since they are

subject to audit by reputable firms. These companies are also subject to scrutiny under the various regulatory frameworks set up by the Capital Markets Authority and the Nairobi Securities Exchange.

4.2.1. Profitability Analysis - Return on Assets

Return on Assets ratio measures efficiency of the business in using its assets to generate net income. The ratio gives an idea of how efficient management is at using its assets to generate profit. Granted that comparing the profits of firms on their face value may not provide accurate results because the firms are different in a number of ways (for example in terms of their size, operating environment and industry), ROA proves to be a useful tool of comparison of different companies. The higher the return on assets is, the better, because the company is earning more money on its assets. In addition, and in an effort to compare an entity's past performance against the present performance, ROA is of great value as circumstances may have changed within the same institution hence giving a better view of the trends in financial performance.

$$\text{Return on assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

4.2.1.1. Access Kenya

	Pre-merger period			**Post-merger period**		
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Return on assets	0.3546	0.1531	0.1899	0.0878	(0.0049)	0.0452

Source: Author

Before the merger, Access Kenya's ROA was erratic. From a high of 0.3546 in 2006, the ROA declined to 0.1531 in 2007 and slightly improved in 2008 to 0.1899. After the merger in 2009, the Return on assets for Access Kenya Limited declines to 0.0878 in 2009 and then to (0.0049) in 2010. It then increased to 0.0452 in 2011. The post-merger performance is worse off than the pre-merger performance in the first two years but then improves thereafter.

4.2.1.2. Scangroup Kenya limited

	Pre-merger period			**Post-merger period**		
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Return on assets	0.1394	0.0840	0.1020	0.0800	0.1079	0.0861

Source: Author

Prior to the merger, the ROA for Scangroup limited was erractic. In 2006, this was at 0.1394. It then decreased to 0.0840 in 2007 then increased to 0.1020 in 2008. After the merger, the Return on assets for Scangroup Kenya Limited declines in the first year after the merger to 0.0800 in 2009 from 0.1020 in 2008 (pre-merger). It then increases in the second year post merger to 0.1079 in 2010 and then dips in the subsequent third year to 0.0861 in 2011. The post-merger performance is not stable.

4.2.1.3. I&M Holdings Limited

	Pre-merger period			**Post-merger period**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
	2010	**2011**	**2012**	**2013**
Return on assets	0.1209	0.1160	0.1447	0.0409

Source: Author

The Return on assets was on an increasing trend prior to the merger from 0.1160 in 2011 to 0.1447 in 2012. Immediately after the merger, return on assets declined to 0.0409 in 2013.

4.2.1.4. Sameer Africa

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Return on assets	0.0148	0.0489	0.0973	0.2376

Source: Author

The Return on assets was on an upward trend prior to the merger rising from 0.0148 in 2010 to 0.0489 in 2011 and finally to 0.0973 in 2012. Immediately after the merger, return on assets rose to 0.238 in 2013.

4.2.2. Return on Equity

The return on equity ratio (ROE) is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. It is also a key indicator of how effectively management is using equity financing to fund operations and grow the company.

$$\text{Return on assets} = \frac{\text{Net Profit} - \text{Preference Dividends}}{\text{Shareholder's Equity}}$$

4.2.2.1. Access Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Return on equity	0.3605	0.1533	0.1947	0.1347	(0.0077)	0.0995

Source: Author

The Return on equity was on a downward trend prior to the merger from 0.3605 in 2006 to 0.1533 in 2007 and thereafter increased to 0.1947 in 2008. After the merger, returns on equity declined to 0.1347 in 2009 to (0.0077) in 2010 and marginally increased in 2011 to 0.0995.

4.2.2.2. Scangroup Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Return on equity	0.4049	0.1519	0.1695	0.1790	0.2104	0.1519

Source: Author

The three year premerger returns on equity were erratic. They drastically dipped from 0.4049 in 2006 to 0.1519 in 2007. There was however a slight increment in 2008 to 0.1695. Return on equity for Scangroup Kenya Limited increases in the first year after the merger to 0.1790 in 2009 (post-merger). It then increases in the second year post merger, to 0.2104 in 2010 and then dips in the subsequent third year to 0.1519 in 2011. The post-merger performance fluctuates.

4.2.2.3. I&M Holdings Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Return on equity	0.1229	0.1180	0.1479	0.0410

Source: Author

The Return on Equity showed fluctuating results before the merger where it declined from 0.1229 in 2010 to 0.1180 in 2011 and then increased to 0.1479 in 2012. Post-merger results on Return on equity for I&M Holdings Limited show a decline in the first year after the merger from 0.1479 in the 2012 (pre-merger) to 0.0410 in 2013 (post-merger). The post-merger performance dipped.

4.2.2.4. Sameer Africa Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Return on assets	0.0159	0.0526	0.0556	0.1595

Source: Author

Premerger results indicate that the Return on equity for Sameer Africa Limited on an upward trend. It increased from 0.0159 in 2010 to 0.0526 in 2011 and increased further to 0.0556 in 2012. This did not stop after the merger where the Return on equity further increased to 0.1595 in 2013 (post-merger).

4.2.3. Return on Investment

The return on investment ratio (ROI) is a profitability ratio that measures the gains from an investment in the company. It is a profitability measure that evaluates the performance of a business by dividing net profit by net worth. The most frequently used method is to divide net profit by total assets.

$$\text{Return on assets} = \frac{\text{Net Profit}}{\text{Total assets } \textbf{or} \text{ investment}}$$

The analysis for this is as above in the Return on Assets ratio.

4.2.4 Statistical Analysis Using Microsoft Excel

The statistical analysis has been done using a Microsoft excel analysis tool referred to as the “t test: paired two sample for means”. The end results are as follows:

t-Test: Paired Two Sample for Means	***Variable 1***	***Variable 2***
Mean	0.1304	0.1031
Variance	0.0056	0.0085
Observations	4	4
Pearson Correlation	-0.7707	
Hypothesized Mean Difference	0	
Df	3	
t Stat	0.3462	
P(T<=t) one-tail	0.3759	
t Critical one-tail	2.3533	
P(T<=t) two-tail	0.7519	
t Critical two-tail	3.1824	

Source: Author

The mean of the values for the measures of performance before and after the mergers are displayed in the table above. The paired two sample t test procedure compares means for 2 variables for a single group. It computes the differences between values of the two variables for each case and tests whether the average differs from 0. A low significance value of "P" (less than 0.05) means that rejecting the null hypothesis and that the results shall be deemed to be statistically significant. In this study, the P value is 0.3759 which is more than the 0.05 significance level. This can be further translated to mean that mergers do not have a significant impact on the profitability of family owned businesses in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of the findings from chapter four, conclusions, limitations and recommendations based on the objectives of the study.

5.2 Conclusion

The research sought to assess the effect of mergers on profitability of family owned businesses in Kenya for the period between 2006 and 2013. The analysis of the profitability of the four companies provided different results.

Using the return on assets measure, the profitability of Access Kenya Limited is shown to deteriorate in the post-merger period of 2009, 2010 and 2011 in comparison to the years preceding the merger i.e. 2006, 2007 and 2008. For Scangroup Kenya limited, there was a general dip in profitability in the post-merger performance. However, the erratic pre-merger profitability performance was replicated in the post-merger years. I&M Holdings limited displayed a decrease in profitability after the merger in 2013 where the ROA was 0.0409 from 0.1447 in 2012. This was however not the case with Sameer Africa Limited whose profitability displayed drastic growth in the post-merger year, with the return on assets ratio moving from 0.0973 in 2012 to 0.2376 in 2013.

Using the Return on Equity ratio, the research noted that there was a general increase in the returns to the shareholders for all the sampled companies with the exception of Access Kenya Limited.

The results of the paired t test showed a slight difference in financial performance of the family owned firms as the P value was noted to be 0.3759**,** which is higher than the significance level of 0.05. This high significance level showed that there was a negative change in profitability upon a merger by the family owned businesses under study. The study therefore concludes that there was a significant decline in profitability as a result of the merger which means that mergers negatively affect the profitability of family owned businesses in Kenya.

From this analysis, the family owned businesses that were involved in mergers (excluding Sameer Africa Limited that displayed abnormal movements in the profitability) had their return on assets ratio decline in the year immediately after the merger. Thereafter, the profitability gained a gradual upward trend for the next two years. However, the returns to equity invested by the shareholders increased immediately after the merger with the exception of Access Kenya Limited. Additionally, results from the paired t test show a P value of 0.3759. As earlier outlined, a P value that is more than 0.05 would mean that we accept the null hypothesis. This can be inferred to mean that there is a significant impact on profitability of family owned businesses involved in mergers. There was a general decline of profitability with regards to returns on assets and return on investments. Returns on equity showed a general increment post-merger.

5.3 Recommendations

From the forgoing study, a number of recommendations are made hereafter. From the inferences made above, it appears that the financial performance has not been as positive for the duration under study. However, from the review of literature in chapter two, the

study noted that where businesses had been involved in mergers, their financial performance over a long period of time improved. This goes on to mean that the negative results seen from the data analysis may be associated with the high transformation expenses incurred during the transition. Hence, with time and based on experience from other countries, the family owned businesses involved in mergers are expected to register positive results. In the long run, the profitability of the family owned businesses involved in mergers does improve.

Therefore, the first recommendation is that family owned businesses that intend to merge must have sufficient funds to cushion against the high transformation costs

Secondly, a lot work would needs to go into integrating the corporate cultures of the two companies merging so as to ensure that there are minimal operational issues post- merger. This is due to the fact that the shareholders have been operating the business based on blood ties association within the board and the management. When a company merges, cultural differences arise that may hinder productivity and hence lead to losses.

5.4 Limitations of the Study

The first limitation was with respect to accessibility to information. Financial statements are very confidential and contain very sensitive data with regards to the business. It therefore becomes difficult to obtain the information particularly with regards to family owned businesses that regarded such queries with suspicion. In addition, this information is not available from one source as the regulator is not allowed to divulge the information after it is filed with them.

Secondly, the family owned businesses have only recently started divulging information due to statutory requirements thus limiting the data available in the pre and post-merger period. Further research must be carried out in future years when the businesses have more or less stabilized and there is reduced suspicion and mistrust amongst businesses.

Thirdly, and like in any other research, a lot of money is required for various reasons which include money for printing and preparing the final documents for presentation. In addition, due to the fact that the information is not obtained from one source, the researcher spent a lot of money while making enquiries on various issues around the businesses.

Lastly, given that the researcher is in full time of employment, the time available to carry out research was very limited. This meant that the researcher spent a lot of their free time carrying out the study from the beginning to the end as to meet the requisite deadlines.

5.5 Suggestions for Further Research

This study was carried out for a relatively short period. Further research should be carried out on the effects of mergers on the financial performance of the family owned businesses in Kenya for a longer period of may be 20 years in order to get more representative results. Most of the study done only compares the results of three years before the merger and three years after the merger. This may be misleading as the correct benefits to such a transaction are long term and the returns will definitely be realized after several years. Some firms undertake mergers as long-term strategic activity which is expected to generate high profits and improve financial performance in the long run.

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APPENDIX I

LIST OF KENYAN FIRMS THAT WERE INVOLVED IN PUBLICISED MERGERS AND ACQUISITIONS BETWEEN 2006 AND 2013

	Companies	Year
1	TATA STEEL AND CORUS GROUP PLC IN (UK)	2006
2	SHELL PETROLEUM CO. AND BP AFRICA	2006
3	CFC BANK LIMITED AND STANBIC BANK KENYA LTD	2007
4	KENYA CUTTINGS LTD AND POLEN LIMITED	2007
5	REDSKY LIMITED AND SCANGROUP LIMITED	2007
6	JAMES FINLAY LIMITED AND HOME GROWN KENYA	2007
7	MOMBASA SALT WORKS LTD AND KAYSTALLINE SALTS	2007
8	COOPER KENYA LIMITED AND BUCK MEDICALS LIMITED.	2007
9	TODAYS ONLINE LTD AND COMMUNICTAION SOLUTIONS	2007
10	AFSAT COMMUNICATIONS LTD AND MWEB AFRICA	2007
11	KOBIL PETROLEUM LTD AND KENYA OIL COMPANY LTD	2007
12	RELIANCE INDUSTRIES MIDDLE EAST DMCC AND GAPCO KENYA LIMITED & TRANSENERG (K) LTD.	2007
13	NIC CAPITAL LTD AND SOLID INVESTMENT SECURITIES LTD	2007
14	ATMT (HOLDINGS) LTD & RICHARD WILLIAM BELL AND MITSUBISHI CABLE VISION LTD	2007
15	ACCESS KENYA LIMITED AND OPEN VIEW SYSTEMS	2007
16	ATMT HOLDINGS LTD & RICHARD WILLAIM BELL AND SIMBANET CON LIMITED	2007
17	CDC GROUP & HOUSING FINANCE AND EQUITY BANK	2007
18	PRIME CAPITAL & CREDIT LTD AND PRIME BANK LIMITED	2007
19	FIRST COMPUTERS LTD AND COMPUTECH LTD	2007
20	SHIFT GLOBAL KENYA LTD AND KENYA DATA NETWORKS LTD & ALLIED TECHNOLOGIES LTD.	2007
21	ACCESS KENYA GROUP LTD AND OPENVIEW BUSINESS SYSTEMS	2007

22	KENOL LTD AND KOBIL PETROLEUM LTD	2007
23	STANDARD GROUP LTD AND BARAZA LIMITED	2007
24	PRIME CAPITAL & CREDIT LTD. AND PRIME BANK LTD.	2008
25	CFC BANK LTD AND STANBIC BANK LTD.	2008
26	EQUITY BANK LTD AND UGANDA MICROFINANCE LTD	2008
27	ACCESS KENYA LIMITED AND SATORI LIMITED	2009
28	SAFARICOM LTD PACKET AND DATA NETWORKS LTD	2009
29	SCANGROUP LIMITED AND OGILVY	2010
30	SAVINGS AND LOAN (K) LIMITED AND KENYA COMMERCIAL BANK LIMITED	2010
31	CITY FINANCE BANK LTD. JAMII BORA KENYA LTD	2010
32	EQUATORIAL COMMERCIAL BANK LTD AND SOUTHERN CREDIT BANKING CORPORATION LTD	2010
33	RESOLUTION INSURANCE AD AFRICA DEVELOPMENT CORPORATION	2012
34	I&M AND CITY TRUST LIMITED	2012
35	BROOK SIDE DAIRY AND SPIN KNIT	2012
36	ICEA AND LION OF KENYA	2012
37	SCANGROUP LIMITED AND WPP	2013
38	CMC AND AL FUTTAIM	2013
39	GUARANTY TRUST BANK (EA) AND FINA BANK	2013
40	KENYA DATA NETWORKS AND LIQUID TELECOM	2013
41	SWIFT GLOBAL AND LIQUID TELECOM	2013
42	L'OREAL LIMITED AND INTERCONSUMER PRODUCTS LIMITED	2013
43	ACCESS KENYA AND DIMENSION DATA	2013
44	BROOKSIDE DAIRIES AND BUZEKI DAIRIES	2013
45	BRITAM AND REAL INSURANCE	2013
46	SAMEER AFRICA AND SAMEER INVESTMENTS	2013
47	NORFUND, RABOBANK AND DFCU LTD	2013
48	FUSION CAPITAL AND RUSORORO AGGREGATE LIMITED	2013

APPENDIX II

RETURN ON ASSETS

4.2.1.1. Access Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Net profit	46,907	127,600	201,984	155,505	(7,951)	109,084
Total Assets	132,292	833,194	1,063,499	1,771,307	1,615,151	2,415,111
Return on assets	0.3546	0.1531	0.1899	0.0878	(0.0049)	0.0452

4.2.1.2. Scangroup Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Net profit	244,433	315,789	401,148	640,585	916,488	744,074
Total Assets	1,753,635	3,761,064	3,933,148	8,009,431	8,489,938	8,646,961
Return on assets	0.1394	0.0840	0.1020	0.0800	0.1079	0.0861

4.2.1.3. I&M Holdings Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Net profit	35,402,074	35,626,833	48,420,263	736,527,716
Total Assets	292,844,718	307,148,257	334,645,284	17,995,222,444
Return on assets	0.1209	0.1160	0.1447	0.0409

4.2.1.4. Sameer Africa Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Net profit	24,746	81,646	163,013	500,385
Total Assets	1,677,127	1,671,357	1,674,808	2,105,607
Return on assets	0.0148	0.0489	0.0973	0.2376

APPENDIX III

RETURN ON EQUITY

4.2.2.1. Access Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Net profit	46,907	127,600	201,984	155,505	(7,951)	109,084
Total Equity	130,112	832,220	1,037,460	1,154,136	1,028,343	1,096,002
Return on equity	0.3605	0.1533	0.1947	0.1347	(0.0077)	0.0995

4.2.2.2. Scangroup Kenya Limited

	Pre-merger period			Post-merger period		
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
	2006	2007	2008	2009	2010	2011
Net profit	244,433	315,789	401,148	640,585	916,488	744,074
Total Equity	603,661	2,079,464	2,366,222	3,577,805	4,354,909	4,899,630
Return on equity	0.4049	0.1519	0.1695	0.1790	0.2104	0.1519

4.2.2.3. I&M Holdings Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Net profit	35,402,074	35,626,833	48,420,263	736,527,716
Total Equity	288,054,308	301,968,661	327,476,920	17,967,304,227
Return on equity	0.1229	0.1180	0.1479	0.0410

4.2.2.4. Sameer Africa Limited

	Pre-merger period			Post-merger period
	Shs '000	Shs '000	Shs '000	Shs '000
	2010	2011	2012	2013
Net profit	24,746	81,646	163,013	500,385
Total Equity	1,558,608	1,553,200	2,933,172	3,136,800
Return on equity	0.0159	0.0526	0.0556	0.1595