*IOSR Journal of Economics and Finance (IOSR-JEF)*
*e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 11, Issue 1 Ser. II (Jan – Feb 2020), PP 24-32*
*www.iosrjournals.org*

# Effect of Mergers and Acquisition on Shareholders Wealth of Listed Firms at Nairobi Securities Exchange, Kenya

Oirere David Arasa
*(MBA, Kenyatta University, Kenya;*
*Ministry of Interior and Coordination of National Government, Directorate of Immigration Services, Kenya. P.o Box 30191-00100 Nairobi, Kenya).*

**Abstract**: *Mergers and acquisition have emerged over time as focus keeps on changing from time to time to match with the market needs. However, it is not clear whether this corporate acquisitions create value or not, and if so, how the value shared among the parties involved. It is on this basis that the study analyzed the effect of mergers and acquisition on shareholders wealth of listed firms in Nairobi Securities Exchange in Kenya to determining its effect on shareholder's wealth. The study examined changes in price, firms' characteristics, market variables and industry variables of these listed firms on how they influence shareholders' wealth, because these changes represent market participants, beliefs about the value created by the merger and how this value will be divided between the target and acquiring firm's shareholders. All the firms that were engaged in mergers and acquisition between 1997 and 2014, listed on the NSE that had engaged in merger were Fifteen (15) but data was limited to six firms which were listed during bidding period. While data for the other nine (9) firms could not be accessible as they were not active during bidding, hence census was appropriate for this study to collect information. Event study Methodology was used to test the effect of an anticipated new corporate event that is merger or acquisition on shareholders' wealth where observation was made on 11 day window surrounding the announcements dates. Data was collected from secondary sources where, six firms were analyzed by use of event study market model which employed linear time series model to estimate expected returns and residuals tested to determine whether or not merger events provide positive or negative returns to the shareholders. It also provided a basis for examining the issue of whether or not shareholder wealth will be enhanced by mergers. The study found that Firm's mergers announcement had no influence on the valuation of shares in the secondary market; announcements had no significant effect on the total cumulated return for shareholders. Study results indicate that the share price had not exhibited significant changes over the 11-days event windows implying that there were no significant relationships in the values of shares around the merger events. Hence, the study concludes that past Kenyan firms M&A's were not wealth creating projects for shareholders of both the bidding entity and the combined entity. The study findings concur with previous studies conducted at the NSE which had found that a majority of the companies' stock returns did not experience a significant reaction to merger announcement which is not typical of stock markets in developing countries.*

***Key Words:*** *Mergers, Acquisition, Positioning, Market access, Gap filling and Nairobi Securities Exchange and Shareholders wealth.*

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Date of Submission: 08-01-2020 Date of Acceptance: 23-01-2020

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## I. Introduction and Background

Mergers and Acquisitions (M&A) are one of the routes that firms are using to achieve required capacities and resources in an effort to increase their earning capacity. According to Piaskoki and Finkelstein, (2004), M&As bring operational efficiencies which may arise from economies of scale, production economies of scope, consumption economies of scope, improved resource allocation like moving to an alternatively less costly production technology, improved use of information and expertise, a more effective combination of assets and improvements in the use of brand name capital. They create corporate synergies which may result in more efficient management, improved production techniques and exploitation of increased market power.

In Kenya, recent corporate merger and acquisition activities witnessed are a sign that companies are increasingly accepting this takeover option as a means towards developing their corporate strategies either in the country or in the industry. Besides, the move towards regional integration, it has indeed sparked a flurry of cross regional expansion which has seen various companies not only use cross-listing across various markets as a means of increasing regional presence but also as a way marked to increase regional acquisitions and buyouts (Inoti, Onyuma and Muiru, 2014). Likewise, Cartwright and Schoenberg, (2006), state that in 2004, over 30,000 mergers and acquisitions (M&A) were completed around the world which trickled down to one transaction every 18 minutes. These were valued to $1,900 billion, which exceeded the Gross Domestic Product (GDP) of many large countries. In these volatile times, amid the current global financial crisis where throngs of firms decrease in value as their share prices dwindle, corporations may capitalize on this aforementioned fact and raise the M&A rate even further.

Healy, Palepu and Ruback ,(1992), examined post-acquisition performance for 50 largest U.S. mergers between 1979 and 1984 by measuring cash flow performance, and concluded that operating performance of merging firms improved significantly following acquisitions, when compared to their respective industries. Lubatkin, (1983), reviewed the findings of studies that investigated either directly or indirectly the question, "Do mergers provide real benefits to the combined firm?" The review suggested that combined firms might benefit from merging because of technical, pecuniary and diversification synergies. Ghosh, (2001), examined the question of whether operating cash flow performance improves after corporate acquisitions, using a design that accounted for superior pre-acquisition performance, and the results showed that merging firms did not show evidence of improvements in the operating performance post-merger and acquisition.

Financial researchers also view Mergers and acquisition as a key factor of a corporate body for economic growth strategy. They purpose that growing companies basically have two choices: to expand internally, known as organic growth, or expand externally by a merger or acquisition (M&A), also called inorganic growth (Bild, 1998). According to Hitt, (2001) the later mentioned approach has clearly become one of the most important strategies in the new millennium. Usually when a company matures, the growth will fall and the company will lose market shares to its competitor (Dagens Industries, 2003). It is through a merger or acquisition that the company can for example penetrate a new market, knowledge and technology (Bild , 1998).

## II. Research Problem

Corporate acquisition according to financial researchers is classified as part of the market for corporate control. This is because whenever announcements of successful mergers are made to the public, it is generally proved to be beneficial for the shareholders. By employing the combined efforts, the company can reduce its cost and can maximize its profitability, Moreover by the combination of the two competitors the company could achieve more market value and increase market shares (Gerdsdorff and Bacon, 2009).However, a number of empirical studies that have been conducted in Kenya have given mixed results. Loderer and Martin (1992) studied 304 mergers and 155 acquisitions that took place between 1965 and 1986 and observed negative but insignificant abnormal returns after the mergers and positive but insignificant abnormal return for the acquisition. Katuu (2003), conducted a survey on factors considered important for the mergers and acquisition by selected Kenyan firms and found out that mergers and acquisition have insignificant effect on shareholders wealth. Muya (2006) carried out research on experiences of mergers and acquisition and found out that mergers do not add significant value to the merging firms. However, the study sought to establish the effect of mergers and acquisition on financial performance of listed firms where the researcher sought to investigated and establish why the financial performance of the firm is not increased since synergy created in the merger or acquisition should translate to financial gain of the new entity.

According to Piaskoki and Finkelstein,(2004), M&A bring operational efficiency arising from economies, of scale, production and consumption, improved resource allocation improved use of information and expertise effective combination of assets and improved use brand name capital. Yook, (2004), Yeh and Hoshino, (2002), King et el, (200), Ismail, Abou and Annis, (2010), found out that mergers and acquisition are capable of having adverse effect on shareholders wealth. Katuu, (2003), found that mergers and acquisition have insignificant effect on shareholders wealth. Kathitu et el, (2012,) found that mergers and acquisition do add value to shareholders wealth. Due to these mixed results the researcher therefore analyzed the price changes, unique firms' characteristic, and firms' efficiency to establish the value created by mergers and acquisition and how this value is shared by shareholders. A firm should be acquired if it generates a positive NPV to the shareholders of the acquiring firm. This hypothesis is based on the claim that the newly formed firm enjoys synergy, is highly capitalized, expanded infrastructure, wider market share and a pool of technically equipped workforce. To address the above question, the study aimed to measure the stock performance prior and post M&A deal that includes all mergers and acquisitions of listed firms in Nairobi securities exchange in Kenya.

**Objectives of the Study**

The specific objectives of the study were:

i. To determine the differences or significance in price variations before and after mergers and acquisitions among listed firms at the NSE, Kenya.
ii. To evaluate the effect of unique firm's characteristics on shareholders wealth on firms listed at NSE, Kenya during mergers and acquisitions,
iii. To establish the extent to which firm's efficiency affect shareholders' wealth of listed firms at the NSE, Kenya.

**The study formulated and tested three null hypotheses in view of each specific objective at a significance level of 0.05.**

## III. Significance of the Study

The study was intended to be of significant value addition to various institutions and individuals such as Capital Market Authority, NSE institutions, Investors, Researchers among others. The CMA would benefit from the study through its independent and empirical disseminations and to justify legislative actions to protect the general public and Shareholders from exploitative maneuvers.NSE players such as Investment Banks would benefit through understanding the factors associated with mergers and acquisitions and the challenges therein and how to overcome them, thus enabling them to make sound judgment decision that would see organization survive in the market. Corporate and individual would benefit through informed decision making based on factual M&A situations, thus enabling them make better choices in selection of efficient portfolio with a positive net present value and that which would work towards achieving their investment goals. Finally the study would be of help to researchers for further research in M&As or other related fields of knowledge for the purpose of expanding knowledge**.**

## IV. Review of Literature

The study reviewed various literatures based on the study's thematic focus as explained below:

**a. Theoretical Review**

In order to be relevant in today's business world corporate mergers and acquisitions are crucial strategies that need to be implemented. Various theories that lead to mergers and acquisitions revolve around corporate control theory. This study was therefore guided by four theories as follows:

Financial synergy theory which argues that with asymmetric information in financial markets a firm with insufficient liquid assets or financial slack may not undertake all valuable investment opportunities, (Myers & Majluf,1984).This theory predicts that firms in financial distress but good investment opportunities are more likely to be involved in M&A activities, either as targets or as acquirers. Kinyua, (2011), indicted that mergers and acquisition and financial performance were positively correlated with financial performance after the merger. Muya, (2006), and Kithitu,et el, (2012 found out that merger do add value on shareholders wealth.

Agency costs theory of M&A contends that take-over activity often result from acquiring firm managers acting in their self-interests rather than in the interest of the firm's owners (Shleifer &Vishny, 1989). Mergers and Acquisition are primarily motivated by managerial self interest; they are unlikely to generate operating or financial synergies that lead to improvements in efficiency or productivity. Agency problem leads some companies to undertake mergers and acquisition as the managers decide to increase their benefits at the expense of shareholders (Berkovitech,1993).The motive of agency and free cash flow destroys the value of the shareholders (Jensen,1998). However it should be noted that agency problem increase competition but competition by itself can not eliminate it. When a company undergoes a merger or acquisition there is a like hood that the price of the share would change.

Because managers have their personal interest of increasing their benefit they drive organization to M&A. However, Managerial hubris theory argues that even if managers try to maximize the value of the firm they might over estimate the value of what they buy because of hubris (Roll 1986).Thus a transaction that is believed to benefit the acquirer could simply be a poor strategic decision where benefits are overestimated or costs are underestimated. The potential economic benefits of mergers and acquisition are changes that increase value that would not have been made in the absence of a change in control (Parzarkis et el, 2006).According to Saboo and Gopi, (2000), Mergers and Acquisition are used in improving company's competitiveness and gaining competitive advantage over other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies and capitalizing on economies of scale. The motive of mergers and acquisition is to improve revenues and profitability, faster growth in scale and quicker time to market, and acquisition of new technology or competence.

Industry shock theory argue that corporate takeover are the least costly means for an industry to restructure in response to the changes brought about by economic shocks but that post takeover performance of firms should not necessarily improve compared to pre-shock benchmark (Mitchell and Mulherin, 1996). Mergers and Acquisition activities within an industry are not merely firm's specific phenomena but the result of the adaptation of industry structure to changing economic environment or "industry shocks" such as changes in regulation, changes in inputs, increased foreign or domestic competition or innovations in technology. Malik.(2004), established that there is a positive correlation between EVA and EPS used to predict future cash flows, for the comparison of companies 'performance to establish the impact of issuing common stocks'. According to Brealey,(2006), reduction of average unit cost of production as a result of reduction of increasing output is what is referred as economies of scale. As the market share increase, the force of suppliers and buyers reduces. Companies are able to overcome price wars as well utilizing technological advancements (Pandey, 2006).

The above theories explain how shareholders wealth is influenced in one way or another by various variables under play such as unique firm's characteristics, price variations and market characteristics as key indicators of this study in analyzing effect on shareholders wealth. Shareholders value is affected by different reasons behind mergers and acquisitions which include; achievement of economies of scale and increasing of market share. However some researchers have investigated cross-border mergers and acquisitions and, again, the results are mixed but predominantly negative. Black, Carnes and Jandik (2001) document significant negative returns to US bidders during the three and five years following cross-border mergers. Gugler, Mueller, Yurtoglu and Zulehner (2003) also demonstrate that cross border acquisitions create a significant decrease in the market value of the acquiring firm over a five year post acquisition period. In contrast, Conn, Cosh, Guest and Hughes (2001) do not find evidence of post-acquisition negative returns for cross-border acquisitions.

**b. Empirical Review**

In today's corporate world Mergers and Acquisition (M&As) is becoming the reality for almost all kinds of companies as the execution of cross-border. M&A transactions help in boosting the value, efficiency, profitability and synergy of the business (International Business report, 2008). Gerdsorff and Bacon (2008) examined efficiency of the market with respect to the announcement of the mergers and acquisitions by US Company on stock prices risk adjusted rate of return using twenty recent mergers as of 31st Aug 2007. Whenever the announcement of successful mergers is made to the public is generally proved to be beneficial for the shareholders. By employing the combined efforts company could reduce its cost and can maximize its profitability. Moreover by the combination of the two competitors the company could achieve more market power and increased market shares, Gersdorff and Bacon, (2009).

Shareholders value is affected by different reasons behind mergers and acquisitions, which include achievement of economies of scale and increasing of market share. According to Brealey (200), reduction of average unit cost of production as result of reduction increasing output is what is referred to as economies of scale. As the market share increases, the force of the suppliers and buyers reduces. Companies are able to overcome price wars as well as utilizing technological advancements (Pandey, 2006). Agency problem leads some companies to undertake mergers and acquisition as the manager decides to increase their profits at the expense of those of the shareholders (Berkovitch, 1993).The agency problem increase competition but competition by itself can not eliminate it. The motive of agency and free cash flow destroys the value of shareholders (Jensen, 1998).

Murithi (2010) conducted a study on effects of mergers and acquisition on financial performance of companies in kenya between (2003-2007).He covered all companies that had undergone mergers and acquisition during the period and found out that mergers increase the market share of companies of the firms entered into new geographical areas, diversify business growth, acquires states of the art and technology, comply with legislation, acquire brand loyalty and overcome entry barriers. The study established that there exist positive relationship between mergers and acquisition and predictor factors which are market share, profitability of the company, diversification of risk, achievement of synergy and return on investment.

According to Pandey (2008) on his book entitled financial management asserts that a combination of two or more firms may result into cost reduction due to operating economies. A combined firm may avoid or reduce overlapping functions and facilities. Murithi (2010) found that that mergers and acquisitions increase the market share of companies. The study also established that there exist positive relationships between merger and acquisition and predictor factors which are market share, profitability of the company, diversification of risk, achievement of synergy and return on investment.

Mwancha (2012) did a study on the information content of mergers and acquisitions announcement for companies quoted at the Nairobi Securities Exchange. The study found that there was weak relationship between company returns for the period before and after the mergers and acquisition announcements.

Further research was done by Kinyua (2011) where he conducted a research on the information of mergers and acquisitions on financial performance of oil companies in Kenya. This study took on a causal research design. In this study the target population was the oil companies in Kenya with keen interest on those that have gone through mergers and acquisition. A Chi-Square test was used to establish the relationship between pre and post merger/acquisition and linear regression model enhanced the analyses of the effects of merger and acquisition on financial performance. According to the model, mergers and acquisition, respondent opinion about M & A, and financial performance were positively correlated with financial performance after merger. A unit increase in mergers and acquisition would lead to increase in application of financial performance by factor of 0.166. This was a clear indication of the firms performing better financially after the resulting merger and/or acquisition.

## V. Research Methodology

The research design of this study was Event Study Methodology (ESM) which is a method for testing the impact that, an unanticipated or new corporate event such as merger and acquisition has on the wealth of shareholders of the firm (Fama, 1969). The study adopted Mackinlay (1997) suggestion, which highlight ESM as involving identifying the event of interest, defining the event date, event windows, estimation period, choosing a model: - market model and market adjusted model for calculating abnormal returns, aggregation of abnormal returns, applying statistical tests and testing significance of results and drawing conclusions based on the significance and overall findings.

In this study, the population constituted all the firms that had undergone mergers and acquisition between 1997 and 2014 and were listed in the NSE. Mugenda (2003) define a population as a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. There were 15 companies listed on the NSE that engaged in merger and acquisition during the period.

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda, 1999). This subgroup is carefully selected so as to be representative of the whole population with the relevant characteristics. In this study, purposive sampling was adopted to select six listed firms which were active during M&A bidding. The other firms were excluded from the study because they were either delisted during the M&A process (five firms) or exhibited irregular transactions during the 11 window period (four firms). The study made use of secondary data from financial reports that were stock price (Current and previous day close share price) as well as values of market Index that were obtained from the selected firms.

## VI. Data Analysis and Findings

In order to find out the impact of M & As on stock market the researcher used the Standard Risk Adjusted Event study Methodology. Standard Risk Adjusted Event Study methodology was used and the following steps were undertaken;

The historical stock price of the sample companies and NSE share index for the event study duration of -165 to+15 days (with days -15 to days +15 defined as the event period and the day of announcement of Merger and Acquisitions used in post period.

Then, holding period return of companies (R) and the corresponding NSE share index (Rm) for each day in this study was calculated using the formula:

$$R = \frac{(\text{Current Day Close Price} - \text{Previous Day Close Price}) \times 100}{\text{Previous Day Close Price}}$$

$$Rm = \frac{(\text{Current Day Market Close Price} - \text{Previous Day Market Close Price}) \times 100}{\text{Previous Day Market Close Price}}$$

R= Current Daily Return

Rm= Current Daily Market Return

A regression analysis was performed using the actual daily return of each firm (R) as dependent variable and the corresponding NSE share index (Rm) as independent variable over the pre-event period (days -165 to -15 or prior to the event period of days -15 to +15) to obtain the intercept alpha and standardized beta for each sample bank separately.

For these studies, in order to get the normal expected return, the Risk-Adjusted Method was used. The expected return of each stock for each day during the event period from (day -15 to +15) was calculated as: E(R) = Alpha + Beta (Rm), where Rm is the return on the market. i.e. NSE share index

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Then, the Excess Return (ER) was calculated as:

ER= the Actual Return(R) – Expected Return E(R)

.Average excess return (AER) was calculated from days -15 to days +15 by simply averaging of all excess returns for all the companies for given day.

AER= Sum of all Excess Return for given day/n

Where n= number of sample companies i.e. 6 in this case for the study.

Cumulative average excess return (CAER) was calculated by adding AER for each day from -15 to +15.

Graphs of AER and CAER were plotted for the event period.

The study also established the link between pre-and post-merger or acquisition performance by using chi-square. The study also used linear regression model in analyzing the effect of merger and acquisition on the financial performance of companies listed in at the NSE. The regression model was of the form: $Y = \beta o + \beta 1\ X1 + \beta 2X2 \ldots.. + \varepsilon$ Whereby Y is the independent variables, $\beta 0$ is the regression constant or Y intercepts, $\beta 1 \ldots \beta x$ are the coefficients of the regression model and $\varepsilon$ is the error term which is signified by the model's significance. The basis of the model is to help in measuring financial performance by exploring the contribution of various components such as revenue and liquidity that affects measures of financial performances which include return of equity, return on investment and return on assets. Given that merger and acquisition, as explained in the previous chapters, put companies in a good stead for sales turnover through better bargaining power and market share; mergers and acquisitions affects a company's Return on Equity (ROE) and liquidity state. From the foregoing, the regression model was $ROE = \beta o + \beta 1 Sales + \beta 2 Liquidity + \varepsilon$

Y was the Return on Equity (ROE), Sales turnover and liquidity which was computed as the ratio of Liability to assets.

**a. Firm-Specific Characteristics**

The sample of the study comprised of six firms that were listed at the time of bidding for merger. These included Barclays Bank of Kenya (BBK); Kenya Commercial Bank (KCB); NIC Bank (NIC); Standard Chartered Bank (SCBK), Total Kenya and KenolKobil. Firms that had not listed at the time of merging or acquisition were not included in the sample since the market value of their shares could not be explicitly established. This subsection below presents findings on the firms' merger-profiling as well as the market reactions during the 11-day event window.

**b. Effect of Mergers and Acquisitions on Shareholders' Wealth**

**Effect on Stock Valuation**

Table 4.0 presents t-test statistics that were used to determine whether the changes in MAAR (hence market valuation of shares), were significantly different within the 5 days preceding the event date as well as the 5 days after the event date.

**Table 4.0:** T-test for changes in MAAR after Event Date

| Firm | Mean Change in MAAR over T-5 days | Mean Change in MAAR over T+5 days | T-statistic | Decision |
|---|---|---|---|---|
| NIC | 0.0011516928834 | 0.0060461124948 | $t_8 = -0.995$ | Accept $H_0$ |
| BBK | 0.0038213878066 | 0.0001124184998 | $t_8 = 1.241$ | Accept $H_0$ |
| KCB | 0.0228268449738 | 0.0070107980257 | $t_8 = -0.498$ | Accept $H_0$ |
| Total Kenya | 0.0048515447685 | -0.00040355354 | $t_8 = -0.352$ | Accept $H_0$ |
| SCBK | 0.0033353146968 | 0.0034845889456 | $t_8 = -0.027$ | Accept $H_0$ |
| Kenol Kobil | 0.0328265654 | 0.0189479423 | $t_8 = 1.345$ | Accept $H_0$ |

$H_0$: There is no significant difference in valuation of shares before and after the event date. P is significance level, at 0.01.

From table 4.0 above shows results that all the p values of the six firms were greater than 0.01 indicating that the null hypotheses were accepted 95% and 99% levels of confidence. The P-values which are (smallest values of probability at which the null hypothesis is rejected) were greater than the critical level of the test of 1% (0.01). Hence the null hypotheses were accepted based on this criterion and the alternate rejected. These results reveals that the share prices had not exhibited significant changes over the 11-days event windows implying that there were no significant relationships in the values of shares around the merger events. However Kenolkobil exhibited the highest changes in MAAR as compared to others but still did not have any significant impact on valuation of share before and after the event date.

**a. Effect on Investors' Total Return**

The second measure used was cumulative abnormal returns (CAR), which measured the investors' total return over a period over the 11-days event windows for each firm. The changes in cumulated abnormal return were tested using t-test against the value of zero, to find out whether or not there was significant gain in the total investors' returns over the sample event windows. The findings are presented in Table 4.1 below.

**Table 4.1:** Average Market Adjusted and Cumulative Abnormal Returns

| Firm | MAARt (t = -5 days | MAARt (t = day 0) | MAARt (t = +5 days) | CARt 11 days | T-statistic | Decision |
|---|---|---|---|---|---|---|
| NIC | -0.022213 | 0.032043 | 0.006764 | 0.011425823 | t=-0.497 | AcceptH0 |
| BBK | 0.008003 | 0.0028170 | 0.004580 | 0.021385120 | t=1.708 | AcceptH0 |
| KCB | -0.023518 | -0.004315 | -0.003217 | 0.082299100 | t=-1.208 | AcceptH0 |
| Total Kenya | -0.034307 | 0.0061422 | 0.0000500 | 0.014933451 | t=-1.308 | AcceptH0 |
| SCBK | 0.003546 | -0.001435 | 0.005985 | 0.032663979 | t=1.900 | AcceptH0 |
| Kenol Kobil | 0.074966 | -0.00071 | -0.00049 | 0.085047 | T=1.98 | AcceptH0 |

Results above shows that all the p values of the six sampled firms were greater than 0.01 showing no relationships between variables thus accepting the null hypothesis CARs over the 11-day event windows . The findings go in line with findings in Table 4.0 above that showed that the share valuation over the event windows had not significantly changed. It therefore is revealed that shareholders‟ total cumulated return had not significantly changed due to announcement (or approval) of a takeover bid.

Generally investors will view the announcement as something positive. This study has empirically examined effect of mergers and acquisition of listed firms with regards to the announcement dates. Moreover, by the combination of two competitors the company could achieve more market power and increased market shares (Gersdorff & Bacon, 2009). After testing, the study shows that the expectations of share holders of sample companies to avail the excess return can actually be realized with public information and they are able to earn abnormal return either before or after the announcement of M&A.

The results indicates that the effect of mergers and acquisitions to the shareholders wealth is significance since after the announcement of mergers and acquisitions the shareholders wealth for the selected companies tend to increase for a shorter period before the price reduce to the trend level it was before the announcement date. This has been shown by the increase in trading activity before and after the mergers and acquisitions.

The finding shows that on days immediately around the mergers and acquisitions, the trading activity was high. The trading activity is seen to increase from around 5 days after the mergers and acquisitions. Merger and Acquisition is the useful tool for growth and expansion in most companies. It is helpful for survival of weak firms by merging into organization.

Many M&A deals allow the acquirer to eliminate future competition and gain a larger market share in its product's market. The downside of this is that a large premium is usually required to convince the target company's shareholders to accept the offer. It is not uncommon for the acquiring company's shareholders to sell their shares and push the price lower in response to the company paying too much for the target company.

## VII. Summary of Findings

The aim of the study was to carry out analysis on the effect of mergers and acquisitions on shareholders wealth of listed firms at Nairobi securities exchange in Kenya. The study assessed whether or not the bidding six firms listed in NSE realized capital gains over the event windows and whether or not the markets exhibited a bullish or a bearish trend over the event windows. It was observed that prior to merger and acquisition announcement and especially five [-5; 0], days before, the shareholders of the bidders received considerable and significant positive cumulative abnormal returns (CARs). Later the researcher carried out analysis on the subject matter from two perspectives

First was to explore the effect of mergers and acquisitions on shares valuation and secondly was the effect of mergers and acquisitions on total investors return. The findings from both approaches indicate that the sampled mergers had no significant effect on changes in the bidding firms share prices and the changes in total investors' returns. The study has established that the share prices of the sampled firms did not exhibit significant changes within an 11-day event window. The results imply that the 6 firms M&A were not wealth creating projects for the shareholders of both the bidding entity and the combined entity. The findings are in line Barasa (2008) which had sought to evaluate market efficiency in relation to information content of merger announcement by companies quoted on the NSE.

The study found that most companies' stock returns did not experience a significant reaction to merger announcement which is not typical of stock markets in developing countries. The main conclusions drawn from this study are that there is no relationship between price reaction and the merger announcements. Some reactions to the merger announcements were positive while some were not. The results revealed that the shareholders total cumulated return had not significantly changed due to announcement (or approval) of a takeover bid.

## VIII. Conclusions

Based on the study findings, it is concluded that mergers and acquisitions, and announcements therein had no relationship on the valuation of shares in the secondary market. Also the announcements have no significant effect on the total cumulated return for shareholders. This leads to the conclusion that previous Kenyan firms M&A's were not wealth creating projects for the shareholders of both the bidding entity and the combined entity. The findings of the study concur with past studies conducted at the NSE which had shown that a majority of the companies' stock returns did not experience a significant reaction to merger announcement which is not typical of stock markets in developing countries. Therefore, the market reaction to M&A announcement should reflect the value of the expected benefit to each party from the merger. However, the purpose of event study in this research is to measure the abnormal share price changes around the announcement date as an indicator of the perceived economic effects of the merger.

## IX. Recommendations

From the findings policy makers need to come up with the right policy that will safeguard shareholders wealth as well as stakeholders in order to achieve maximum benefit, fund managers, have a responsibility to safeguard their masters wealth while the Nairobi Stock Exchange should focus on assisting firms meeting the market demands and supply in ethical ways and other stakeholders in financial services sectors to instill financial discipline and maximizing shareholders wealth and therefore they not to shy off or stop proposed company mergers in regards to the anticipated markets reaction but focus on how best they can maximize on the opportunity to maximize on return on investment.

These study recommends that firms should be careful and take due diligence when deciding to undergo merger and acquisition activity. Regulators ought to enforce full disclosure by the bidding firms on the reasons behind the impending takeovers since this could be the reason why the announcements did not trigger notable significant reactions. There is need for due diligence for any merger or acquisition to take over, if synergy is not realized in relation to financial gain for shareholders.

The objective of this study was to determine if mergers and acquisitions affect shareholder wealth in order to invest accordingly. In the sample of mergers studied, there is evidence that an investor should not worry about investing in firms that are planning to acquire another because the market fundamentals do not significantly change.

## X. Suggestions for Further Studies

This study was delimited to secondary data only from a sample of six firms whose shared were quoted in the NSE. This substantially leaves a huge chunk of knowledge out especially from those not quoted at the exchange and those in other market segments. A comprehensive study is therefore suggested to cover the other excluded firms so as to build a more inclusive generalization. In addition, primary studies are also recommended to capture expert ideals and opinions which are essential in diversifying the knowledge field.

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Oirere David Arasa, et.al. “Effect of Mergers and Acquisition on Shareholders Wealth of Listed Firms at Nairobi Securities Exchange, Kenya”. *IOSR Journal of Economics and Finance (IOSR-JEF)*, 11(1), 2020, pp. 24-32.