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**FINANCING METHODS AND THE ACQUIRER'S STOCK
PERFORMANCE OF NAIROBI SECURITIES EXCHANGE-LISTED
FIRMS**

ELSIE ATIENO

ADMISSION NUMBER. 142007

**A Research Thesis Submitted to the Strathmore University Business School in
Partial Fulfillment of the Degree of Master of Commerce at Strathmore
University.**



April 2025

DECLARATION

I so certify that my work has never been accepted as a degree submission by this university or any other university. To the best of my knowledge and belief, no previously published or written work has been included in the dissertation, with the exception of the cases when the dissertation itself contains the proper citation.

..... Elsie Atieno



..... EA

..... 20/04/2025

Approval

The dissertation of Elsie Atieno was reviewed and approved by the following:

Dr. David Mathuva

Strathmore Business School

Signature.....

Date.....



DEDICATION

To God, for His strength to carry me through and his unending graces, and to my mother, everything I am today because of your wisdom, leadership, and love. Thank you.



ACKNOWLEDGMENT

I would like to express my deepest gratitude and sincere admiration to my supervisor, Dr. David Mathuva, for his unwavering dedication, insightful guidance, and exceptional leadership throughout this study. I am also thankful to Dr. Injeni for his invaluable instruction on research methodology, which greatly enhanced my understanding and approach to this work. Special thanks go to my classmates, Esther Mbithi and Daphine Moraa, whose support and encouragement contributed significantly to the successful completion of this study.



ABSTRACT

The method of financing mergers and acquisitions is an important part of capital structure decisions. Mergers and acquisitions can either be cash-funded, equity-funded, or both. The purpose of this study was to examine the impact of financing methods on the stock performance of mergers and acquisitions (M&A) among firms listed on the Nairobi Securities Exchange (NSE). Specifically, the study aimed to assess how cash, equity, and mixed financing methods influence cumulative abnormal returns (CAR) following M&A announcements. Grounded in theories such as Agency Theory, Efficient market Hypothesis and Synergy Theory, the research explored the dynamics of capital structure decisions and their implications for shareholder value. The methodology employed included an event study approach, analyzing a sample of nine companies involved in M&A transactions between 2013 and 2020. Data was collected from the NSE and other public sources, and statistical analysis was conducted using SPSS and Excel. The findings revealed that firms utilizing equity and mixed financing methods generally produce statistically significant positive abnormal returns compared to those relying solely on cash financing. This suggests that market participants may perceive equity and mixed financing as more favorable due to potential synergies. The study concluded that the choice of financing method significantly affects stock performance in M&A contexts, emphasizing the importance of strategic decision-making for corporate financial managers and investors. The implications of these findings highlight the need for firms to carefully evaluate their financing options in M&A transactions to enhance shareholder value and optimize financial outcomes. The study is of significance to practitioners as it provides better evaluation of the impact of alternative financing options on valuation. The study revealed valuable insights into the impact of financing methods on the stock performance of NSE-listed companies but was limited by its reliance on secondary data's potential reporting biases, and a restricted time frame that may have excluded long-term trends and unaccounted external variables.

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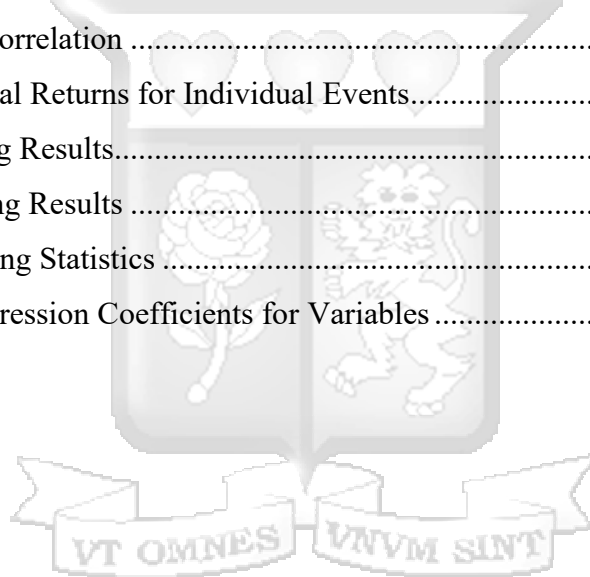
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ABBREVIATIONS AND ACRONYMS

AR	Abnormal Return
ARR	Average Abnormal Return
CAAR'S	Cumulative Average Abnormal Returns
CAR'S	Cumulative Abnormal Returns
CBK	Central Bank of Kenya
NSE	Nairobi Securities Exchange
M&A	Mergers and Acquisitions



DEFINITION OF TERMS

Mergers: A merger is defined as the combining of two or more corporations when only one corporation survives, and the acquiring company takes on the combined firm's assets and obligations (Gaughan, 2018).

Acquisitions: When one business buys all or a portion of another business's shares or assets, it's referred to as an acquisition (Economic Times, 2023).

Financial Performance: Financial performance shows how a company utilizes assets in the generation of revenues and thus gives direction to stakeholders in their decision-making (Baba & Nasieku, 2016; Mohsin et al., 2024).

Abnormal stock returns are the unexpected gains—or losses—that a stock or asset generates. The disparity between investors' actual and expected returns on an asset is known as abnormal returns. Typically predicted by the CAPM, or market model formula (Indrayono, 2021).

Mode of Financing/Payment Method: This refers to cash finance, equity financing, or mixed financing, which is a combination of the two (Chipeta & Nkiwane, 2020).

Stock performance is a metric used to assess a stock's potential to raise or lower shareholder wealth. Price volatility is a common way to gauge performance. The stock has strong performance when its price rises. On the other hand, a price drop indicates inadequate performance (Etale & Eze, 2019).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Stock returns or performance following mergers and acquisitions can serve as a metric for evaluating the financial implications of the transaction on either the acquiring company's or the target company's stock price (Aggarwal & Garg, 2019). The motivation to delve into the realm of stock performance following mergers and acquisitions is rooted in the profound influence these corporate activities exert on the economic landscape, as they often signal strategic shifts, influence investor confidence, and have the potential to reshape entire industries. By examining stock performance post-M&A, researchers and stakeholders gain critical insights into market perceptions, the effectiveness of corporate strategies, and the broader implications for financial markets and economic growth. As companies join forces or undergo structural changes, there is a crucial need to assess how these strategic decisions translate into financial outcomes (Siqueira et al., 2017).

One of the main subjects in the accounting and finance domains is the issue of economic institution mergers. This is particularly significant for all parties involved, especially shareholders, who consistently anticipate that the company's management will augment the value of their equity by boosting profits, either through internal initiatives or external business enhancements. Managers often pursue the objective of enhancing shareholder wealth through various strategic initiatives, one of which may include mergers or acquisitions when deemed viable (Ayoush et al., 2020). Over the past decade, global mergers and acquisitions (M&A) activity has demonstrated a notable upward trajectory, reflecting the growing use of M&A as a strategic tool for business growth, market expansion, and digital transformation. In 2021, the global M&A market reached an all-time high with over 62,000 deals valued at approximately US\$5.1 trillion—driven by strong demand for technology-based assets and pent-up deal-making activity from the COVID-19 pandemic slowdown (PwC, 2022). However, the motivations highlighted in these reports are largely strategic or operational, with limited emphasis on post-transaction financial performance or shareholder value creation.

Table 1.1 Global M&A Deal Value (2013–2022)

Year	Number of Deals	Deal Value (US\$ Trillion)
2013	37,500	2.5
2014	41,000	3.1
2015	44,000	3.9
2016	43,000	3.2
2017	47,000	3.5
2018	49,000	3.9
2019	50,000	3.7
2020	50,000	3.2
2021	62,000	5.1
2022	55,000	3.6

Source: PwC (2022), Bain & Co., and Statista

The robust surge in global M&A activity, particularly in 2021, underscores the growing reliance on mergers and acquisitions as a strategic tool for transformation and value creation. With over 62,000 deals valued at approximately US\$5.1 trillion, M&As have become central to corporate strategies aimed at driving growth, expanding market reach, and enhancing competitive advantage (PwC, 2022). However, while these trends illustrate the scale of deal-making, they offer limited insight into whether such transactions lead to tangible financial gains for the involved firms. This gap in understanding has prompted extensive research into the actual outcomes of M&As, specifically in terms of stock performance, profitability, and shareholder value generation.

Frederikslust et al. (2008) found that more than 52% of acquiring firms experienced an increase in share value following mergers, while 82% of target firms saw positive returns. Similarly, Gugler and Mueller (2003) revealed that while over half of mergers resulted in above-expected profits, a comparable proportion underperformed in sales, suggesting that factors like market power and operational efficiency played a crucial role in the outcomes.

Despite these positive findings, a problem and critical issue remains: the post-acquisition stock performance of some acquiring firms often fails to meet shareholder expectations, resulting in

value erosion. A decline in stock performance can significantly impact investor confidence, market capitalization, the cost of capital, and a firm's reputation in the financial markets. These negative repercussions may limit the company's ability to secure future capital, disrupt long-term strategic plans, and provoke shareholder dissatisfaction. In severe cases, poor post-M&A performance can lead to management changes, restructuring, or even litigation, highlighting the importance of understanding and predicting stock performance outcomes following mergers and acquisitions.

While some firms experience profitability and efficiency gains post-M&A, others encounter challenges or fluctuating results. For instance, Hroot (2016) found that mergers among Jordanian industrial enterprises led to insignificant performance improvements, emphasizing that the impact of M&As varies across industries. This issue is particularly pronounced in emerging markets, where the institutional environment can amplify the risks associated with M&A transactions. In the regional Sub-Saharan Africa, studies indicate mixed outcomes as well—some firms in South Africa and Nigeria reported post-merger gains, while others faced stagnant or negative returns. These discrepancies have often been attributed to challenges such as regulatory inefficiencies, limited synergies, or difficulties with financing (Njoroge, 2017; Aduda et al., 2015). Such regional studies underscore the importance of context-specific factors in determining M&A success, particularly in developing economies where market dynamics can differ significantly from those in more established economies.

Kenya, as part of the broader Sub-Saharan African context, reflects similar trends, with mixed results reported across various studies. Research by Rani et al. (2013) and Mitema (2014) found that some Kenyan firms experienced positive stock returns and profitability after M&As, while others reported value destruction (Safitri, 2019; Faisal & Basid, 2019). Some studies even suggest that no consistent relationship exists between M&A activity and financial performance (Fatima & Shehzad, 2014; Elshani & Nogales, 2020). This inconsistency further emphasizes that the effects of M&As are not universally predictable and are heavily influenced by country-specific, industry-specific, and firm-specific variables.

For capital providers, such as investors and lenders, the expectation from an M&A is value creation that justifies the risks they undertake. Equity investors assess value through stock returns, which reflect the performance of their investments over time (Otweyo, 2014). Stock returns encompass

both capital gains and dividend income, which together provide a comprehensive measure of the financial benefits to shareholders and serve as key indicators of a firm's financial health and market performance.

Mergers typically involve the combination of two companies into a single new entity to achieve strategic objectives such as economies of scale or expanded market reach (Junni & Teerikangas, 2019). Conversely, an acquisition involves one company taking control of another, typically by purchasing a majority of its shares or assets, without creating a new corporate entity (Ehrhardt & Brigham, 2016). The primary goal of both mergers and acquisitions is often to increase shareholder value by enhancing profitability, market power, and operational efficiencies. Loukianova et al. (2024) suggest that M&As are considered successful when the combined company's value exceeds the sum of its individual parts. However, the creation of value is not guaranteed, as outcomes are influenced by numerous factors, including financing methods, firm size, industry, merger type, and prevailing economic conditions.

Notably, the method of financing—whether cash, shares, or a mixed—has been identified as a significant determinant of both short-term market reactions and long-term post-merger performance (Aggarwal & Garg, 2019). The financing structure can influence shareholder perception, as it signals the financial health of the acquiring firm and its ability to generate future value. These variables underscore the complexity of M&A outcomes and the need for careful analysis of the factors driving stock performance post-transaction.

Given the increasing prevalence of M&A activity globally, regionally in Sub-Saharan Africa, and within Kenya's growing business environment, it is essential to investigate the specific factors that influence stock performance following these corporate manoeuvres. Understanding the dynamics of M&As in emerging markets is critical for investors, policymakers, and corporate leaders, as it can guide strategic decision-making, risk mitigation, and ultimately, enhance value creation in these transactions.

1.1.1 Mergers and Acquisition and Method of Financing

Mergers and acquisitions (M&A) are strategic corporate actions often aimed at enhancing growth, gaining competitive advantage, or increasing market share. One of the most critical considerations

in M&A transactions is the choice of financing method, typically involving cash, equity, or a combination of both (Gaughan, 2018). This decision significantly influences the outcome of the transaction and reflects the acquirer's financial strategy and market positioning. Theoretical models such as the pecking order theory (Myers & Majluf, 1984) suggest that firms prefer financing methods that reduce information asymmetry, influencing their inclination toward internal financing over equity issuance.

Cash payments offer immediate liquidity to the target's shareholders and reduce valuation risks linked to market fluctuations, making them a preferred method in cases demanding speed and simplicity (Bower & Gilbert, 2022). However, cash-financed deals—especially those funded through debt—can increase the acquiring firm's financial risk by raising leverage and interest obligations (Maksimovic, Phillips, & Yang, 2023). These transactions also have tax implications and may attract regulatory scrutiny, particularly in cross-border or competitive markets (Wessel, 2021).

Equity financing, on the other hand, allows the acquirer to conserve cash and maintain financial flexibility. It is often favored in strategic or high-value deals where future synergies are expected (Maksimovic et al., 2023). Despite its advantages, equity financing introduces dilution risks and is vulnerable to share price volatility, which may impact deal attractiveness and shareholder approval (Chatterjee & Sivadasan, 2022). Additionally, share-based transactions often require careful integration planning to align corporate cultures and governance structures.

Mixed payments, which involve both cash and stock, offer a balanced alternative that blends liquidity with strategic flexibility. This financing method is particularly popular in complex or high-stakes transactions where firms seek to mitigate valuation risks, accommodate tax considerations, and distribute deal-related risk (Maksimovic et al., 2023; Wessel, 2021). Acquirers may adjust the cash-to-stock ratio based on market conditions—for example, favoring stock when valuations are high—while maintaining cash elements to appeal to shareholders (Chatterjee & Sivadasan, 2022). Recent literature views mixed financing as a strategic signal of financial strength and long-term planning, particularly in volatile environments (Klitzka et al., 2021; Boone et al., 2014; Scheuering, 2014).

The financing method chosen for a M&A transaction is not just a structural detail; it carries implications for shareholder value, profitability, and operational efficiency (Yang et al., 2019). According to the free cash flow theory, companies with excess liquidity may pursue acquisitions that do not necessarily add value, indicating that cash-financed deals can either improve efficiency or lead to value destruction if not managed prudently. Conversely, equity financing may introduce information asymmetry, signaling to the market that the acquirer's shares might be overvalued—thus affecting investor confidence. In dynamic industries such as technology, equity payments may help align strategic goals between merging firms by managing valuation uncertainty and fostering collaboration (Yang et al., 2019).

Regionally, African markets—for example in countries such as Kenya—are experiencing a growing trend in M&A activities. Firms are increasingly turning to M&A as a strategic tool to enhance competitiveness and navigate local market challenges. According to Ernst & Young (2021), firms in the region are adopting diverse financing methods, including mixed payments, to optimize risk management and capitalize on market conditions. This approach is particularly relevant in sectors like banking, telecommunications, and energy, where firms are striving to achieve economies of scale and enhance their financial resilience.

In Kenya, firms listed on the Nairobi Securities Exchange (NSE) have increasingly pursued M&A activities in response to market competition and regulatory changes. Nyabakora et al. (2020) highlight that financing decisions are crucial in this context, as firms must navigate resource constraints and ensure sustainable growth while maximizing shareholder value. M&A transactions in Kenya often involve a mix of cash and equity to balance liquidity with long-term investment goals, mirroring global trends in financing methods.

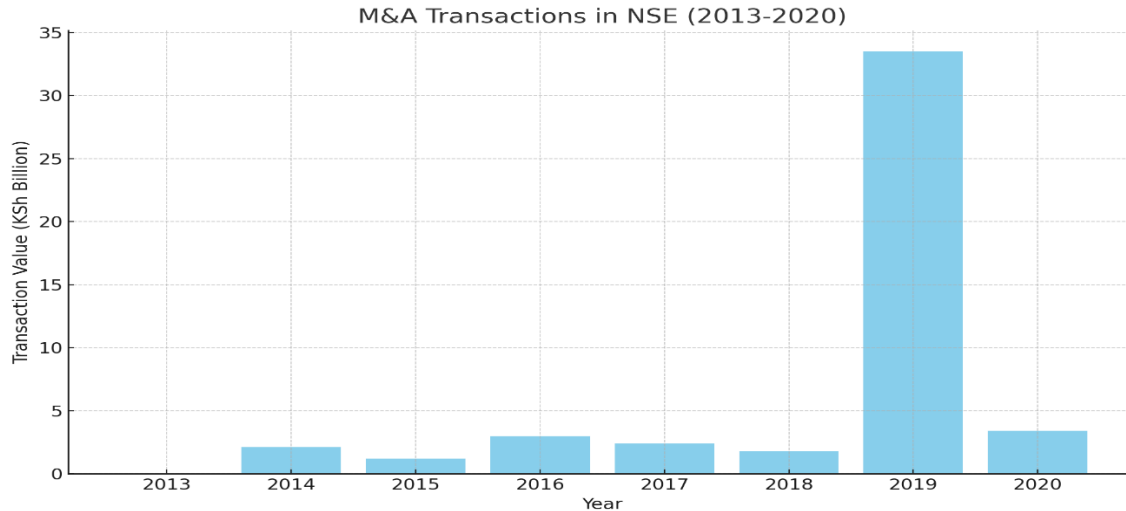
Despite substantial research in developed economies, there is limited empirical evidence from developing countries such as Kenya on how the method of financing impacts M&A outcomes. Rani et al. (2024) emphasize that M&A outcomes vary depending on the financing method used, underscoring the need for more localized research. As Kenyan firms continue to engage in M&A, understanding how financing choices affect performance, shareholder value, and operational efficiency is crucial to maximizing the strategic benefits of such transactions.

In summary, the conceptual framework guiding this study is rooted in the understanding that financing methods—whether cash, equity, or a mix—play a fundamental role in shaping the strategic and financial results of mergers and acquisitions. This framework provides the foundation for examining how financing decisions influence organizational performance, value creation, and successful corporate restructuring, particularly in the Kenyan and broader African context.

1.1.2 Mergers & Acquisitions in the Nairobi Stock Exchange (NSE)

Founded in 1954, the Nairobi Securities Stock Exchange (NSE) has been a prominent African exchange for sixty years, having been the listing platform for both debt and equity securities. The NSE is renowned for being a global trading platform for investors looking to acquire exposure to the economic growth of both Kenya and Africa (Arasa, 2020). The most recent NSE daily report states that there are 65 listed businesses on the NSE, representing 13 distinct industries. Over time, the Nairobi Securities Exchange has seen an increase in merger and acquisition activity. In May 2013, Dimension Data Holdings, a leading supplier of IT solutions and services, purchased Access Kenya. In 2009, Total Kenya purchased Chevron Kenya, and Al Futtaim purchased CMC Motors Limited.

The period between 2013 and 2020 was specifically selected for the study on mergers and acquisitions (M&A) to analyze their impact on stock performance for several compelling reasons. First, this timeframe coincides with a significant increase in M&A activities among firms listed on the Nairobi Securities Exchange (NSE), allowing for a relevant examination of contemporary market dynamics. For instance, in 2019, Kenya led East Africa in mergers and acquisitions (M&A) activity, recording 123 deals valued at approximately KSh 142.8 billion (about \$1.12 billion). This accounted for 76% of the total M&A deals in the region (Nagasha et al., 2017)



Source: Cytonn report (2023)

The study aimed to explore how different financing methods cash, equity, or a combination affect stock prices, making the analysis of recent transactions particularly pertinent. The chosen period also includes various economic conditions that could influence stock performance, providing a diverse context for examining how financing methods impact returns (Mitchel & Stafford, 2020). By employing event study methodology, the researchers could effectively assess cumulative abnormal returns (CAR) surrounding M&A announcements, thus aligning the study's objectives with methodological requirements (MacKinlay, 1997). Moreover, this timeframe allowed for an exploration of evolving financing strategies as firms increasingly sought innovative ways to structure their acquisitions. Ultimately, the selection of 2013 to 2020 was driven by the desire to capture significant M&A events, ensure data richness, and analyze the implications of financing decisions on shareholder value in a dynamic market environment.

1.2 Statement of the Problem

The imperative to comprehend the implications of different methods of financing on financial performance in mergers and acquisitions (M&A) has become increasingly urgent in today's dynamic and competitive business environment (Keenan et al., 2022). Although financing strategies such as cash, equity, or a combination thereof are central to the success of acquisitions, their impact on the acquirer's stock performance, particularly within the Nairobi Securities Exchange (NSE), remains underexplored. This insufficient understanding poses a significant problem, as corporations, shareholders, and policymakers may make suboptimal financing

decisions that result in misallocation of capital, reduced shareholder value, financial instability, and ultimately failure to realize expected post-acquisition synergies.

Acquisitions are a widely employed strategic tool for expansion (Hossain, 2021), yet the precise impact of different financing strategies on the acquirer's stock price performance on the NSE remains ambiguous. According to reports by the Capital Markets Authority (CMA, 2022) and the Nairobi Securities Exchange (NSE, 2021), several firms that have undergone acquisitions have recorded inconsistent or declining stock performance following acquisition announcements. For instance, CMA's 2022 Annual Report highlighted that over 40% of firms involved in acquisition deals between 2017 and 2021 experienced post-acquisition share price declines. Such underperformance not only questions the effectiveness of financing strategies employed but also signals a potential crisis in value creation for shareholders in the Kenyan market.

Existing empirical studies predominantly focus on developed markets with mature financial systems and regulatory frameworks (Boateng et al., 2017; Gugler & Mueller, 2003; Fatima & Shehzad, 2014), limiting their applicability to emerging economies like Kenya. Furthermore, while microeconomic studies in Kenya and similar markets have examined firm-level profitability post-M&A, they often overlook how financing methods specifically influence stock market performance. The available findings also remain inconclusive. Some studies (Ibeji, 2015; Ombaka & Jangongo, 2018; Mwanza, 2016; Lulu et al., 2017) suggest positive effects, while others (Safitri, 2019; Faisal & Basid, 2019; Oirere, 2020) report negative or no significant stock market reaction to acquisition announcements.

These inconsistencies reflect contextual, conceptual, and methodological gaps in the literature. Contextually, many studies are anchored in foreign market dynamics that may not reflect the realities of Kenya's emerging capital market. Conceptually, a narrow focus on profitability has limited our understanding of capital market responses, while methodologically, variations in data periods, metrics, and analysis techniques contribute to mixed findings. As M&As continue to be among the preferred strategic option for Kenyan firms, the absence of localized, empirical evidence on the effectiveness of financing methods in driving stock performance represents a critical knowledge gap. Therefore, this study seeks to examine the relationship between financing strategies (cash, share, and mixed) and the stock performance of acquiring firms listed on the NSE,

offering much-needed insights to guide strategic, regulatory, and investment decisions in Kenya's financial landscape.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study was to investigate the financing methods and their effect on the stock performance of NSE -listed companies.

1.3.2 Specific Objectives

- (i) To establish the influence of cash financing on the stock returns of mergers and acquisitions.
- (ii) To establish the influence of share financing on the stock return of mergers and acquisitions.
- (iii) To establish the influence of mixed financing on the stock returns of mergers and acquisitions.

1.4 Research Questions

- (i) What is the influence of cash financing on the stock returns of mergers and acquisitions?
- (ii) What is the influence of share financing on the stock returns of mergers and acquisitions?
- (iii) What is the influence of mixed financing on the stock returns of mergers and acquisitions?

1.5 Scope of the Study

The study focuses on the relationship between financing methods in mergers and acquisitions (M&A) and their impact on stock performance, specifically within firms listed on the Nairobi Securities Exchange (NSE). It examines three primary financing methods: cash, shares, and mixed financing, analyzing how these methods influence cumulative abnormal returns (CAR) following M&A announcements. The population of the study is all the companies, The study adopted a census sampling technique of nine companies involved in M&A transactions between 2013 and 2020, utilizing event study methodology to assess market reactions and performance outcomes. The financial statements of these companies were used in this study, in addition, the researcher acquired the data on market trading share prices from the Nairobi Securities Exchange.

1.6 Significance of the Study

This study is significant to various stakeholders, with its relevance aligning closely with identified theoretical, methodological, managerial, and policy gaps.

1.6.1 Academicians

From a theoretical standpoint, this study provides a foundation for further academic inquiry into the relationship between financing methods and firm performance in M&A transactions, particularly within emerging markets like Kenya. It highlights underexplored areas, especially regarding stock performance impacts, thereby helping scholars identify research gaps and extend comparative studies across domestic and cross-border contexts.

1.6.2 Management

Managerially, the findings offer valuable insights for organizational leaders, who act as agents of shareholders in making informed decisions on financing strategies for mergers and acquisitions. Understanding the interaction between financing mode (cash, stock, or mixed) and post-acquisition performance equips managers with practical knowledge to choose financing structures that align with shareholder wealth maximization and strategic growth.

1.6.3 Shareholders

For shareholders, the study sheds light on how financing decisions in M&A transactions influence firm value. With better knowledge of these dynamics, shareholders can evaluate whether such strategic moves are beneficial to their wealth, thereby supporting more rational investment and voting decisions.

1.6.4 Government

From a policy perspective, improved firm performance through well-financed M&As contributes to higher tax revenues, job creation, and GDP growth. The findings can support the formulation of policies that encourage sustainable corporate consolidation and investor confidence, which in turn may stimulate broader economic development.

1.6.5 Regulators

Methodologically, the study provides empirical evidence that can inform regulatory reviews and frameworks. Institutions such as the Competition Authority of Kenya (CAK) can use the findings

to refine approval and monitoring mechanisms, ensuring that M&A activities are not only compliant but also economically beneficial in the long run

1.7 Chapter Summary

The chapter introduced the study by giving a background to the existing problem from the global, regional and local perspectives. Further the chapter has discussed the problem statement which highlighted the current problem the study entailed to fill. The chapter also outlined the research objectives and research questions to be answered by the study and the scope of the study which included the geographical scope time scope and population scope of the study. The chapter then highlighted the significance of the study to different stakeholders who are expected to benefit from its findings. The next chapter will review existing literature which underpins the study.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

There are subsections within this chapter. The role of the financing method in mergers and acquisitions is covered in the first section, the theoretical framework is covered in the second, and independent and dummy factors and their effects on dependent variables are covered in the third section. The conceptual framework follows this. As a result, the chapter tries to address the research questions of the study.

2.2 Theoretical Review

This segment delves into a variety of theoretical perspectives that can be employed to elucidate the influence of the method of financing mergers and acquisitions on the performance of mergers and acquisitions. Several theories have been used in the past to explain mergers, acquisitions, and performance, including but not limited to corporate control theory, the theory of efficiency, the Hubris Theory, the pecking order theory, agency theory, signaling and information asymmetry theories, and free cash flow theory. Although many theories can be used to explain the mode of financing and financial performance, the study intends to use three main theories: The Pecking order theory, the Synergy theory, and Efficient market hypothesis theory. Lastly, the chapter explores the connections between theoretical and empirical literature to identify the relationships among the variables.

2.2.1 The Pecking Order Theory

The Pecking Order Theory (Myers & Majluf, 1984) assumes two things: first, that managers have more information about a firm's prospects than external investors, and second, that they act in the best interest of the firm's owners. The theory explains how firms prioritize financing sources—starting with internal funds like retained earnings, followed by debt, and lastly equity. This preference is driven by the costs and information asymmetries associated with external financing. Since short-term debt typically doesn't require collateral, it is preferred before long-term debt or equity. Issuing equity is seen as a last resort, as investors may interpret it as a signal that the company is overvalued, leading to a downward revision of the share price.

The theory is relevant to this study as it informs one of the core variables: financing method. It explains why firms might favor internal financing or debt over equity when funding mergers and acquisitions. For instance, retained earnings are considered more reliable and less risky, and if insufficient, firms often resort to debt. SMEs, as noted by Samawi et al. (2016), tend to prefer informal or internal sources, aligning with the pecking order framework. Moreover, the theory explains how financing choices signal information to the market. If insiders believe the firm is undervalued, they prefer cash offers; if overvalued, they may choose stock (Myers & Majluf, 1984). This dynamic plays a crucial role in how M&A deals are perceived. Equity-financed acquisitions may raise concerns about the firm's financial strength, affecting market reaction (Alexandridis et al., 2020). This directly ties into the objective of evaluating whether the method of financing impacts the financial performance of mergers and acquisitions.

However, the theory has its limitations. Critics argue it oversimplifies capital structure decisions and ignores factors such as firm size, industry differences, and growth opportunities (Frank & Goyal, 2003). Martinez et al. (2019) also note that the theory doesn't fully account for the signaling effects of financing choices such as equity issuance suggesting overvaluation. In addition, while the Pecking Order Theory is widely applicable in developed markets with deep capital markets, strong investor protection, and high transparency, its relevance in developing countries like Kenya may be limited. The Nairobi Securities Exchange (NSE), characterized by lower liquidity, fewer institutional investors, and relatively weak information disclosure mechanisms, creates conditions where the assumptions of the theory do not hold as strongly. Kenyan firms may face greater constraints in accessing capital markets, and decisions may be driven more by availability than preference. Consequently, signaling effects tied to financing decisions may be less pronounced or misinterpreted due to limited market sophistication. These contextual realities must be considered when applying the theory to explain financing behavior and stock performance within the Kenyan M&A landscape.

This theory aligns directly with the study's objective of assessing how different financing strategies (cash, debt, equity) influence stock performance post-acquisition. It helps explain the possible rationale behind financing choices and how these decisions affect investor perception and market reaction, thus bridging the gap between financing behavior and financial outcomes in the context of mergers and acquisitions in an emerging market like Kenya.

2.2.2. Synergies theory

The Synergy Theory, developed by Hergenhahn (1976), also referred to as the theory of efficiency management, suggests that the whole is greater than the sum of its parts. In the context of mergers and acquisitions (M&A), synergy occurs when the combined performance of two firms exceeds what each could achieve individually. This value addition, often described as $2 + 2 = 5$, represents the core rationale behind many M&A activities, as firms aim to generate superior results together than apart (Signori & Vismara, 2018). Synergies can be categorized into financial, operational, and managerial forms. Financial synergies arise from increased size and improved risk diversification, which together reduce the cost of capital. Operational synergies are derived from enhanced efficiencies such as economies of scale, cost reductions, shared resources, and greater market influence. Managerial synergies, on the other hand, result from the combination of different managerial skills and expertise that can lead to improved leadership and decision-making (Akenga & Olang, 2017).

This theory anchors the study by supporting the connection between the independent variable, mode of financing, and the dependent variable—financial performance post-merger. It aligns with the study's objective of determining whether mergers and acquisitions lead to improved financial efficiency. The theory highlights the potential for operational, managerial, and financial gains as a result of M&A strategies, suggesting that the integration of resources, systems, and talent should ideally be reflected in better financial outcomes and increased shareholder value.

However, critics of the theory argue that it overlooks the complexities of post-merger integration. Fatima and Shehzad (2014) point out that although synergy is a common goal, many M&As fail to achieve it, often leading instead to value destruction. Elshani and Nogales (2020) add that the realization of synergy depends heavily on effective management and cultural alignment between merging entities—factors that the theory does not adequately consider.

In developed markets, where firms generally have the necessary resources, infrastructure, and managerial experience to realize synergies effectively, this theory is often applicable. However, in the Kenyan context, especially within firms listed on the Nairobi Securities Exchange (NSE), several challenges may hinder the realization of synergies. Kenyan firms often struggle with limited managerial expertise, inadequate post-merger integration frameworks, and potential

cultural mismatches between merging entities. Operational synergies, such as economies of scale, may be difficult to achieve in Kenya due to the relatively smaller size of firms and resource constraints. Additionally, financial synergies may be limited by the underdeveloped capital markets and relatively high costs of capital, making it harder to reduce financing costs. These market characteristics and challenges imply that while the Synergy Theory provides valuable insight, its application to M&As in Kenya requires careful consideration of the local market dynamics and the ability of firms to successfully integrate post-merger operations.

The Synergy Theory underpins the analysis of whether M&A transactions lead to improved post-acquisition financial performance (dependent variable) and whether the method of financing (independent variable)—cash, equity, or mixed—affects the realization of these synergies. The theory directly supports the study's objective of examining whether financing strategies impact value creation and stock market response after acquisitions. It also frames the expected financial outcomes of M&A transactions, highlighting that the financing method might influence not only investor perception but also the firm's ability to realize efficiency gains post-merger.

2.2.3 Efficient Markets Hypothesis

The Efficient Markets Hypothesis (EMH), introduced by Fama (1970), asserts that stock prices at any given moment fully reflect all available information. It classifies market efficiency into three forms: weak (based on past prices), semi-strong (based on all public information), and strong (including both public and private information) (Fama, 1991). EMH implies that no investor can consistently outperform the market through timing or selection because all known information is already priced into stocks.

The EMH encourages transparency and supports passive investment approaches. However, critics like Shiller (2003) argue that it underestimates irrational investor behavior, market imperfections, and delayed reactions to information. These limitations are more pronounced in less developed markets such as Kenya, where structural inefficiencies, limited investor literacy, and thin trading volumes may cause information to be slowly or unevenly absorbed into stock prices.

This theory is applicable to the study's investigation of how stock prices respond to different M&A financing methods—cash, equity, or mixed—on the Nairobi Securities Exchange (NSE). Under

EMH, particularly the semi-strong form, stock prices should immediately react to an M&A announcement regardless of financing method. However, the observed variations in market response—such as stronger reactions to mixed deals and weaker or delayed responses to cash-financed deals—suggest inefficiencies in how investors process and interpret financing information on the NSE.

Contextually, while EMH has empirical support in developed and highly liquid markets, its assumptions may not fully hold in Kenya due to lower levels of investor sophistication, information asymmetry, and limited media penetration. These factors reduce the speed and accuracy of market response, making investor behavior more speculative and less rational.

In relation to the study's objectives, EMH helps explain the relationship between method of financing (independent variable) and stock performance post-acquisition (dependent variable). It supports the objective of assessing how different financing strategies influence investor reaction and market valuation in the NSE. The inconsistencies observed reinforce the importance of contextualizing theoretical assumptions when analyzing emerging markets.

2.3 Empirical Review

This section will review work and conclusions of other authors in relation to the objectives of the study.

2.3.1 Cash Payment and Stock Performance During M&A

Based on the literature, cash is a crucial source of funding for businesses that operate in an unreliable capital market (Yang et al., 2019). The simplest form of payment, which is commonly utilized in M&A deals is cash. Cash allows the acquiring company to maintain its corporate identity and ownership structure. However, there are drawbacks to cash payments, such as the immediate tax obligations to target shareholders (Yang et al., 2019).

The study by Yang et al. (2019) utilized a panel data analysis approach to investigate the impact of corporate liquidity on mergers and acquisitions (M&A) decisions, payment methods, and post-acquisition performance among Chinese listed firms from 1998 to 2015. By employing a comprehensive dataset that included various financial indicators, the authors analyzed how liquidity levels influenced firms' likelihood to engage in M&A, the choice of payment method

(cash versus stock), and the subsequent financial performance of the acquiring firms. The findings revealed that cash-rich firms were more inclined to pursue acquisitions, particularly in scenarios where they faced potential tunneling risks (Yang et al., 2019). Interestingly, the study found that firms with higher growth opportunities tended to avoid cash payments in acquisitions, opting instead for mixed payment methods. Furthermore, it was observed that cash acquisitions were associated with underperformance in both the short and long term. A critical analysis of these results suggests that while high liquidity can facilitate acquisition activities, the method of payment chosen can significantly influence the success of these transactions. The underperformance linked to cash acquisitions highlights potential pitfalls in relying solely on liquidity for strategic decisions without considering broader market conditions and integration challenges.

Despite its contributions, the study identified several gaps that future research could address. For instance, it primarily focused on Chinese firms, which may limit the generalizability of its findings to other contexts or regions with different economic conditions (Yang et al., 2019). Additionally, while it explored liquidity's impact on M&A decisions and performance, it did not deeply investigate qualitative factors such as managerial motivations or cultural influences that might affect these outcomes. This research builds on current studies by emphasizing the importance of understanding liquidity not just as a financial metric but as a strategic tool that can shape corporate behavior in M&A contexts. In contrast to Yang et al. (2019) findings, Kalinowska & Mielcarz, (2014) found that cash offers in M&A transactions resulted in significantly higher returns on assets in the post-transaction period compared to share payment methods or mixed payments.

The study by Kalinowska and Mielcarz (2014) employed a quantitative research design, focusing on the relationship between payment methods in mergers and acquisitions (M&A) and the operational performance of acquiring firms. The findings indicated that payment method significantly influences operational performance post-M&A. Specifically, cash payments were associated with better short-term performance compared to stock payments, which often reflected a higher risk profile due to market fluctuations. The study suggested that cash transactions provide immediate liquidity benefits and reduce uncertainty for shareholders, thereby enhancing operational outcomes (Kalinowska & Mielcarz, 2014). However, it also noted that while cash payments might lead to better initial performance, they could limit future growth opportunities due

to reduced capital reserves for investment. A critical analysis of these results highlights the importance of aligning payment strategies with long-term corporate objectives, as the choice of payment method can have lasting implications for operational success.

The study identified several gaps that future research could address (Kalinowska & Mielcarz, 2014). For instance, it primarily focused on short-term performance metrics without considering long-term sustainability or market positioning after M&A. Additionally, the study did not explore qualitative factors such as managerial motivations or market conditions that might influence the choice of payment method. This research fills some of these gaps by emphasizing the need for a more comprehensive understanding of how payment methods impact not only immediate financial results but also strategic positioning in the market especially developing market over time.

In summary, the literature suggests that cash is an important source of funding in imperfect capital markets, especially for mergers & acquisitions transactions. The choice of payment method, whether cash or stock, can have implications on performance and value creation. Factors such as opportunity costs, tax obligations, target analysis, and information asymmetry play a role in determining the optimal payment method (Yang et al., 2019; Kalinowska & Mielcarz, 2014). The existing literature predominantly investigates the use of cash as a financing method for mergers and acquisitions (M&A) and its performance within developed countries, creating a noticeable geographical gap. To address this gap, this study focuses on examining the performance of cash-financed M&A transactions within the Kenyan market. By doing so, we aim to provide valuable insights into the specific dynamics and outcomes of cash-based M&A in an emerging market context, contributing to a more comprehensive understanding of M&A strategies and their effects across different regions.

2.3.2 Stock Payment and Stock Performance During M&A

The stock payment method is a non-cash acquisition strategy in which acquiring companies compensate target firms with their own equity shares as payment for the transaction. This approach ensures that both the acquiring and target companies share the post-M&A outcomes. The identification of a rational exchange ratio is a crucial component of this strategy.

Prior research on share financing demonstrates that the markets typically view a stock payment as less beneficial than a cash payment due to information asymmetry and the uncertainties surrounding M&A deal value (Luypaert & Caneghem, 2017). It is believed that the negative

anomalous returns for acquirers in stock mergers and acquisitions indicate that the acquiring companies are financing their takeovers with their overpriced shares (Meyers & Majluf, 1984). Highlighting how the payment mechanism in M&A is determined by stock overvaluation

The study by De Bodt et al. (2018) utilized a theoretical and empirical research design to explore the phenomenon of full-stock-payment marginalization in merger and acquisition (M&A) transactions. The authors conducted a comprehensive analysis of M&A deals, focusing on the implications of using stock as a payment method. The findings revealed that full-stock payment methods tend to marginalize acquirers in terms of performance and market perception. Specifically, the study found that firms opting for stock payments often faced negative market reactions, suggesting that investors perceived these transactions as indicative of management's lack of confidence in the target's valuation or anticipated synergies. Moreover, the results indicated that full-stock payments could lead to poorer operational performance post-acquisition compared to cash or mixed payment methods. A critical analysis highlights that while stock payments might seem attractive due to potential tax benefits and preservation of cash reserves, they can also signal uncertainty and lead to adverse market reactions, ultimately affecting the acquirer's long-term performance.

The study by (De Bodt et al., 2018) had several gaps that future research could address. For instance, it primarily focused on quantitative data without delving deeply into qualitative factors such as managerial motivations or external market conditions influencing payment choices. Additionally, while it provided insights into stock payments, it did not sufficiently explore how different industries might react differently to payment methods or how cultural factors could play a role in M&A decisions. This study fills some of the gaps by providing a more nuanced understanding of how payment methods influence M&A outcomes. This approach not only addresses some of the limitations of prior studies but also contributes to a richer, more comprehensive literature on M&A practices in varying contexts.

The study by Madume (2023) employed an event study methodology to analyze the South African stock market's reaction to mergers and acquisitions (M&A) transaction attempts. By examining a dataset of M&A announcements involving companies listed on the Johannesburg Stock Exchange (JSE) from 1997 to 2020, the research aimed to capture abnormal returns for both acquiring and target firms during critical event windows surrounding the announcement dates. The findings

indicated that acquiring firms generally experienced positive abnormal returns in the days leading up to the announcement of an M&A attempt, reflecting investor optimism about potential synergies and growth opportunities. However, once an M&A transaction was announced as unsuccessful, acquiring firms faced negative abnormal returns, albeit with a delayed reaction compared to target firms, which experienced immediate negative impacts upon failure announcement. Target firms, conversely, consistently earned positive abnormal returns around the initial announcement of M&A attempts, showcasing their perceived value in such transactions. A critical analysis suggests that while M&A announcements can create short-term value for target firms, acquiring firms may suffer long-term consequences if transactions do not materialize, highlighting the importance of effective communication and strategic planning in M&A activities (Madume, 2023).

The study by (Madume, 2023) identified several gaps that warrant further exploration. For instance, it primarily focused on quantitative metrics without delving into qualitative factors such as managerial motivations or market sentiment that could influence stock reactions. Additionally, the study's timeframe may overlook more recent trends in M&A activity influenced by evolving market conditions and regulatory changes. This research builds on these gaps by adopting a comprehensive framework that synthesizes both theoretical and empirical literature. By critically evaluating and integrating insights from previous studies, it provides a more holistic understanding of market reactions to M&A, ultimately addressing gaps in the current body of knowledge.

The study by Mateev (2017) utilized a quantitative research design employing an event study methodology to analyze the impact of merger and acquisition (M&A) announcements on stock prices across different European markets, specifically comparing continental Europe and the UK. The findings revealed significant differences in stock market reactions to M&A announcements between continental Europe and the UK. Specifically, target firms in both regions experienced substantial positive abnormal returns, averaging around 9% for targets; however, acquiring firms in continental Europe showed only marginal gains (approximately 0.5%), while UK acquirers experienced slightly better but still limited positive returns (Mateev, 2017). This disparity suggests that market participants in the UK may have a more favorable view of M&A activities compared to their continental counterparts. A critical analysis indicates that these differences could stem from varying regulatory environments, cultural attitudes towards mergers, and market maturity

levels across regions, which influence investor perceptions and expectations regarding M&A transactions.

However, the study (Mateev, 2017) identified several gaps that future research could address. For instance, it primarily focused on short-term stock price reactions without exploring long-term performance implications or operational outcomes post-M&A. Additionally, while it provided valuable insights into regional differences, it did not delve into specific industry characteristics or the nature of the deals (e.g., friendly vs. hostile takeovers) that might further explain variations in market reactions. This research relates to current studies by underscoring the importance of contextual factors in understanding M&A dynamics across Europe. Mateev (2017) shows evidence that bidders for stock in the United Kingdom and Continental Europe achieved better results than cash paying bidders.

The study by Vagenas-Nanos (2020) employed a quasi-experimental research design to investigate the effects of overvaluation on merger and acquisition (M&A) outcomes. By isolating the misvaluation effect, the research focused on stock acquirers that were more overvalued than their targets, using a sample of M&A transactions to analyze how this overvaluation could be strategically exploited. The findings revealed that acquirers who engaged in stock transactions while being overvalued relative to their targets generally experienced positive post-acquisition performance, supporting the notion that overvaluation can be beneficial in M&A contexts (Vagenas-Nanos, 2020). Specifically, the study found that these acquirers could leverage their inflated stock prices to secure advantageous deals, leading to value creation for shareholders. However, the research also highlighted that this strategy is not without risks, as it may lead to potential long-term consequences if market corrections occur. A critical analysis suggests that while exploiting overvaluation can yield immediate benefits, it also raises questions about the sustainability of such strategies and the potential for negative repercussions if market perceptions shift. The study by Vagenas-Nanos (2020) primarily focused on stock-financed acquisitions, without considering cash transactions or mixed payment methods, which could provide a more comprehensive understanding of M&A dynamics. Additionally, the study did not explore qualitative factors such as managerial motivations or market conditions that might influence decisions on payment methods. This research addresses these gaps by emphasizing the need for a

broader examination of valuation effects across different payment methods, deal structures, and contexts.

The literature suggests that using stock as a form of payment in M&A deals can yield mixed outcomes. This highlights the need for studies that specifically address issues within the African context. The identified research gap relates to the lack of studies considering Africa's unique cultural, social, economic, and political dynamics. This study aims to close that gap by examining companies listed on the Nairobi Securities Exchange (NSE) in Kenya, providing clearer insights into these dynamics.

2.3.3 Mixed Payment and Stock Performance During M&A

The study by Klitzka et al. (2022) utilized a quantitative research design that focused on large mergers and acquisitions (M&A) transactions involving public U.S. acquirers from 2009 to 2016. The authors employed econometric analysis to investigate the factors influencing the choice of payment methods—specifically cash versus stock—by M&A targets. The findings indicated that both acquirers and targets demonstrate rational behavior when choosing payment methods, with cash being favored in situations of high valuation uncertainty. The study revealed that contrary to prevailing literature, acquirers cannot consistently exploit their overvaluation through stock payments without consideration of the target's perspective. Instead, when faced with significant uncertainty regarding valuation, targets tend to prefer cash payments as they mitigate risk (Klitzka et al., 2021). Critically, the study suggests that the decision-making process in M&A transactions is more balanced than previously thought, with targets actively assessing their positions and making choices that align with their interests rather than being passive recipients of acquirer offers.

The study identified several gaps that warrant further exploration. For instance, while it focused on public U.S. firms, it did not consider private firms or cross-border transactions, which may exhibit different behaviors regarding payment method choices due to varying regulatory environments and market conditions. Additionally, the study primarily examined quantitative data without delving into qualitative factors such as managerial motivations or strategic considerations that might influence payment decisions. This research relates to the current study by emphasizing the importance of understanding both parties' rationality in M&A negotiations and the need for a broader examination of payment methods across different contexts. According to Klitzka et al. (2021), investors interpret the selection of diversifying payment methods as an indication of

acquirers' financial stamina and risk-sharing priorities. Utilizing cash implies enough free cash flow, while incorporating stock allows acquirers to share performance risks with targets in the future, creating incentives for both parties to enhance business outcomes.

The study Yuan et al. (2016) employed a panel data analysis approach to investigate the impact of different payment methods on the performance of mergers and acquisitions (M&A) within the Shanghai and Shenzhen A-share markets from 2009 to 2013. The findings indicated that the choice of payment method did not significantly impact overall M&A performance in the aggregate regression analysis. However, when examining specific industry contexts, results showed that for firms in mature industries, cash payments were associated with lower shareholder earnings compared to stock payments, which improved operational capacity. In contrast, firms in growing industries benefited more from stock payments, while those in recessionary sectors exhibited no significant differences based on payment method. A critical analysis suggests that while the overall impact may seem negligible, the nuances revealed in industry-specific contexts highlight the importance of considering lifecycle stages when evaluating M&A performance. This insight underscores that strategic decisions regarding payment methods should align with the specific circumstances of the acquiring firm and its industry.

However, the study by (Yuan et al., 2016) identified several gaps that warrant further investigation. Notably, it primarily focused on quantitative measures of performance without incorporating qualitative factors such as managerial intentions or market conditions that could influence decisions regarding payment methods. Additionally, the research did not explore cross-border M&A transactions or variations in regulatory environments that could affect payment choices differently than domestic transactions. This study relates to current research by emphasizing the need for a more comprehensive understanding of how contextual factors influence M&A dynamics. Contrary to the findings of Klitzka et al. (2021), in the entire regression analysis, they found that the variations in payment conditions had no discernible effect on M&A performance.

In conclusion, the literature presents a mixed view on the effect of mixed payment methods on abnormal returns and performance of M&A. The choice of mixed payment methods is interpreted by some research as an indication of financial strength and risk-sharing considerations, leading to positive anomalous returns; however, other studies find no discernible effect on overall M&A success. The increasing prevalence of mixed-payment deals, especially in large M&A transactions,

underscores the complexity and diversity of factors influencing payment method choices in the M&A landscape. Overall, this study filled the existing knowledge gap, contextual gap, and literature gap on the modes of financing and performance.

2.4 Summary of the Literature and Research Gap(s)

While studies around mergers and acquisitions have been conducted extensively, most have been conducted around the acquirer's performance post-merger and not on the effect of method of financing and its effect on the merger and acquisition performance, even so these studies have posted conflicting results, studies such as (Safitri, 2019; Faisal & Basid, 2019) have reported significant negative performance. While studies such as of Tampakoudis et al. (2020), Zhang et al. (2018); Sidney & Huijie, (2020) showed positive results. Others have still reported no significant change in share price after merger and acquisitions (Arasa , 2020).

A search of existing literature shows that payment methods and their effects in M&As have been studied in various markets, but very little in the African market and especially none in the East Africa and Kenyan Market. This is despite the rise in the volume and value of M&A transactions in Africa (Nkiwane & Chipeta, 2019). As an extension of the studies done by (Yuan, Ye, & Ma, 2016) for Chinese on how the performance of M&A is affected by various payment methods, (Kalinowska & Mielcarz, 2014) on Polish and Eastern European markets on methods of M&A deals, acquirers' operational performance and payment, and (Panda & Joshipura, 2022) on the influence of payment method and industry relatedness on the short-term advantage to shareholders of target enterprises in India of cross-border mergers and acquisitions (Chinchwadkar, 2015) on merger returns and payment method selection in Indian banking industry, and (Flah, 2022) on methods of financing acquisitions and mergers in North Africa and the impact of such methods. This study sought to fill the gap in the literature in the following ways.

This study selected all the mergers and acquisitions that took place between the years 2013 and 2020, a period of 7 years, while the research by Yuan et al. (2016) was for mergers and acquisitions that took place between 2009 and 2013, a period of 3 years. Secondly, the studies by Yuan et al. (2016), Kalinowska & Mielcarz (2014), Panda & Joshipura, (2022) and Chinchwadkar (2015) focused on Eastern, Asia and European markets, that are more developed than the Kenyan market which is characterized by market imperfections as it is a developing market, this study closed this

gap by examining the funding method and how it affects financial performance in a developing market, which is Kenya.

Thirdly, Chinchwadkar (2015) study was a case study, which brings problems, especially because case studies are criticized for being subjective, biased, or lacking in rigor. Case study research is frequently accused of being biased, non-replicable, subjective, lacking generalizable findings, causal determinism, and lacking empirical clout (for instance, having too many variables and too few examples) (Creswell, 2014). This study sought to fill this gap by looking at all industries that went through M&A during the period under study, hence providing a more holistic set of results that can be used as reference points in other industries

Table 2.1: Summary of Gaps in Literature

Author	Topic	Key finding	Research Gap
Farah (2015)	The consequences of mergers and acquisitions on the financial performance of banking institutions in the Kenyan market	The study's conclusions suggested that mergers and acquisitions improve a company's financial success	Only banks were considered in the analysis. The current study takes a comprehensive approach by considering all firms across various industries listed on the Nairobi Securities Exchange (NSE) that have undergone mergers and acquisitions (M&A) and examines their modes of financing. By broadening the scope beyond just banks, this research fills a significant knowledge gap in the literature.
Harjeet and Jiayin (2013)	Examination of Chinese- listed	The study's conclusions showed that the acquiring	The study only utilized stock returns in China, the current

	businesses' mergers and acquisitions	firms achieved positive stock returns.	study considers stock returns in Kenya and modes of financing, hence addressing the geographical gap and the knowledge gap.
Fatima and Shehzad (2014)	M&A's effects on Pakistan insurance companies' financial performance in 2007–2010	The investigation concluded that synergy was not produced, economies of scale were not realized, and merger objectives were not clearly met.	The research considered the insurance industry in Pakistan and used financial ratios for analysis. The current study uses event study methodology and is conducted in Kenya. Hence, filling the methodological and geographical gap
Kimani (2018)	The impact of mergers and acquisitions on Kenya's dairy sector: the example of Brookside Dairy Limited	It was determined that the factors that drive mergers and acquisitions—such as staffing costs, planning expenses, and production reductions—generally lead to better performance in the dairy business, which enables a company to benefit from economies of scale.	Primary data for the study were gathered using a standardized questionnaire, and SPSS was utilized to analyze the data for both descriptive and inferential statistics. The study used primary data, in the form of questionnaires, which may be subjective. Additionally, the use of a case study may bring two problems: the variables are restricted to the case, and the case study can be difficult to replicate or use as an inference in other

			industries. This current study primarily employs objective secondary data. The study uses several merged firms in Kenya, hence the large number of variables for analysis, thereby taking care of the data gap.
Sankar & Leepsa (2018)	A Theoretical Framework for Payment Methods in Mergers and Acquisitions	The author synthesized various findings regarding cash, stock, and mixed financing approaches. The study's focus was primarily on conducting a contemporary review of M&As literature rather than undertaking empirical research. It emphasized suggesting avenues for future research in M&As rather than drawing definitive conclusions	The study was limited to a modern assessment of the literature on mergers and acquisitions (M&As) rather than an empirical survey. Consequently, the recommendations for further M&A research were emphasized over the study's conclusions. This paper or study has a wider scope because it provides evidence-based conclusions that can and will be used for decision making. This study fills the methodological gaps and empirical gaps by doing an empirical analysis of financing and performance
Maeshell (2020)	Impact of capital structure modifications on the	According to the study, modifications to the leverage	The study focused on the adjustment of the capital structure

	<p>financial performance of acquirers in mergers and acquisitions in Kenya.</p>	<p>shortfall and leverage change significantly improved the financial performance of the acquirer.</p>	<p>following the acquisition and merger, the current research concentrates on mode of financing before the merger and the impact of such on merger and acquisition performance. This provides important information before making the M&A decision. Hence filling the empirical gap in the case of NSE-listed firms</p>
<p>Sun et al., (2017)</p>	<p>Are state-owned and privately-owned Chinese companies financing their international mergers and acquisitions differently?</p>	<p>Despite having weaker stock performance than privately held companies, state-owned enterprises have a larger level of financing capability in terms of debt and equity, according to the study. This suggests that there may be financing distortions in Chinese outbound M&As. Additionally, the study discovers that state ownership creates a "fictitious" prosperity for SOEs by positively moderating the effect of debt financing,</p>	<p>The study highlighted an aspect of financing discrimination that comes with state-owned enterprises in the Chinese market, and hence did not give a true picture of the role of financing on the profitability enterprises both State-owned and privately-owned enterprises under study. This study fills this geographical gap brought about by this distortion, as right now none of Kenya's state-owned enterprises have engaged in M&A, and so there is no</p>

		<p>which makes up for SOEs' poor M&A performance. This finding shows that funding discrimination is the source of the debt financing's beneficial impact on Chinese outbound M&As.</p>	<p>influence of the state in this research conclusions and results</p>
<p>Elhakeem and Elgiziry (2016)</p>	<p>The Effect of Announcements of Acquisition Deals the Egyptian Stock Exchange's Financing Decisions on the Value of Listed Acquiring Companies.</p>	<p>During the 40-day event window (short-term), acquisitions financed with cash, stock, or a mix did not yield positive abnormal returns. Over the long term, acquisitions funded through cash and stock resulted in positive abnormal returns, whereas such returns were not observed in acquisitions financed using the mixed method.</p>	<p>The study was done in Egypt, which is in the northern part of Africa, focusing on the immediate as well as the long term. This study focusses on the Kenyan region. Hence, filling the geographical gap.</p>
<p>Schnur (2022)</p>	<p>Mergers and Acquisitions: Post-Acquisition Integration Success Factors</p>	<p>The data collected revealed that the key factors contributing to successful post-acquisition integration are present throughout each stage of the M&A process, namely the integration phase, post-acquisition</p>	<p>The study used a questionnaire which may be highly subjective. The study was qualitative which is also subjective, and the study was too general to draw any inferences. This study fills this methodological gap by providing</p>

		phase, and the final phase.	quantitative objective data and studying a particular phenomenon in depth, which is mode of financing, hence creating focus and making it easy for inferences to be made.
Chinchwadkar (2015)	A case study examining merger returns and payment method selection in the Indian banking sector	When stock is chosen as the payment method in a merger or acquisition, information asymmetry models demonstrate that the merger returns for the bidder are substantially negative. The study's findings confirm the knowledge asymmetry concept by presenting the first instance of a banking merger in which the merger returns for the Indian bidder are notably negative when stock is used as the medium of payment.	The research was a case study, which is frequently accused of having biased case selection, non-replicability, subjective findings, a lack of generalizability, causal determinism, and a lack of empirical clout (for example, Creswell J. W., 2014). This research fills that data gap by providing research that looks at many industries, hence the larger scope in terms of variables and cases.
Panda and Joshipura (2022)	Effect of payment method and sector relatedness on the short-term profit to shareholders of target companies in India from cross-border	An acquisition announcement's return is larger for cash payment than for other payment methods, and the return is positive for	Our study aims to fill a contextual and geographical research gap. The study was conducted in India the 6 th largest economy by GDP in

	mergers and acquisitions	both the pre- and post-event day windows. Furthermore, when compared to purchases in unrelated businesses, the wealth effect of linked industry acquisitions is larger.	the world. This study is conducted in Kenya which ranks 62 nd in GDP
Ogendo and Ariemba (2022)	A review of the literature on mergers and acquisitions for business sustainability in emerging markets during a vague period	The study examined a body of evidence that implies merger and acquisition transactions performed during an uncertain period actually provide greater value than those conducted during periods of typical economic growth. Accordingly, the study proposes that during a recession, emerging market companies might utilize mergers and acquisitions to provide greater value to their shareholders.	The study by Ogendo and Ariemba (2022) was a literature review and did not involve experimental analysis. Haddaway et al. (2020), in their study titled <i>Eight problems with literature reviews and how to fix them</i> , identified shortcomings in literature reviews, such as bias, lack of replicability, irrelevance, inadequate critical appraisal, and incorrect conclusions. This study addresses the methodological gap by conducting empirical research using sampling to provide objective and replicable results.
Yang et al., (2019)	How much does business liquidity	According to the study, companies	The research had a lot of focus on cash

	<p>impact performance, payment terms, and M&A decisions? China's evidence.</p>	<p>with large cash reserves are more inclined to try acquisitions, particularly if they are vulnerable to tunneling. The study also discovered that bidders who have more room for growth are less inclined to fund purchases with cash. Due to the increased opportunity costs associated with retaining funds, this effect is more pronounced for bidders with limited resources. Additionally, the study emphasizes how poorly cash acquisitions perform over the long run.</p>	<p>financing and liquidity, and in this respect, the study is limited in terms of scope. This study fills that data gap, this research, looks at financing at large (cash, shares, and mixed financing) and the effect of that on performance in Kenya.</p>
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Table 2.1 Source (Researcher 2023)

2.5 Conceptual Framework and Operationalization of Variables

Sekaran & Bougie, (2016) states that a conceptual framework forms the foundation for the entire research process. It is a logically constructed, explained, and elaborated network of relationships between the variables that were determined to be pertinent to the issue at hand and found using methods like literature reviews, interviews, and observations. The conceptual framework aims to define and explain the key concepts of the study by drawing on relevant literature (Luft et al., 2022). As stated by Sekaran & Bougie, (2016), the variable that the researcher is most interested in is called the dependent variable. Creswell & Creswell (2018) outlined that an independent

variable affects the dependent variable in a cause-and-effect manner, either positively or negatively. The independent variable for this study is the mode of financing merger or acquisition. The dependent variable will be abnormal returns, which indicate stock performance.

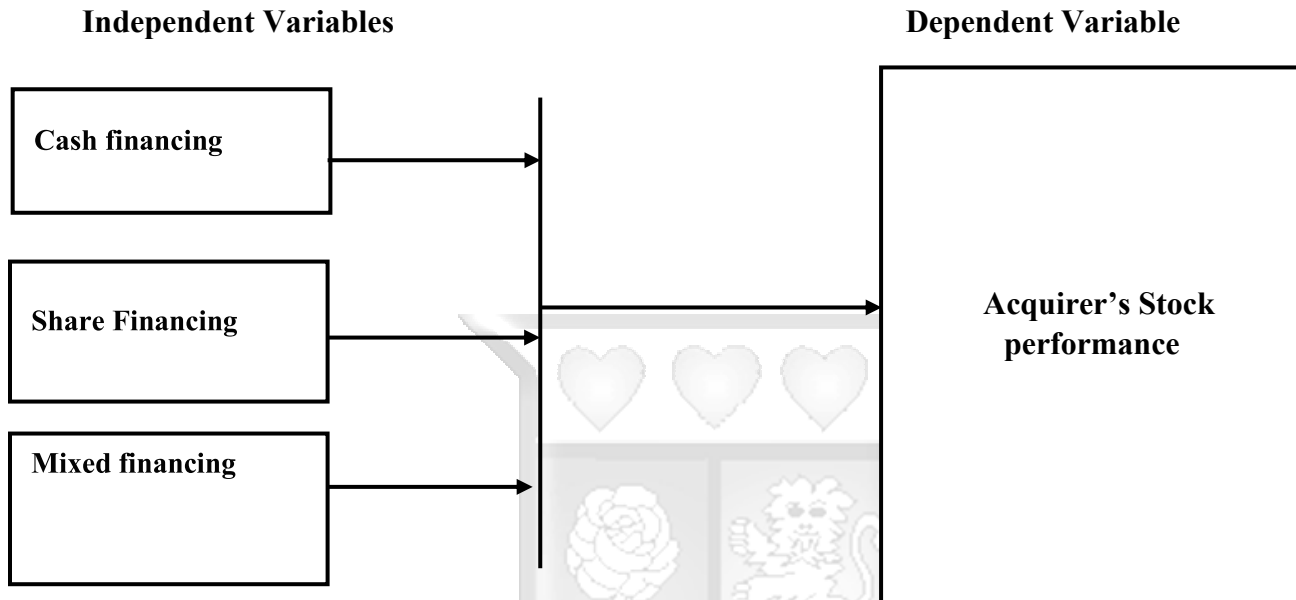


Figure 2.1: Conceptual Model

2.5.1 Operationalization of the Variables

This part explains how the researcher measured both the independent variable and the dependent. The independent variable was measured by having the data grouped based on the payment methods a group representing cash, shares and mixed data (Flah, 2022). The methodology for event studies, as devised by Fama et al. (1969) and (Brown & Warner, 1985), was ideal for determining the abnormal return (CAR) for each group; hence this was the dependent variable. The financial sources, or payment methods, were the independent variables.

Table 2.2: Operationalization Table

Variable	Operation Definition	Citation	Supporting Theory
Acquirer's stock performance measured by CAR	Cumulative average abnormal return measured using the market model	(Fama et al., 1969), (Flah, 2022), (Bessler et al.,2022) , (Elhakeem et al.,2016),	Asymmetric information theory, Synergy theory

		(Al-Shattarat & Al-Shattarat, 2017), (Ding et al.,2018)	
Payment in Cash	A dummy variable equals to one if only cash is used for payment, and zero otherwise	(Bouzgarrou & Louhichi, 2014) (Bessler et al.,2022)	Pecking order theory
Payment in stock	A dummy variable equals to one if only stocks is used for payment, and zero. otherwise.	(Bouzgarrou & Louhichi, 2014), (Bessler et al.,2022)	Pecking order theory
Payment in both cash and stock	A dummy variable equals to one if both cash and stocks are used for payment, and zero otherwise	(Bouzgarrou & Louhichi, 2014) (Bessler et al.,2022)	Pecking order theory

2.6 Chapter Summary

The above chapter provided the theories that guided the studies. The theories include pecking order theory, synergy theory and the efficient markets hypothesis theory. In addition, empirical review of studies on mergers and acquisition was done to highlight the existing study gaps to be filled by the study. The next chapter presents the results of the study based on the data analysis.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research approach used in the study. Research methodology refers to the systematic process researchers follow to conduct their study. It explains how researchers define their objectives and problems, and present findings based on the data collected during the study period (Sileyew, 2019). This chapter specifically discusses the research design that was chosen, the research philosophy, the study population, the validity and reliability of the research instruments, the data collection techniques, and the analysis used in the study.

3.2 Research Philosophy

According to Saunders et al. (2019), research philosophy is a collection of beliefs about how data about a phenomenon should be gathered, analyzed, and applied. It affects the selection of methodology, analysis, and research design. In the social and business sciences, positivism, interpretivism, pragmatism, and realism are the four main research philosophies. According to Bryman (2016), positivism is predicated on the notion that reality is objective and can be observed and quantified without the researcher's involvement. This approach, which has its roots in the scientific method, places a strong emphasis on statistical analysis, quantifiable data, and hypothesis testing (Saunders et al., 2019). Constructivism or interpretivism, contends that reality is subjective and socially produced (Saunders et al., 2019). Interpretivism aims to comprehend human behavior, motivations, and experiences within their social settings, in contrast to positivism, which pursues objective truth (Bryman, 2016).

Conversely, pragmatics adopts a flexible strategy by combining positivist and interpretivist viewpoints, contending that the problem, not philosophical dogma, should guide research (Tashakkori & Teddlie, 2010). Pragmatists employ a combination of quantitative and qualitative methodologies to effectively address research problems because they believe that reality is both objective and subjective (Saunders et al., 2019). Finally, realism is a research philosophy that accepts the influence of social and environmental elements while yet acknowledging an external reality separate from human experience (Bhaskar, 2008).

The study adopted a positivist approach to research. The objective of positivist research is to continually pursue objectivity through logical reasoning and rational methods. Research following the positivist approach often employs quantitative methods to identify explanatory relationships or causal connections (Park et al 2019). The positivist approach emphasizes that in order to draw conclusions from a study, researchers need be objective and use statistical and mathematical methods. The study used this philosophy since it employed secondary data to determine the relationship/causality between variables. That is the independent variable (mode of financing) and the dependent variable (performance of stock of mergers and acquisitions). Utilizing secondary quantitative data made it possible for the researcher to conduct the study impartially and objectively. The positivist method enabled the researcher to conduct the study without attaching any values and to maintain objectivity toward the research topic. Consistent with prior studies, the goal of the research is to determine the relationship between performance, funding mode, and the outcomes of mergers and acquisitions.

3.3 Research Design

According to Sekaran & Bougies (2013), a research design can be defined as a plan for gathering, measuring, and analyzing data in a way that advances the goals of the investigation. This plan serves as a guide for the entire study and describes the tasks the researcher will carry out. Using these criteria, the researcher gives detailed instructions on how the study will be conducted (Cooper, Sharma, and Schindler, 2018). Different types of study designs are available for use by a variety of researchers. These include the exploratory design, descriptive, and explanatory studies; cross-sectional studies; case studies; and longitudinal and time series designs.

For this study, the objective of the researcher was to compare the impact financing methods of mergers and acquisitions using secondary data on the value of Kenyan companies listed in the NSE using prices of shares. A time series design was used to find the impact of a certain corporate event, which in this case is a merger or an acquisition, and how that event (merger or acquisition) is financed compared to the financial worth of companies in Kenya listed in the NSE. Additionally, how that mode of financing affects abnormal return. An event study can be used to quantify the impact of an economic event on a firm's worth (MacKinlay, 1997).

According to the Efficient Market Hypothesis (EMH), the logic of the market is that changes in events instantly affect the price of securities (Fama, 1970). However, in practice, this is not always

the case due to factors such as market inefficiencies, investor behavior, and the diffusion of information, among others. In the context of mergers and acquisitions, the event study technique was applied to compute abnormal returns (AR) and cumulative abnormal returns (CARs). The aggregate CARs were then regressed against financing methods to analyze the relationship between financing choices and market performance.

An event study distinguishes between the returns caused by the investigated event and the returns that would have been expected had the event not occurred referred to as normal returns and abnormal returns. The abnormal return, or residual, represents the change in firm value on a given day that can be attributed to the event, such as the merger announcement. It is the portion of the return that cannot be explained by normal market factors.

In this study, normal returns around the event date were forecast using the market model, which combines both the mean-adjusted model and the market-adjusted model. This approach was deemed appropriate for capturing the impact of M&A events on firm performance and evaluating how financing methods influence the abnormal returns.

3.4 Population and Sampling

The population refers to the complete set of subjects being studied, encompassing all individuals or items relevant to the specific research objectives (Efron & Ravid, 2013) and (Leedy & Ormrod, 2014). Etikan (2016) defines a sample as the subset or section that represents the entire population; therefore, a sample can be used to draw conclusions about the population. The population of this study comprises all firms involved in mergers and acquisitions (M&As) finalized on the Nairobi Securities Exchange (NSE) between 2013 and 2020. Since the study includes all qualifying M&A transactions within this period, the sampling frame and the sample are equivalent to the population. This census approach ensures comprehensive analysis and avoids sampling bias. The sample of the study consisted of nine firms that had acquirers listed at the time of bidding for the merger. Delisted companies because of mergers and acquisitions were exempt.

Table 3.1: Breakdown of the Sample

	Number
Count of firms listed as of 31 December 2020 that have undergone acquisitions and mergers	9

Table 3.2: List of Companies that have gone through Acquisitions and Mergers

Firm	Acquired By	Current Name	Date Approved	Mode of Financing
Habib Bank Kenya Ltd	DTB	Diamond Trust Bank Kenya Ltd	2017	Shares
Real Insurance Company NIC	Britam	Britam Holdings PLC	2014	Mixed Financing
K-Rep Bank Limited	CBA	NCBA Group PLC	2019	Shares
K-Rep Bank Limited	Centum Limited	Centum Investment Co Ltd	2014	Cash
National Bank of Kenya	KCB	KCB Group Ltd	2019	Shares
Giro Commercial Bank	I &M	I and M Holdings Ltd	2017	Cash
Jamii Bora Bank	Cooperative Bank	Kingdom Bank	2020	Cash
'Banque Commerciale du Congo (BCDC)'	Equity Bank	Equity BCDC	2020	Cash
Unga Millers Uganda Limited	Unga Group Limited	Unga Group Ltd	2013	Cash

Source: Researcher 2023

Table 3.3: Categorization of Firms under Study

Firm	Number	% of Firms Under Categorization
Banking	6	67%
Insurance	1	11%
Investment	1	11%
Manufacturing	1	11%

3.5 Data Collection Methods

Secondary data was used in the study, which mainly showed share price changes due to mergers and acquisitions. This data was collected from the NSE website. The NSE database was used to

acquire secondary data, which includes daily observations of market and stock prices for every listed company. To address objectives 1, 2, and 3, the type of data that was gathered included daily share prices, trade volumes, and index performance (NASI returns). Data on the financing mode was obtained from the company website, credible newspaper dailies, and the company reports of the organization.

3.6 Data Analysis and Methodology

The study employed the event study approach of (MacKinlay, 1997) and (Brown & Warner, 1985) to ascertain the cumulative abnormal returns (CAR) and abnormal returns (AR). Cross-sectional regressions were used to investigate the factors that impact performance disparities and performance magnitude. Below is an explanation of these models' structures as well as the regression equations.

To provide a thorough analysis, the researcher examined two event windows surrounding the M&A announcement date: $(-30; +30)$ and $(-1; +1)$. The $(-30; +30)$ window represents an extended event period, covering 30 trading days before and after the announcement, to capture both anticipation effects and subsequent market reactions. The $(-1; +1)$ window, a short-term event window, spans one trading day before to one day after the announcement and is used to isolate the immediate market response while minimizing noise from unrelated factors. This approach follows the recommendations of Martynova and Renneboog (2009) and Brown and Warner (1985), who advocate for analyzing both short- and medium-term impacts. Particular attention was given to the $(-1; +1)$ window, in line with Bessler et al. (2022), to assess short-term value effects. This focus is also consistent with Fama's (1969) Efficient Market Hypothesis, which suggests that in an efficient market, all publicly available information, including merger announcements, is rapidly incorporated into stock prices.

Previous research highlights that short event windows provide the most statistically significant insights into whether mergers and acquisitions create shareholder value. The event window captures all market reactions, including information leaks before and responses after the announcement. It represents short-term deviations in financial variables from their long-term trends (Suripto & Supriyanto, 2021). In this study, cumulative abnormal returns (CAR) serve as the dependent variable, while the method of payment is the independent variable, represented using dummy variables (Bessler et al., 2022; Thomas, 2019). Given the significance of accurately

capturing short-term valuation effects in M&A studies, the following section outlines the analytical model adopted in this research."

3.6.1 Analytical Model-Short-term Event Study Methodology

To investigate the correlation between mergers and acquisitions (M&A) and their modes of financing on share price returns, this study assessed abnormal returns in share prices using the market model approach, as employed by (Zhou et al., 2020; Ogada & Kalunda, 2017; Akenga & Olang, 2017). During the pre-event period, the anticipated or normal returns of shares were established. Abnormal returns were then calculated as the variance between the actual returns of nine companies on the event day and the anticipated returns. Cumulative abnormal return was scrutinized, employing various event windows. It's acknowledged that in long-term events, M&A's excess returns may contain more noise compared to shorter intervals, potentially resulting in less precise outcomes, as noted by (Teti et al., 2017). Since share prices reflect a company's discounted future profits, alterations in share price due to events, such as M&A, can be viewed as a gauge of the event's influence on the performance of the company (Lui, 2022).

The study analysis followed the following steps.

The study used the basic market model. The researcher imagined that the return follows a single factor market model. The equation looks as follows: The calculated returns for a specific security during the event window are determined in the following manner:

Model 1 $R_{it} = \alpha_i + \beta_i \cdot R_{mt} + E_i$ (1)

Where;

R_{it} = stock return of observation on day/time t (period t-return on security I)

R_{mt} =reference market return on day t (period t-return on the market model,)

Error Term (E_i): =The error term accounted for the fluctuation in the stock's returns that could not be accounted for by market factors or the alpha and beta values. It represents random factors and measurement errors (Zero means disturbance term)

The regression coefficient β_i indicated the extent to which R_{it} was responsive to changes in the reference market.

α_i ; is the intercept term, representing the average stock return that is unexplained by the market, that is, when the return on the market (R_{mt}) is zero or when there is no market movement. (Intercept coefficient of the market model)

The abnormal return AR_{it} was computed as the variance between the expected return $E(R_{it})$ before an event and the realized return after the event for a specific security:

$$AR_{it} = R_{it} - (R_{it}) \dots\dots\dots(2)$$

with AR_{it} = abnormal return on security i during period t ,
 R_{it} = Real/actual return on security in time t
 (R_{it}) = Expected return on security i in period t .

The abnormal returns are added together to get cumulative abnormal returns for various event windows. (CAR). The CAR is calculated as follows:

$$CAR_t = \sum_{t=1}^{t=-1} AR_t$$

In a univariate model, obtaining results requires calculating the average and variance of abnormal returns. The average at a specific point in time can be determined using the following equation.

$$\bar{AR}_t = 1/N \sum AR_{it}$$

The T-statistic computation is displayed below.

$$T\text{-Stat} = CAR_t / (\sigma CAR_t) / \sqrt{N-1}$$

This study uses Cumulative Abnormal Return (CAR) as the dependent variable to measure the stock performance of acquiring firms following merger and acquisition announcements. CAR is preferred over single-day Abnormal Return (AR) because it captures the total market reaction over a specified event window, offering a more comprehensive picture of investor sentiment

(MacKinlay, 1997). In the context of emerging markets like Kenya, where information dissemination may be delayed and market efficiency is relatively lower, CAR accounts for slower investor responses and market imperfections (Brown & Warner, 1985; Andrade et al., 2001). Moreover, CAR helps minimize the effects of daily stock price volatility and isolates the impact of M&A announcements from unrelated market movements, thereby enhancing the reliability and validity of event study results (Kothari & Warner, 2007; Savor & Lu, 2009)

Model 2: Regression model for Mode of Financing

The study showed the cumulative abnormal return (CAR) for the sample of the bidder. Mean and median values of CAR were provided for equity, cash, and mixed financing for the various event windows (-1; +1), and (-30;+30) to analyze the effect of the different mode of financing on CAR.

$$CAR = \alpha_i + \beta_1 \text{ Mode of financing} + \text{Error term}$$

CAR=Cumulative abnormal return this is the dependent variable the researcher will be modelling.

α_i = accounts for any other factors affecting CAR that are not incorporated into the model.

β_1 =represents the coefficient of the explanatory variable, which is the mode of financing.

Mode of financing= is the variable that explains changes in the dependent variable (CAR). It will take the form of dummy variables for cash, equity, and mixed financing.

Regression Model

The Regression Model was as follows; -

$$a) \text{ Acquirer's Stock Performance (CAR)} = \beta_0 + \beta_1(\text{Financing Methods}) + \dots\varepsilon$$

$$CAR = \beta_0 + \beta_1 X_1(\text{Cash Method}) + \beta_2 X_2(\text{Share Method}) + \beta_3 X_3(\text{Mixed method}) + \varepsilon$$

Stock Performance represents the acquirer's stock performance.

Cash Financing, *Stock Financing*, and *Mixed Financing* are binary variables representing the use of cash, stock, and mixed financing methods, respectively.

β_0 is the intercept term.

$\beta_1, \beta_2, \beta_3$, are the coefficients for each respective variable.

ϵ is the error term.

Diagnostic tests were also be considered to test the model for multicollinearity, heteroskedasticity and autocorrelation.

3.6.2 Multicollinearity

Multicollinearity occurs when independent variables in a regression model are highly correlated, potentially distorting the analysis and making it difficult to isolate the effect of each variable. To address this, the study used the Variance Inflation Factor (VIF) to evaluate multicollinearity in the regression model. The VIF helps detect if any predictor variables are highly correlated with each other, which could inflate standard errors and lead to unreliable coefficient estimates. By assessing VIF, the study ensures that the independent variables, such as the M&A event and financing methods, do not suffer from multicollinearity, allowing for more accurate interpretation of their effects on abnormal returns.

3.6.3 Heteroskedasticity

Heteroskedasticity refers to a situation in regression analysis where the variance of the errors (residuals) is not constant across all levels of the independent variables (Obabire Akinleye et al., 2020). This violates a key assumption of ordinary least squares (OLS) regression, which requires that residuals have constant variance a condition known as homoscedasticity. When heteroskedasticity occurs, it can lead to inefficient estimates and biased standard errors, ultimately affecting the validity of hypothesis tests and confidence intervals. In this study, a scatter diagram of residuals against fitted values was used to visually assess the presence of heteroskedasticity. This method was chosen because it allows for an intuitive check: if the spread of residuals increases or decreases with fitted values (often forming a cone or funnel shape), it indicates potential heteroskedasticity. This visual inspection helped determine whether further corrective measures, such as using robust standard errors, were necessary to ensure reliable regression results.

3.6.4 Test for Serial Autocorrelation

The test for serial correlation is a widely used diagnostic tool in time-series and event study analysis, designed to assess whether the residuals of a regression model are correlated over time. Serial correlation violates the assumption of independent errors, which can result in inefficient estimates and biased standard errors, undermining the validity of hypothesis testing. In this study,

the Durbin-Watson test was used to detect serial correlation because it is specifically suited for identifying first-order autocorrelation in time-series data such as daily stock returns around merger and acquisition (M&A) events. The test examines the relationship between residuals and their immediately preceding values, with values close to 2 suggesting no autocorrelation, values significantly less than 2 indicating positive serial correlation, and values significantly greater than 2 suggesting negative correlation. The choice of the Durbin-Watson test is appropriate in this context as it effectively validates the independence of residuals in short-term event windows, ensuring the robustness of results related to stock performance post-M&A announcements.

3.7 Research Quality

The quality of research refers to the overall excellence, reliability, and validity of a study or project. High-quality research is characterized by rigorous methods, ethical considerations, robust data collection and analysis, and meaningful contributions to knowledge. The research conducted ensured quality as it only considered data from audited and published financial reports, data from the NSE, valid newspaper reports for the firms under study, and questionnaires. The reliability of the data was checked by ensuring it is collected from audited financial reports and other verifiable sources that can be tracked. Quality analysis was done, and meaningful contributions to knowledge drawn.

3.8 Ethical Issues in Research

According to (Mugenda & Mugenda, 2003) considerations of ethics are critical for any study. The appropriate behavior of research in relation to society norms is characterized as research ethics. Study goals like knowledge, accuracy, and error avoidance are supported by norms, which also forbid inventing, manipulating, or misrepresenting research data and instead emphasize the truth and minimize error. Ethical values are essential to collaborative work and accountability to the public (Resnik, 2020). Ethical concerns will be put into consideration together with the proper researcher's conduct and results' reliability and authenticity. The researcher will ensure that the findings reported are as they will be generated from the data collected.

3.9 Chapter summary

The chapter elucidates the chosen research methodology aimed at investigating the interplay between modes of financing in mergers and acquisitions (M&A) and stock performance among

companies listed on the Nairobi Securities Exchange (NSE) in Kenya. The study adopted a positivist approach, emphasizing objectivity and relying on secondary quantitative data sources. Employing a quantitative research design, the investigation utilized event study methodology to analyze abnormal returns and cumulative abnormal returns (CARs). Data procurement was facilitated through the NSE database and other credible sources. Subsequent analysis involved the use of regression models to examine the impact of financing methods on CARs. Multicollinearity, heteroskedasticity and autocorrelation were checked as the diagnostic tests to ensure the quality and validity of research findings. Ethical considerations were affected ensuring integrity and reliability of the research process and outcomes.



CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Introduction

The findings of the empirical analysis are presented in this chapter. Secondary data were employed in the research. The aim was to enhance the understanding of returns and the impact of payment methods on the returns of mergers and acquisitions (M&A) of companies listed on the Nairobi Securities Exchange (NSE). The CARs are included in each subchapter table together with the corresponding t-test and p-values, which indicate the significance of each individual CAR. The pre-event CARs and their corresponding p-values are separated from the event window CARs and their corresponding p-values in separate panels inside the result tables. Additionally, the results of the subsamples that were built using various transaction characteristics are also presented.

4.2 Diagnostic test findings

4.2.1 Multicollinearity

The results in table 4.1 displays the results for multicollinearity. Regression coefficient estimations become unreliable in a multiple regression model when the predictor variables exhibit strong correlation (Creswell, 2014). The predictor variables' association was evaluated, and the inflated variances arising from linear dependency on other explanatory factors were computed, using the Variable Inflation Factor (VIF). Multicollinearity is most likely present if the tolerance value is less than 0.01 and the VIF value is at or above 10.

The reciprocal (VIF) in the present study was between one and two, below the highest threshold value, as indicated by the results displayed in Table 4.1. The tolerance range in the current investigation was 0.565 to 0.961. According to Ary et al. (2015), VIFs of 10 or more generally imply considerable multi-collinearity that impedes the research. The results showed that multicollinearity was not a problem. The variables in the study showed VIF values that were all less than 10, ranging from 1.118 to 1.523. This proved that multicollinearity was not an issue during the data collection process.

Table 4.1: Collinearity test

Collinearity Statistics		
Variable	Tolerance	VIF
Cash	.961	1.118
Shares	.623	1.386

 a. Dependent Variable: Stock performance

(Author, 2024)

4.2.2 Test for Heteroskedasticity

Figure 4.1 illustrates the results of the test for heteroskedasticity, which assesses whether the variance of the residuals from the regression model is constant across all levels of the independent variables. A key aspect of this figure is its depiction of a scatter plot of residuals versus fitted values, which is a common method for visually inspecting heteroskedasticity. In an ideal scenario, the residuals should be randomly dispersed around zero with no discernible pattern, indicating homoskedasticity. However, if the plot shows a funnel shape or any systematic pattern, it suggests that the variance of the residuals varies with the level of the fitted values, indicating heteroskedasticity. The presence of heteroskedasticity can lead to inefficient estimates and biased standard errors, which can affect hypothesis testing and confidence intervals. In Figure 4.1 the residuals appear randomly scattered without any apparent structure, this indicate that heteroskedasticity is not a concern for this model, supporting the validity of the regression results regarding the impact of financing methods on stock performance in mergers and acquisitions.

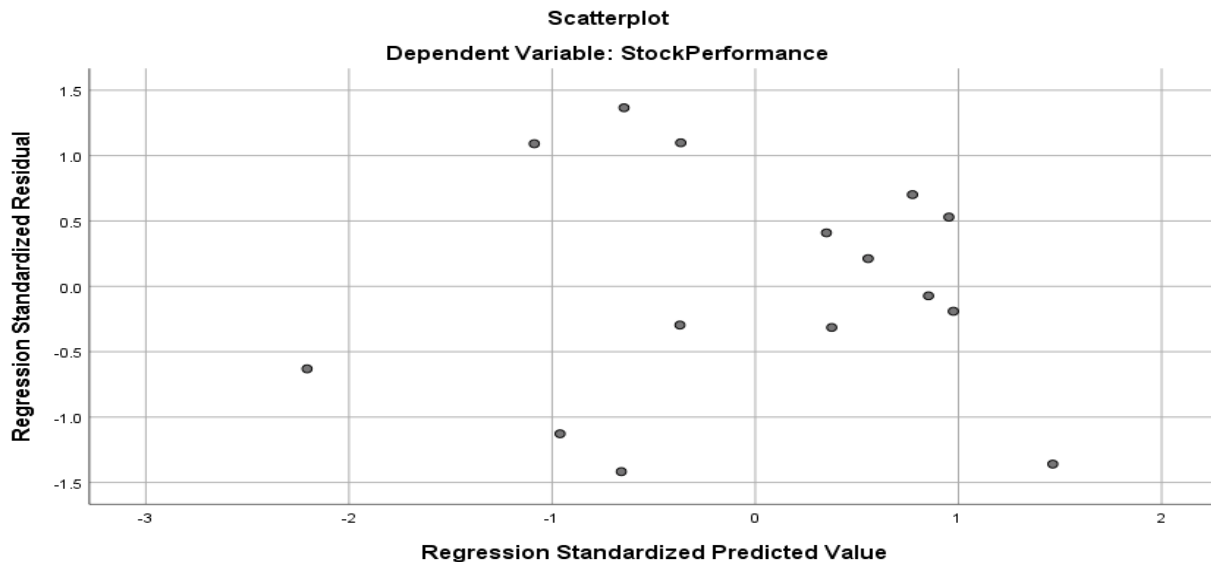


Figure 4.1: Test for Heteroskedasticity

4.2.3 Test for Autocorrelation

The Durbin-Watson statistic in the model summary (table 4.2) is reported as 1.953. This statistic is crucial for assessing the presence of autocorrelation in the residuals of a regression model. The

value of the Durbin-Watson statistic ranges from 0 to 4, with a value around 2 indicating no autocorrelation. Values significantly below 2 suggest positive autocorrelation, while values above 2 indicate negative autocorrelation. In this case, a Durbin-Watson value of 1.953 is close to 2, suggesting that there is no significant autocorrelation present in the residuals of the model. This indicates that the residuals are relatively independent of each other, which is a desirable property for regression analysis as it supports the validity of the model's estimates and hypothesis tests.

Table 4.2: Test for Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.735 ^a	.540	.414	.35768	1.953

a. Predictors: (Constant), Cash, Shares, Mixed

b. Dependent Variable: Stock Performance

(Author, 2024)

4.3 Mergers & Acquisitions returns for the study sample

The table 4.3 shows the results of the regression for individual M&A. The average share price change that occurred from the M&As of the chosen corporations was determined by calculating the mean returns. After M&As, a rise in mean returns implies a positive influence while a reduction in mean returns suggests a negative impact. Table 4.3 presents information regarding the average returns on share prices before and after mergers and acquisitions in the study's sample organizations. The table depicts the mean abnormal returns for each of the events.

Table 4.3: Mean Abnormal Returns for Individual Events

Events (M&A's)	Mean Abnormal Returns			Effect
	Pre-event (t-30 to t-1)	Post-event (t+1 to t+30)	% Change	
HBK- DTB (E-1)	0.51	0.37	-0.14	Decrease
RIC-BRT (E-2)	-0.63	0.27	0.36	Increase
NIC-CBA (E-3)	-0.32	0.63	0.96	Increase
KRBL-CL (E-4)	-0.09	-0.44	-0.35	Decrease
NBK-KCB (E-5)	-0.42	-0.04	.38	Increase

GCB-IM (E-6)	-0.53	0.25	0.28	Increase
JBB-COP (E-7)	-0.16	-0.42	-0.26	Decrease
BCDC-EQB (E-8)	-0.26	-0.54	-0.28	Decrease
UML-UGL (E-9)	-0.38	-0.90	-0.52	Decrease

(Source: Author's calculations in MS-Excel, 2024)

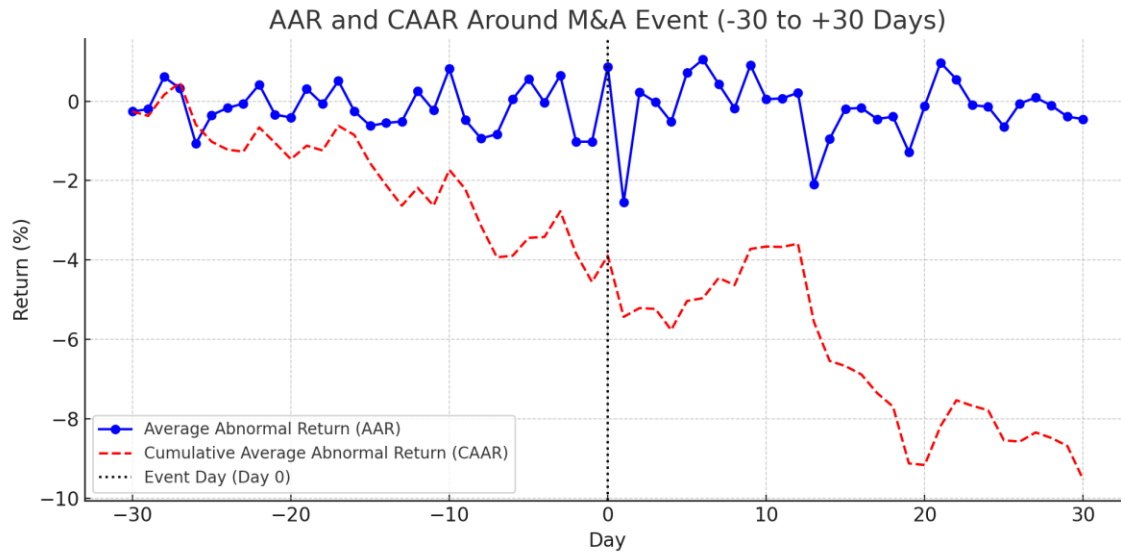
Table 4.3 presents the mean abnormal returns for individual mergers and acquisitions (M&As) across two time periods: the pre-event window (t-30 to t-1) and the post-event window (t+1 to t+30). The table highlights the performance of various M&A events, indicating whether the stock returns increased or decreased following the announcements. For instance, the HBK-DTB merger (E-1) shows a decrease in mean abnormal returns from 0.51% pre-event to 0.37% post-event, reflecting a decline of 0.14%. Conversely, the NIC-CBA merger (E-3) demonstrates a significant increase in mean abnormal returns from -0.32% to 0.63%, resulting in a substantial change of 0.96%. The table encapsulates these trends with a final column indicating the overall effect—whether it was an increase or decrease in returns.

The results reveal varied impacts of different M&A events on stock performance, suggesting that market reactions can differ significantly based on specific deals. For example, while some mergers like NIC-CBA and RIC-BRT experienced notable increases in mean abnormal returns post-event, others like KRBL-CL and UML-UGL saw decreases, indicating investor skepticism or negative sentiment surrounding those transactions. The percentage change column highlights these dynamics, with increases ranging from 0.28% to 0.96% for certain mergers, while decreases varied from -0.14% to -0.52%. Overall, these findings suggest that the market's reaction to M&A announcements is influenced by factors such as deal specifics, market conditions, and investor perceptions, emphasizing the complexity of evaluating stock performance in response to M&A activities.

4.3.1 Average abnormal returns of the entire sample of events

The graph below illustrates the Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) over the event window of -30 to +30 days relative to a merger and acquisition (M&A) announcement.

Figure 4.2 Average Abnormal Returns



From the graph, it's evident that there is a noticeable trend in investor sentiment surrounding the M&A event. During the pre-event period (days -30 to -1), the AARs show several instances of negative returns, indicating market skepticism leading up to the announcement. The sharpest reaction is observed on Day 0, where a steep drop in CAAR is seen, signaling a significant negative market reaction at the time of the announcement. This negative trend continues into the post-event period (days +1 to +30), with persistent declines in CAAR, reflecting continued investor pessimism. This suggests that the market viewed the M&A unfavorably, possibly due to concerns over the deal's implications, such as integration challenges or overvaluation. *(See associated data in appendix ii)*

The average abnormal returns (AARs) exhibit a notable trend throughout the event window. Specifically, during the pre-event period (from -30 to -1 days), there are 18 days where the AARs are negative. This suggests that, leading up to the event, investors were generally pessimistic about the stock's performance, reflecting concerns or uncertainties surrounding the merger or acquisition. In contrast, during the post-event period (from +1 to +30 days), there are 20 days where the AARs remain negative. This indicates that the negative sentiment persisted even after the announcement, suggesting that investors may have reacted unfavorably to the specifics of the deal or its implications for future performance.

The presence of negative AARs in both pre-event and post-event periods suggests a consistent pattern of investor skepticism surrounding the M&A deal. The 18 days of negative AARs before

the event indicate that market participants may have anticipated potential challenges or risks associated with the merger, leading to a decline in stock performance prior to the announcement. Following the event, with 20 days of negative AARs, it appears that investor concerns were validated, resulting in continued downward pressure on stock prices. This prolonged negativity could stem from various factors, such as integration challenges, perceived overvaluation, or unfavorable market conditions following the announcement. The findings underscore a significant lack of confidence among investors regarding the M&A transaction's potential benefits and highlight the importance of effective communication and strategic planning in managing market perceptions during such corporate events.

The results show statistically significant abnormal returns surrounding the announcement date, particularly on days -1, 0, and +1. This indicates that the market does not instantaneously and fully incorporate the new information, thereby contradicting the semi-strong form of the Efficient Market Hypothesis. Persistent negative cumulative abnormal returns further suggest a prolonged market correction post-announcement, supporting the view of inefficiencies in the market's response to merger and acquisition announcements.

4.4 Mergers & Acquisitions Payment methods

Objective 1: The influence of cash financing on the stock returns of mergers and acquisitions.

Table 4.4 provides insights into the cumulative average abnormal returns (CARs) associated with cash financing in mergers and acquisitions (M&A).

Table 4.4: Cash Financing Results

The market model	Cash Financing
Panel A: CARs Pre-acquisition [-30.30], Zero is the event day	
CAR (Median)	0.59 %
p t-test	0.44
p sign rank test	0.24
Panel B: CAARs in the event window [-1.1], Zero is the event day.	
CAR (Median)	4.00 %
p t-test	0.25
p sign rank test	0.15

*** CARs are significant at 0.01 level

** CAARs are significant at 0.05 level

* CAARs are significant at 0.1 level

In Panel A, which examines the pre-acquisition period (from -30 to -1 days), the CAAR median is reported at 0.59%. However, the p-values for both the t-test (0.44) and the sign rank test (0.24) indicate that this result is not statistically significant. This suggests that, prior to the announcement, cash financing did not elicit a strong market reaction among investors. In Panel B, which focuses on the event window surrounding the announcement (from -1 to +1 days), the CAAR median increases to 4.00%. Despite this increase, the p-values from both tests (t-test: 0.25; sign rank test: 0.15) again suggest that these returns are not statistically significant. This indicates that even during the event period, cash financing did not lead to a substantial positive market reaction.

This lack of significant abnormal returns contrasts with findings cited in Section 2.3 of the empirical review, which discusses various studies on the impact of payment methods on performance. For instance, previous research has indicated that cash payments in M&A transactions are often viewed positively due to perceived lower risk and immediate liquidity benefits for shareholders (Chipeta & Nkiwane, 2020). However, the results from Table 4.4 suggest that in this specific context Kenyan firms listed on the Nairobi Securities Exchange investors did not respond favorably to cash financing as anticipated. This could imply that market participants may have had concerns regarding the strategic rationale behind cash acquisitions or underperformance that results from acquiring corporations making value-destroying cash-financed acquisitions due to the low opportunity costs of cash holdings as discovered by (Yang et al. (2019). Shares may be preferred to cash because Acquiring firms may choose stock payment to address information asymmetry and capture the value of the target company more accurately (Wulandari & Wang, 2015).

Furthermore, the empirical literature indicates that while some studies report positive cash performance following M&A announcements, others suggest a more cautious view regarding cash financing's effectiveness in enhancing shareholder value (Wulandari & Wang, 2015., Yang et al. (2019). The findings in Table 4.5 contribute to this discourse by demonstrating that cash financing did not yield significant positive abnormal returns for the sample studied, thereby reinforcing the notion that market reactions can vary significantly based on contextual factors and investor sentiment surrounding specific transactions. This underscores the importance of considering local

market dynamics when evaluating the impact of financing methods on cash performance in M&A scenarios.

Objective 2: To establish the influence of share financing on the stock return of mergers and acquisitions.

Table 4.5 provides the results for the cumulative average abnormal returns (CAARs) associated with share financing in mergers and acquisitions (M&A).

Table 4.5: Share Financing Results

The market model	Share
Panel A: CARs Pre-acquisition [-30.30], Zero is the event day	
CAR (Median)	-0.62 %
p t-test	0.18
p sign rank test	0.01***
Panel B: CARs in the event window [-1.1], Zero is the event day.	
CAR (Median)	5.01 %
p t-test	0.05*
p sign rank test	0.04*
*** CARs are significant at 0.01 level	
** CARs are significant at 0.05 level	
* CARs are significant at 0.1 level	

In Panel A (Table 4.5), which analyzes the pre-acquisition period (from -30 to -1 days), the CAR median is reported at -0.62%. The p-value for the t-test is 0.18, indicating that this result is not statistically significant, while the sign rank test shows a p-value of 0.01*, suggesting a significant negative reaction when using this method. This implies that investors may have had concerns about share financing prior to the announcement of the M&A. In Panel B (Table 4.5), focusing on the event window around the announcement (from -1 to +1 days), the CAR median increases to 5.01%. The p-values for both the t-test (0.05) and sign rank test (0.04) indicate that these returns are statistically significant at the 5% level. This positive reaction suggests that investors responded favorably to the announcement of share financing in M&A transactions, reflecting optimism regarding potential value creation from such deals. Possible reasons for these are that investors perceive stock-financed acquisitions as a positive signal of the acquiring firm's growth prospects or value creation potential (Adra & Barbopoulo, 2018) . The results also align with the findings of Fatima & Shehzad (2014) showing that share financing may introduce concerns about dilution. The negative CAR observed before the announcement aligns with these concerns, reflecting

investor skepticism about share-based transactions. The significant positive CAR observed during the event window supports findings from studies indicating that when investors perceive potential synergies and strategic benefits from share financing, they react positively (Chipeta & Nkiwane, 2020).

Objective 3: To establish the influence of mixed financing on the stock returns of mergers and acquisitions.

Table 4.6 presents the cumulative average abnormal returns (CARs) associated with mixed financing in mergers and acquisitions (M&A).

Table 4.6: Mixed Financing Statistics

Panel A: CARs Pre-acquisition [-30.30], Zero is the event day	
CAR (Median)	0.35 %
p t-test	0.005***
p sign rank test	0.001***
Panel B: CARs in the event window [-1.1], Zero is the event day.	
CAR (Median)	0.62 %
p t-test	0.033**
p sign rank test	0.002***
*** CARs are significant at 0.01 level	
** CARs are significant at 0.05 level	
* CARs are significant at 0.1 level	

In Panel A (table 4.6), which examines the pre-acquisition period (from -30 to -1 days), the CAAR median is reported at 0.35%. The p-values for both the t-test (0.005*) and the sign rank test (0.001*) indicate that this result is statistically significant at the 1% level. This suggests that investors had a positive perception of mixed financing prior to the announcement, reflecting optimism about the potential benefits of such financing methods. In Panel B, which focuses on the event window surrounding the announcement (from -1 to +1 days), the CAAR median increases to 0.62%. The p-values from both tests (t-test: 0.033; sign rank test: 0.002*) indicate that these returns are statistically significant at the 5% level. This positive reaction suggests that investors responded favorably to mixed financing in M&A transactions, indicating confidence in the potential for value creation from these deals.

The results (table 4.6) reveal a strong positive relationship between mixed financing and stock returns in M&A transactions. The significant CARs in both the pre-acquisition and event windows suggest that investors perceive mixed financing as a favorable approach, likely due to its ability to balance risk and reward (Klitzka et al. 2021). The positive CAR in the pre-acquisition period indicates that market participants may have anticipated potential synergies or strategic advantages associated with mixed financing, which combines elements of both cash and equity financing. These findings can be related to Gugler and Mueller (2003) study, which found that different financing methods yield varying market reactions, with mixed financing often seen as a balanced approach that mitigates some of the risks associated with purely cash or equity financing. The positive CARs observed in Table 4.6 align with this perspective, suggesting that investors view mixed financing as a strategy that can enhance shareholder value by leveraging both immediate liquidity and potential future growth.

Mixed financing can also generate positive investor sentiment when perceived synergies are expected. The significant abnormal returns associated with mixed financing support findings from studies emphasizing its effectiveness in creating value during M&A transactions, reinforcing the idea that market reactions are influenced by how well investors believe a deal will align with their expectations for future performance. The findings regarding the abnormal returns of the acquirers within the event window indicate that, Share and Mixed transactions performed statistically significantly better than their Cash equivalents, based on the market model. The results align with the findings of De La Bruslerie & Enache (2023) on the dynamics of leveraging of newly controlled target firms. The study suggested that when major shareholders of the target business become new owners of the acquirer's shares, the acquirer's shares can be utilised as a risk-sharing instrument. Thus, this may indicate that the target is overpriced and provide the major shareholders with an incentive to ensure the smooth execution of the deal and the merger procedure.

Multiple regression analysis was used to fully realise the study objectives (Table 4.8)

$$\text{Acquirer's Stock Performance (CAR)} = \beta_0 + \beta_1 X_1(\text{Cash Method}) + \beta_2 X_2(\text{Share Method})$$

The model tested whether the independent variables have significant impact on the dependent variable predicating the performance of acquirer's post-merger (Table 4.6).

Table 4.7: Estimated Regression Coefficients for Variables

Model	Coefficients ^a					Collinearity Statistics		
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Tolerance	VIF
	B	Std. Error	Beta					
1 (Constant)	.878	.377			2.330	.021		
Cash	.374	.159	.214		2.346	.020	.360	2.776
Shares	.498	.125	-.364		-3.999	.000	.362	2.764
Mixed	.806	.071	.643		11.404	.000	.945	1.058

a. Dependent Variable: CAR

Source Author (2024)

The independent variables for share and mixed emerge as significant ($T < 0.1$) in the model below:

Thus, the model equation is expressed as follows:

$$CAR = 0.878 + (0.374X_1) + (0.498X_2) + (0.806X_3) + \epsilon$$

In this case, the constant term of 0.878 represents the baseline CAR when all independent variables are zero. The coefficient for cash financing (0.374) indicates that for each unit increase in cash financing, the CAR increases by 0.374, suggesting a positive relationship between cash financing and stock performance. The coefficient for shares financing (0.498) is noteworthy; it signifies a positive impact on CAR, indicating that a unit increase on shares financing share leads to an improvement in stock performance by 0.498. The mixed financing method shows a strong positive coefficient of 0.806, reflecting investor optimism about this approach and suggesting it is perceived favorably in terms of enhancing CAR.

The fact that all independent variables (IVs) in the regression analysis are statistically significant, while the event study approach may show mixed or less consistent significance, highlights a key methodological distinction. Regression analysis provides a more controlled environment where the relationship between the mode of financing and cumulative abnormal returns (CAR) is isolated

and tested over the entire dataset. It accounts for variations across all observations, increasing statistical power and precision.

In contrast, the event study approach, especially when focused on short-term windows (e.g., (-1, +1)), may be more sensitive to market noise, investor sentiment, or unobserved external events occurring around the announcement date. This can make it harder to detect statistically significant effects, especially with a small sample size.

While regression analysis offers important insights into longer-term and cross-sectional effects, the event study method is the most appropriate for capturing the immediate market reaction to merger announcements, which is the purest test of market efficiency (Fama, Fisher, Jensen, & Roll, 1969; MacKinlay, 1997). The focus of the study on the event study approach is justified because it isolates the short-term abnormal returns directly attributable to the event, minimizing confounding influences from broader market movements or firm-specific trends (Brown & Warner, 1985). Despite potential noise, event studies remain the gold standard in finance for assessing how quickly and accurately markets absorb new information (MacKinlay, 1997). Furthermore, immediate investor behavior post-announcement provides critical evidence of how financing choices are initially perceived by the market, even if regression analysis detects longer-term relationships.

4.5 Summary of Findings

Chapter Four presents the empirical findings of the study, beginning with diagnostic tests that affirm the reliability of the data. Multicollinearity was ruled out using the Variance Inflation Factor (VIF), where all values remained well below the threshold of 10, indicating no significant linear dependence among the independent variables. The test for heteroskedasticity revealed a random scatter of residuals, suggesting constant variance and validating the regression model's assumptions. The Durbin-Watson statistic, with a value of 1.953, confirmed the absence of autocorrelation in the residuals, ensuring the robustness of the regression outcomes. These preliminary tests laid a solid foundation for subsequent analysis on the stock market reactions to mergers and acquisitions (M&A) based on financing methods.

The study then explored the performance of individual M&A events by analyzing mean abnormal returns pre- and post-announcement. The results showed a mixed trend: while some deals like

NIC-CBA and RIC-BRT led to positive abnormal returns, others such as KRBL-CL and UML-UGL showed declines. The analysis of Average Abnormal Returns (AARs) and Cumulative Average Abnormal Returns (CAARs) across a 60-day event window (-30 to +30 days) revealed a predominantly negative trend, especially around the announcement date. This indicates persistent investor pessimism, potentially stemming from concerns about deal quality, integration risks, or macroeconomic conditions. A total of 18 negative AARs were recorded pre-event, and 20 in the post-event period, suggesting overall market skepticism surrounding the M&A announcements.

Further analysis focused on the impact of different financing methods. Cash-financed M&As showed positive but statistically insignificant CAARs, diverging from global literature that typically views cash deals favorably. In contrast, share-financed deals received a negative reaction pre-event but showed statistically significant positive returns during the announcement period, indicating a shift in investor sentiment once strategic intentions became clear. Most notably, mixed-financing M&As generated the strongest and most consistently significant abnormal returns in both pre-event and event windows. This suggests that mixed financing is perceived as a balanced, risk-sharing strategy that reassures investors. Regression analysis confirmed these findings, with all financing methods showing significant positive impacts on CAR, especially mixed financing ($\beta = 0.806$), reinforcing its superiority. Overall, the chapter highlights that investor response to M&A in Kenya is nuanced and highly sensitive to the financing structure used.



CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This part provides a summary of the analysis, recommendations, and, finally, directions for future research. The research objectives inform the study's conclusion. Based on the study's findings, a summary of the key conclusions, recommendations, and findings is given in accordance with the goals of the research.

5.2 Summary of the Study

The overall objective of the study was to examine the impact of financing methods on the stock performance of mergers and acquisitions (M&A) among firms listed on the Nairobi Securities Exchange (NSE). Specifically, the study aimed to assess how cash, equity, and mixed financing methods influence cumulative abnormal returns (CAR) following M&A announcements. Grounded in theories such as Agency Theory, Efficient market hypothesis and Synergy Theory, the research explored the dynamics of capital structure decisions and their implications for shareholder value. The methodology employed was a time series analysis, analyzing a sample of nine companies involved in M&A transactions between 2013 and 2020. Data was collected from the NSE and other public sources, and statistical analysis was conducted using SPSS and Excel.

The study found that cash financing in mergers and acquisitions did not lead to statistically significant abnormal returns in either the pre-acquisition or the event window. Despite a modest positive CAAR during the event window, the p-values indicated that investor response was not significant. This lack of reaction contrasts with existing literature that often associates cash financing with positive market perception due to liquidity benefits. The Kenyan market context suggests that investors might have concerns about the strategic rationale for cash-financed deals or potential inefficiencies, challenging the assumption that cash is always a favorable method of payment in M&As.

In contrast to cash financing, share financing showed a mixed investor response. While the pre-event CAR was negative and not statistically significant in the t-test, it was significant under the

sign rank test, indicating some pre-announcement investor skepticism. However, during the event window, the CAR was statistically significant at the 5% level in both tests, suggesting a positive shift in sentiment. This implies that investors may view share-financed deals more favorably once the deal is public, possibly because such transactions signal growth potential or allow value realization with less upfront capital, mitigating the risks associated with full cash deals.

Mixed financing emerged as the most positively received method, with statistically significant positive abnormal returns in both the pre-event and event windows. A significant pre-announcement and post-announcement CAR indicated consistent investor optimism. Regression analysis further validated this finding, showing mixed financing had the strongest positive coefficient on CAR among the three methods. This suggests that investors perceive mixed financing as a balanced and strategic approach that manages risk while allowing flexibility. The results support existing literature that views mixed financing as effective in creating shareholder value and managing merger-related uncertainties.

5.3 Discussion of study Findings

5.3.1 Cash Payments and Performance of Mergers and Acquisitions

The current study found that cash-financed mergers and acquisitions (M&As) on the Nairobi Securities Exchange (NSE) did not lead to statistically significant abnormal stock returns in either the pre-acquisition or event-window periods. Although there was a modest increase in the Cumulative Average Abnormal Return (CAAR) during the event window, the corresponding p-values were not statistically significant, indicating a lack of meaningful investor reaction to cash-financed deals. This contrasts with the dominant narrative in the empirical literature, particularly in developed market contexts, where cash payments are often associated with positive investor sentiment due to their perceived signaling of financial strength and immediate liquidity benefits (Kalinowska & Mielcarz, 2014). These authors argued that cash-financed acquisitions are more favorable for shareholders because they reduce uncertainty and prevent dilution, resulting in stronger short-term operational performance post-transaction.

However, the findings of this study are more closely aligned with those of Yang et al. (2019), who observed that cash-financed M&As often underperform, particularly in emerging markets where liquidity may not necessarily equate to strategic advantage. Their study of Chinese listed firms revealed that while cash-rich firms were more likely to pursue acquisitions, those that relied solely

on cash often faced negative market reactions and underperformed post-merger. This was attributed to issues such as overconfidence in resource deployment, suboptimal target selection, and poor post-acquisition integration, factors that may similarly influence investor sentiment in the Kenyan context. These insights suggest that in imperfect capital markets like Kenya's, investors may interpret cash deals with caution, possibly perceiving them as signs of aggressive expansion or resource misallocation, rather than prudent strategic moves.

Moreover, the current study adds value by addressing a geographic gap in the literature, which has predominantly focused on M&A performance in developed economies. While studies like that of Kalinowska and Mielcarz (2014) highlight the strengths of cash as a financing mechanism, they often overlook the contextual challenges faced by firms in emerging markets, such as information asymmetry, thin trading volumes, regulatory inefficiencies, and limited investor sophistication. By evaluating the Kenyan market, this study provides evidence that cash financing does not universally lead to value creation, emphasizing the importance of local market dynamics and investor expectations. The findings underscore the need for acquiring firms in such contexts to carefully justify their financing strategies and communicate strategic rationale effectively to gain investor support. Overall, the study complements and extends existing literature by highlighting how market context influences investor perception of financing methods in M&A transactions.

5.3.2 Equity Payments and Performance of Mergers and Acquisitions

The current study found that share-financed mergers and acquisitions (M&As) on the Nairobi Securities Exchange (NSE) exhibited a mixed pattern of investor response. Prior to the announcement, share-financed deals were associated with negative abnormal returns, indicating skepticism and possible concern over dilution or overvaluation. However, during the event window, the market reaction became significantly positive, with statistically significant cumulative average abnormal returns (CAARs). This suggests that while initial perceptions of share-financed deals may be cautious or negative, investors on the NSE eventually respond favorably when the strategic value of the deal becomes evident. This duality in market response reflects the complex signaling effect of equity payments, where stock offers can be interpreted as both a sign of caution and strategic opportunity.

These findings align with aspects of the literature that highlight investor apprehension toward share financing due to concerns about overvaluation, ownership dilution, or perceived managerial

overconfidence. For instance, De Bodt et al. (2018) found that full-stock payment transactions often led to negative investor sentiment and underperformance post-acquisition. Investors may interpret such deals as signals that the acquiring firm's management lacks confidence in their own valuation or that synergies from the deal may be overestimated. Similarly, Madume (2023) noted that while acquiring firms may experience positive abnormal returns leading up to M&A announcements, unfavorable outcomes or deal failures can trigger adverse market reactions, especially for acquirers using non-cash methods.

In contrast, other empirical studies suggest that under specific conditions, stock-financed M&As can be beneficial. Mateev (2017) observed that stock-financed acquisitions in the UK yielded marginal but more favorable results than those in continental Europe, highlighting how regional differences in market maturity and investor expectations influence outcomes. Additionally, Vagenas-Nanos (2020) argued that acquirers who are overvalued relative to their targets can strategically exploit their inflated stock prices to secure favorable M&A terms, leading to value creation in the short term. This provides some support for the positive event-window reaction found in the current study. Investors in the Kenyan context may similarly perceive well-structured share-financed deals as opportunities for value enhancement, especially when synergies and strategic intent are well communicated.

Collectively, the empirical literature and current study findings illustrate the context-dependent nature of stock-financed M&A outcomes. In developed markets, stock payments often elicit cautious reactions due to valuation concerns; however, in emerging markets like Kenya, investor reactions may be more nuanced shaped by deal specifics, market structure, and institutional trust. This study extends the global literature by offering empirical evidence from an under-researched African market, thereby highlighting how local economic and informational environments mediate the effectiveness of different M&A payment strategies.

5.3.3 Mixed Payments and Performance of Mergers and Acquisitions

The current study found that mixed financing was the most positively received payment method among mergers and acquisitions (M&As) on the Nairobi Securities Exchange (NSE). Statistically significant abnormal returns were observed in both the pre-announcement and event windows, indicating consistent investor optimism. This suggests that market participants view mixed payments, comprising both cash and stock, as a strategic and balanced approach that allows

acquirers to signal financial strength while sharing integration risk with target firms. The regression analysis reinforced this view, revealing that mixed financing had the strongest positive coefficient on cumulative abnormal returns (CAR), highlighting its superiority in influencing market perception and shareholder value positively.

These findings are consistent with the literature by Klitzka et al. (2021), who reported that mixed payment methods are often interpreted by investors as a risk-mitigating strategy. Their study emphasized that while cash signals liquidity strength, including stock in the payment mix allows firms to align incentives and reduce valuation risk, thus enhancing the attractiveness of the deal. According to Klitzka et al., both acquirers and targets demonstrate rational behavior in selecting payment methods, particularly in high-uncertainty environments, where mixed deals are seen as a compromise that balances flexibility and confidence. This mirrors the Kenyan market response, where investors may favor acquirers who demonstrate prudent capital management and strategic foresight through diversified payment structures.

However, Yuan et al. (2016) presented more nuanced findings. Their study showed that the impact of payment methods varies across industry types, with stock payments more beneficial in growth industries and cash more effective in mature sectors, while noting no significant overall difference in performance across payment methods in aggregated regression analysis. This contrasts with the current study's clear preference for mixed financing, suggesting that industry-specific factors or regional market maturity may influence the effectiveness of financing strategies. The NSE, as a developing market, may inherently reward acquirers that use flexible and transparent financing models, especially in light of market imperfections and investor sensitivities to risk.

The broader literature reflects mixed conclusions about the effectiveness of mixed payment strategies. While several studies, such as those by Safitri (2019) and Faisal & Basid (2019), report negative performance post-M&A, others like Tampakoudis et al. (2020) and Sidney & Huijie (2020) find positive effects. Yet few studies have explored this in African markets. The current study addresses this geographic and contextual gap by examining how financing structures interact with investor behavior in Kenya, a market that differs markedly from the U.S., European, and Asian contexts studied by Kalinowska & Mielcarz (2014), Panda & Joshipura (2022), and Chinchwadkar (2015). These prior studies largely focused on either developed economies or

specific industries, often neglecting macroeconomic volatility, lower investor sophistication, and regulatory constraints typical in emerging markets.

The current findings provide robust empirical support for mixed financing as a superior payment strategy in Kenya's M&A market. They complement global research advocating for diversified approaches and highlight the importance of strategic alignment between financing methods, market expectations, and investor risk preferences. This study not only confirms that mixed methods enhance shareholder value but also expands the scope of existing research by anchoring these conclusions within an African, frontier market context, thus filling a critical literature gap in regional M&A strategy discourse

5.4 Conclusion

The study concentrated on analyzing particular subsamples in addition to investigating the presence of abnormal returns associated with M&A transaction announcements generally. These subsamples were identified according to the cash, share, and mixed payment methods that were employed in the transactions. The study sought to investigate how different payment mechanisms affected the performance of M&A corporations by comparing the abnormal returns of these subsamples. The study concluded that, in comparison to businesses that used cash payments, those that used share and mixed payments generated statistically significant abnormal returns. This implies that the financial performance of the target and acquiring organizations might be significantly impacted by the payment mechanism selected in M&A transactions. In this case, share and mixed transactions outperformed their cash equivalents statistically considerably based on the market model analysis. This shows that abnormal returns that were larger than anticipated given the general state of the market were experienced by corporations engaged in mergers and acquisitions (M&A) transactions utilizing share and mixed payments.

Some of the probable reasons why share financing outperformed cash include market perception and confidence, financing with shares can be perceived as a sign of confidence by the acquirer's management in their own company's future performance. This positive signal can boost investor confidence and potentially improve stock performance. As a result, the study's findings demonstrate that share financing significantly affects stock returns during mergers and acquisitions.

Secondly is overvaluation benefits, if the acquirer's stock is overvalued, using shares for the acquisition can be beneficial as it allows the acquirer to use their overvalued stock as currency, effectively getting more value for less actual cost. Thirdly stakeholder alignment paying with shares often means that the shareholders of the target company become shareholders of the acquirer. This can create a sense of partnership and ensure that all stakeholders are working towards the same goal, improving the likelihood of successful integration and performance post-acquisition. In terms of mixed financing, the method signal confidence to the shareholders and investors of the Company's risk sharing capabilities and financial strength, hence better performance

5.5 Recommendations

5.5.1 Policy recommendation

The study's findings indicate that mixed and share payment options outperform cash payments. Diversifying payment options is something that companies should be pushed to do. Encouragement of the use of shares and mixed payments in M&A deals is one way that policymakers might push corporations to think about diversifying their financing sources. This can be achieved by offering incentives or establishing legal frameworks that make it easier for people to use various payment options.

it is recommended that firms prioritize the establishment of independent boards that can effectively oversee management decisions related to financing methods. This will not only enhance oversight but also align management decisions with shareholder interests, ultimately leading to improved financial performance. Also, firms should engage in regular assessments of their board structures and effectiveness, particularly in the context of M&A transactions. By evaluating how well their boards are performing in terms of independence and oversight capabilities, companies can identify areas for improvement and make necessary adjustments. This proactive approach will not only strengthen corporate governance but also enhance the overall success rate of mergers and acquisitions by ensuring that financing decisions are made with a comprehensive understanding of their potential impacts on financial performance.

5.5.2 Managerial Recommendation

Managers should carefully consider the best financing option for M&A deals in light of the study's findings. Managers should do a thorough financial study, focusing on the transaction's specifics,

the company's financial health, and the projected impact on stock performance. It has been demonstrated that share and mixed payment techniques improve stock performance; therefore, managers should evaluate the viability and advantages of applying these methods in appropriate transactions.

5.5.3 Theoretical Recommendations

Grounded in the Pecking Order Theory (Myers & Majluf, 1984), this study highlights how financing decisions in mergers and acquisitions (M&A) are influenced by information asymmetry and perceived firm valuation. While the theory suggests a preference for internal financing, followed by debt and lastly equity, the findings of this study on the Nairobi Securities Exchange (NSE) demonstrate that cash-financed M&A deals do not necessarily generate superior returns. This contradicts the conventional wisdom derived from developed markets (Kalinowska & Mielcarz, 2014) and indicates that investor perceptions in emerging markets may be shaped by contextual factors such as liquidity constraints, corporate governance concerns, and transparency issues. Therefore, it is recommended that theoretical applications of the Pecking Order Theory be revised to incorporate market-specific realities, especially in frontier economies like Kenya, where informational inefficiencies and investor sentiment diverge from global norms.

Similarly, the Synergy Theory posits that mergers create value through operational efficiencies, cost reductions, and revenue enhancements (Sirower, 1997). The findings of this study indicate that mixed-financing methods, combining cash and equity, produced the most favorable stock market reactions, likely because they balance financial commitment with risk-sharing. This supports existing research by Klitzka et al. (2021), who argue that mixed payments reflect acquirers' financial strength and strategic prudence. Hence, the theory should be broadened to consider not only the expected operational synergies but also the signaling effects of the financing method. In emerging markets, where investor trust and market volatility are high, the structure of deal financing can significantly affect synergy realization. Therefore, synergy models should incorporate the role of payment structure as a mechanism for enhancing or hindering value creation.

5.6 Suggestion for Further Research

The results point to a connection between performance and payment mechanism; however, more investigation is required to determine the underlying causes of this association and to confirm the findings with different samples and time periods.

5.7 Study Limitations

This study investigated the financing methods and their impact on the stock performance of NSE-listed companies. Despite providing valuable insights, several limitations emerged, particularly due to the reliance on secondary data. The dependence on financial statements and corporate reports introduced potential biases and discrepancies, as variations in reporting standards and intentional misrepresentation could not be entirely ruled out. While stringent data quality checks and validation measures were employed to mitigate these risks, the possibility of inaccuracies remained.

The study's scope was confined to a specific time frame, restricting its ability to capture long-term trends or the evolving dynamics of the relationship between financing methods and stock performance.

Finally, the inherent limitations of secondary data, including inconsistencies in definitions, measurement methods, and reporting practices, could have affected the results. While efforts were made to cross-validate data sources, unaccounted variables such as macroeconomic conditions, industry-specific trends, and investor sentiment could also have influenced the observed relationships.

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APPENDICES

Appendix I: Data Collection Sheet

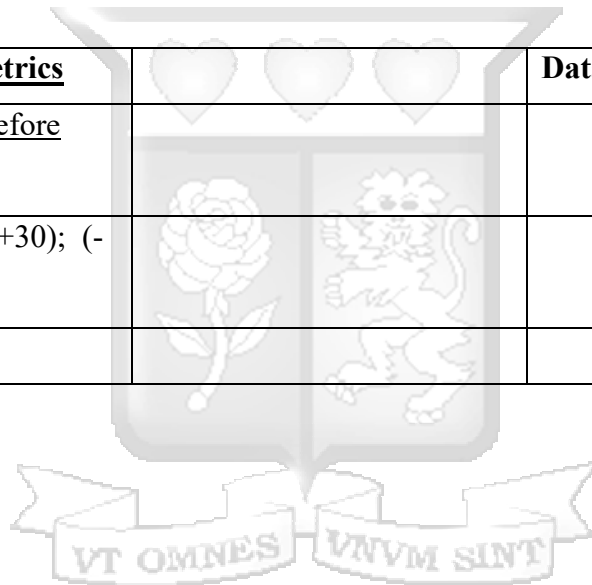
Dated: 14 March 2024

Company Information		Data Collection Method
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Company Name		
Industry Sector		

<u>Acquisition Details</u>		Data Collection Method
Acquisition Date		
Type of Financing Used	(Cash, Equity, or Combination)	
Amount of Financing		
Purpose of Acquisition		

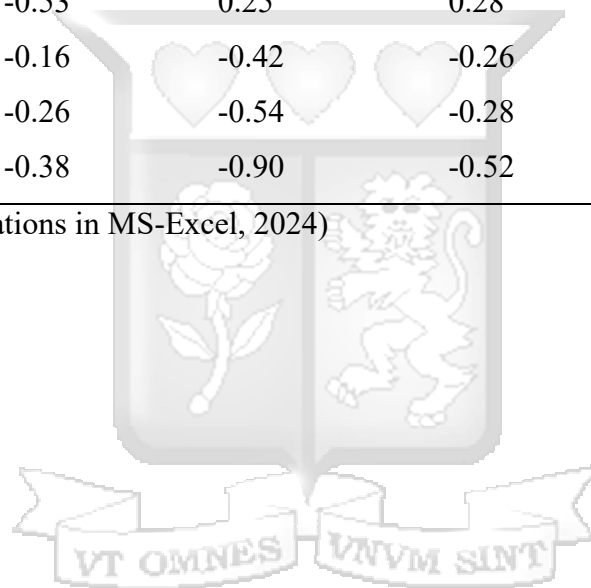
<u>Stock Performance Metrics</u>		Data Collection Method
<u>Stock Prices 240 days before M&A</u>		
<u>Stock prices for (, (-30; +30); (-1; +1)</u>		



Appendix II: Summary statistics of stock returns before and after M&As.

Events (M&A's)	Mean Abnormal Returns			Effect
	Pre-event (t-30 to t-1)	Post-event (t+1 to t+30)	% Change	
HBK- DTB (E-1)	0.51	0.37	-0.14	Decrease
RIC-BRT (E-2)	-0.63	0.27	0.36	Increase
NIC-CBA (E-3)	-0.32	0.63	0.96	Increase
KRBL-CL (E-4)	-0.09	-0.44	-0.35	Decrease
NBK-KCB (E-5)	-0.42	-0.04	.38	Increase
GCB-IM (E-6)	-0.53	0.25	0.28	Increase
JBB-COP (E-7)	-0.16	-0.42	-0.26	Decrease
BCDC-EQB (E-8)	-0.26	-0.54	-0.28	Decrease
UML-UGL (E-9)	-0.38	-0.90	-0.52	Decrease

(Source: Author's calculations in MS-Excel, 2024)



Appendix III: Average Abnormal Returns

	AAR	tAAR(t- statistic)	CAAR	tCAAR(t- statistic)	Days	AAR	tAAR(t- statistic)	CAAR	tCAAR(t- statistic)
-30	-0.26	-0.47	-0.26	-0.03	0	0.77	1.78	-3.87	-5.37**
-29	-0.20	-0.30	-0.37	-0.04	+1	-2.55	-4.22**	-5.43	-5.54**
-28	0.61	1.29	0.16	0.01	+2	0.23	0.44	-5.21	-3.22**
-27	0.32	0.61	0.47	0.04	+3	-0.02	-0.04	-5.23	-3.12**
-26	-1.07	-2.12	-0.59	-0.05	+4	-0.52	-1.05	-5.76	-2.45*
-25	-0.35	-0.91	-1.02	-0.07	+5	0.72	1.47	-5.03	-2.24
-24	-0.17	-0.38	-1.22	-0.10	+6	1.05	2.14	-4.96	-1.46
-23	-0.06	-0.16	-1.27	-0.12	+7	0.43	0.87	-4.45	-1.06
-22	0.42	1.25	-0.66	-0.05	+8	-0.18	-0.36	-4.63	-1.08
-21	-0.34	-0.71	-1.05	-0.10	+9	0.91	1.84	-3.72	-0.88
-20	-0.41	-0.91	-1.46	-0.15	+10	0.05	0.11	-3.66	-0.80
-19	0.31	0.67	-1.12	-0.14	+11	0.07	0.15	-3.67	-0.64
-18	-0.07	-0.16	-1.24	-0.12	+12	0.21	0.42	-3.59	-0.56
-17	0.51	1.27	-0.62	-0.08	+13	-2.09	-4.25**	-5.55	-0.81
-16	-0.25	-0.53	-0.85	-0.10	+14	-0.95	-1.94	-6.54	-0.88
-15	-0.62	-1.44	-1.56	-0.20	+15	-0.19	-0.39	-6.67	-0.86
-14	-0.55	-1.33	-2.11	-0.30	+16	-0.17	-0.35	-6.88	-0.82
-13	-0.51	-1.03	-2.63	-0.40	+17	-0.45	-0.92	-7.35	-0.83
-12	0.25	0.72	-2.18	-0.38	+18	-0.39	-0.80	-7.69	-0.84
-11	-0.23	-0.45	-2.63	-0.42	+19	-1.28	-2.61*	-9.12	-0.91
-10	0.82	1.79	-1.73	-0.21	+20	-0.12	-0.25	-9.16	-0.88
-9	-0.47	-0.98	-2.21	-0.43	+21	0.97	1.97	-8.18	-0.77
-8	-0.94	-1.93	-3.14	-0.71	+22	0.55	1.13	-7.53	-0.65
-7	-0.83	-1.66	-3.93	-1.01	+23	-0.10	-0.21	-7.67	-0.66
-6	0.05	0.08	-3.89	-1.14	+24	-0.14	-0.29	-7.78	-0.63
-5	0.56	0.93	-3.44	-1.27	+25	-0.64	-1.30	-8.54	-0.67
-4	-0.03	-0.03	-3.42	-1.41	+26	-0.06	-0.12	-8.57	-0.64
-3	0.65	1.52	-2.77	-1.39	+27	0.09	0.19	-8.34	-0.61
-2	-1.02	-2.04	-3.84	-2.44*	+28	-0.11	-0.23	-8.48	-0.60
-1	-1.02	-2.05	-4.55	-3.83**	+29	-0.39	-0.80	-8.68	-0.61
0	0.87	1.78	-3.89	-7.86**	+30	-0.45	-0.92	-9.53	-0.62

* Calculated t-value significant at $p= 0.05$ ** Calculated t-value significant at $p= 0.01$

(Source: Author's calculations in MS-Excel, 2024)

Appendix IV: Ethical Approval



17th April 2024

Ms Atieno Elsie,
elsie.atieno@strathmore.edu

Dear Ms Atieno,

RE: Financing Methods and the Acquirer's Stock Performance; Moderated by Board Size Case of Nairobi Securities Exchange-Listed Firms

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2146/24**. The approval period is from **17th April 2024 to 16th April 2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,
Chairperson; SU-ISERC**



Appendix V: NACOSTI License


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