A COMPARATIVE EVENT STUDY ON MERGERS AND ACQUISITIONS VS CORPORATE BOND ISSUANCE ON THE VALUE OF BANKS IN KENYA

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A Research Proposal Submitted in partial fulfilment for the award of Bachelor of Business Science Actuarial Science

Strathmore Institute of Mathematical Sciences (SIMS)

Strathmore University

Nairobi, Kenya

January, 2017

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the Research Proposal contains no material previously published or written by another person except where due reference is made in the Research Proposal itself.

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This Research Proposal has been submitted for examination with my approval as the Supervisor.

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ABSTRACT

Banks play a crucial role in propelling the entire economy of a nation. African bond markets have been steadily growing in recent years as the numbers of mergers and acquisitions also rise. This study takes on an event study methodology with the use of the market model to determine the impact of events such as M & A’s and corporate bonds issued by listed banks in Kenya. It was found that in comparison mergers and acquisitions have a greater impact on firm value than bond issuance. However both bear the same results in terms of how they impact firm value. They can impact firm value, positively, negatively or not at all.

ACKNOWLEDGEMENTS

I would like to acknowledge the following for their guidance and support throughout the duration of the project:

The Almighty God for granting me good health and enabling all this be possible.

My supervisor Mary Mutinda for her constructive, timely feedback and guidance during the project duration and toward s the completion of this paper.

The school administrator Mr. Raphael Karanja for his continued support to the cause.

My parents and classmates for their moral support over the duration of the project and allowing me to focus during this period.

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LIST OF ABBREVIATIONS

The following are the lists of abbreviations and their respective definitions as used in this study:

M & A's	-Mergers and Acquisitions
CBK	-Central Bank of Kenya
EADB	-East African Development Bank
NSE	-Nairobi Stock Exchange
CAR's	-Cumulative Abnormal Returns
CAAR's	-Cumulative Average Abnormal returns
AR	-Abnormal Returns
AAR	-Average Abnormal Returns
t-statistic	-Test statistic
KCB	-Kenya Commercial Bank

1. INTRODUCTION

1.1 Background to the study

Banks play a crucial role in propelling the entire economy of a nation. It is therefore necessary to reposition them for efficient financial performance through a reform process geared towards forestalling bank distress (Anderibom, n.d.). Kenya has had a history of poor governance system in the banking industry attributed to weak corporate governance practices, lack of internal controls, weaknesses in regulatory and supervisory systems, insider lending and conflict of interest which led to the collapse of many financial institutions with others going under receivership (Mang'unyi, 2011). In less than two years the Central Bank of Kenya (CBK) in its role to maintain the solvency, liquidity and proper working of a stable market-based financial system has put Dubai Bank, Imperial Bank and Chase Bank under receivership for failing to maintain the liquidity and capital requirements.

This is not the first time for the CBK to take on such an action. In the past, the Government of Kenya through the Central Bank made changes in the Central Bank act and the banking act to curb instability in the banking industry. This was for instance, through raising the capital requirements and the creation of the Depositors Protection Fund. Regardless of efforts made to streamline the banking sector, many banks were liquidated or put under receivership. This was due to weak internal controls, poor governance and management practices. Continental Bank of Kenya and Continental Credit Finance Ltd collapsed in 1986 and in 1987 Capital Finance went under (Mang'unyi, 2011).

Banks use different measures to able to survive in the competitive financial markets. One such measure is banks go into mergers and acquisitions. (Kithitu, Cheluget, Keraro, & Mokamba, 2012) defined the reasoning behind any corporate merger is that two companies are better than one because they increase shareholder value to more than that of the two separate firms. Banks can also issue bonds to raise capital. African bond markets have been steadily growing in recent years, but nonetheless remain underdeveloped. African countries would benefit from greater access to financing and deeper financial markets (Mu, Phelps, & Stotsky, 2013).

(Brewer, Jackson, & Jagtiani, 2010) found that few transactions have the potential to generate revelations about market value of corporate assets and liabilities as mergers and acquisitions. The banking sector in Africa has developed over the years and seen a rise in the number of mergers and acquisitions. Mergers and acquisitions are not the same terminologies however, but they are often used interchangeably. The two terms are similar yet quite different in certain aspects. (Durga, Rao and Kumar, 2013) defined mergers and acquisitions as activities involving takeovers, corporate restructuring, or corporate control that changes in ownership structure of firms. For the last thirty years or so, firms have been intensively using Mergers and Acquisition (M & A) as a strategic tool for corporate restructuring. Initially, this consolidation trend was limited to developed countries, especially the United States and United Kingdom. However, afterwards developing countries started to follow the same (Malik, Anuar, Khan, & Khan, 2014). That being said, there has been a rise in mergers and acquisitions in many East African countries such as Kenya and Tanzania.

Based on a study by KPMG the variation in economy sizes and economic structures within East Africa is reflected in M&A deal activity in the region. Kenya and Tanzania account for the vast majority of publicly announced deals between 2010 and 2014 due to the larger and more sophisticated economies. Countries such as Uganda and Rwanda are geographically small (thus lowering the potential for deals in natural resources, relative to the larger peers), with relatively smaller economies, which decrease the scope for making M&A deals. In turn, Ethiopia covers a large geographic area, with an economy whose size rivals that of Kenya, but government restrictions constrain deal making in the country (KPMG).

The investigation of bond offerings to the public has been an interesting area of academic corporate finance research because bonds are gradually becoming an important corporate financing alternative (Chin & Abdullah, 2013). The bond markets in sub-Saharan African countries are at a nascent stage of development and there is a strong need to promote their development (Mu et al., 2013). Mu, Phelps & Stotsky, 2013 found a need for a more developed bond market because sub-Saharan Africa was heavily dependent on external grants and concessional loans for funding capital spending and government deficits, well-functioning bond markets help sustain economic stability, the development of bond markets in sub-Saharan Africa can improve the intermediation of savings and promoting bond market development in sub-Saharan Africa can improve the structure of the African financial system, which is currently dominated by banks. This is also supported by the fact that bond markets and bank finance are complementary rather than incompatible.

M & A’s and corporate bonds issued are events of interest in this study. We will focus our study on one country (Kenya) instead of a cross border analysis since different countries have different corporate governance guidelines specific to the market.This study through the use of secondary data aims to compare the impact of bonds on the equity returns of the issuing companies as versus the impact of mergers and acquisitions on equity returns.

1.1 Problem Statement

In today's globalize economy, mergers and acquisitions (M&A) are being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale among other (Kemal, 2011).As the bond market becomes the major source of funds, there is a possibility that it could affect the equity market (Chin & Abdullah, 2013).

The banking industry does not have exhaustive research on the relationship between the impact of mergers and acquisitions and the impact of corporate bonds issued on the performance of banks. We focus on local currency bond markets because of the importance of the local currency markets compared to inter-national sovereign bonds and because of the need to focus on African countries' ability to overcome what is referred to in the literature as "original sin," that is, the inability to issue debt in local currency (Mu et al., 2013).

In an effort to add on to the studies already done on different areas of interest in the financial industry. A comparative study between the impact of M & A's on company value and the impact of corporate bonds issued by banks on company value will add onto the already existing knowledge and aid financial officers in decision making.

1.3 Research Objectives

1. To establish the impact of mergers and acquisitions on equity returns of banks in Kenya.
2. To establish the impact of corporate bonds issued by banks on equity returns of banks in Kenya.
3. To compare the effects of mergers and acquisitions vs the effect of bonds issued on the company value of these banks.

1.4 Research Questions

1. How do mergers and acquisitions affect the equity returns of banks in Kenya?
2. How does corporate bond issuance affect the equity returns of banks in Kenya?
3. How does the effect of mergers and acquisition differ from the effect of corporate bonds issued by banks in Kenya on their company value?

1.5 Justification for the study

A lot of research studies have been done in relation to the banking sector in Kenya. They have focused on corporate governance, banking policies, mergers and acquisitions and bond markets but there is no conclusive research that have been done to compare the different fields relevant to the banking sector. This study therefore seeks to add onto already existing knowledge and compares the impact of mergers and acquisitions to the impact of corporate bonds issued. The study brings together academic research and the practice of finance.

2. LITERATURE REVIEW

2.1 Agency Theory

Studies on corporate governance have been based on agency theory and this is because corporate governance originated from agency theory (Filatotchev & Wright 2011). Spense and Zeckhauser (1971); Rose (1973) and arrow were the originators of agency theory. Agency theory is the principal-agent relationship originates when a principal hires an agent to perform a service or to act on his behalf.

(M. Jensen & Meckling, 1976), define the agency paradigm as: *"... a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interest of the principal."*

They argue that the relationship between shareholders and managers of a corporation fits the definition of a pure agency relationship. Managers are therefore agents of shareholders who assume that the principle guiding them are those geared towards maximization of shareholders wealth. (M. C. Jensen, 1986) explains that this relationship is filled with conflicting interests or in other words conflict of interests. The idea behind agency theory is to select a mechanism that will regulate the relationship between the agent and the principal in a manner that will ensure alignment of the interests of the two parties leading to reduction of agency costs. Corporate governance therefore responds to the problem of conflict of interest by encouraging accountability, efficiency and effectiveness, integrity and fairness, responsibility, and transparency through a set of regulations.

Agency Theory offers a slightly divergent perspective to the debt-equity relationship in a firm. According to agency theory, the principal-agent conflict can be mitigated by having the managers own a larger stake in the company (Machel, 2013). The use of debt can reduce agency costs between the firm's managers and shareholders by reducing the "non-committed" cash at the disposal of the managers to pursue their own interests. (M. C. Jensen, 1986) therefore notes that companies with higher managerial ownership may not need to incur much debt financing because managers who own shares would most likely act towards increasing shareholder wealth.

2.2 Corporate governance

The definition of corporate governance not universal. It is difficult to define the concept of corporate governance in a universally acceptable way because definitions vary from country to country (Mulili & Wong, 2011). Corporate Governance, refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Kihumba, 2012). It is meant to align the interests of individuals, corporations and society. The main points of interest in corporate governance include factors addressing the shareholders, managers and board of directors. The board of directors has many aspects that can be considered.

Good corporate governance has become a subject of global interest because corporate entities play a vital role in promoting economic development through employment and wealth creation (Rambo, 2012). It has become indispensable for the survival and performance of corporate entities. Corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders (Sanda, Mikailu, & Garba, 2010). The governance of banks is different from the governance of nonfinancial firms and can be distinguished by the distinct fact that, banks have more stakeholders than nonfinancial firms, also the business of banks is opaque and complex and can shift rather quickly (Mehran, Morrison, & Shapiro, 2011). The business of banks has become more complex and opaque which requires that the corporate governance principles of banks be kept up to date to ensure their reliability.

Based on agency theory (M. Jensen & Meckling, 1976), a positive relationship between corporate-governance ratings and company performance exists. This goes to an extent that higher corporate-governance ratings proxy for better actual corporate-governance practices, higher corporate-governance ratings should translate into improved operating performance and a higher market value.

2.3 The Banking Industry

The financial service industry in Kenya has an important effect on the performance of Kenya's economy (Insurance Regulatory Authority, 2012). The sector in Kenya is bank-led explaining why the banking sub-sector has been leading current efforts towards sustainable finance(Ogada, 2015). As of June 2016 the Kenyan banking sector comprises commercial banks and mortgage finance institutions where they are either privately owned institutions or publicly owned institutions. The privately owned institutions are 40, 25 are locally controlled where 24 are commercial banks and one is a mortgage finance company, 15 are foreign owned with over 50% foreign ownership which are all commercial banks. As at the end of June 2016, of the 24 locally controlled institutions, 3 were not in operation – one was under statutory management and two were in receivership. However there are only 3 publicly owned institutions (CBK 2016).

The performance of the financial sector plays a vital role in the development of any economy. (Anderibom, n.d.) in a study explained that global events concerning poor performance which would lead to the eventual collapse of high profile companies, have awakened the need to strengthen corporate governance in both developed and developing countries. Corporate governance issues have attracted public interest in the banking sector both locally and internationally after waves of corporate rip-offs and failures that almost led to loss of confidence in this important sector. (Wepukhulu, 2016) Studies have been done on the banking sector with regard to corporate structure or mergers and acquisitions and their effects on bank performance but there is a gap in studies regarding both corporate governance structure and the success of mergers and acquisitions.

2.4 M&A's

According to (Gunu, 2009) a merger is a transaction involving two or more companies in which shares are exchanged but in which only one company survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. The resulting firm is likely to have a name derived from its composite firms, while an acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring company. (Anderibom, n.d.) Concluded that, a merger can be seen as the combination or amalgamation of two or more separate companies into a single company where one survives and the others lose their corporate existence while acquisitions can be seen as the taking over of the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes a division or a subsidiary of the acquiring company. The reasoning behind any corporate merger is that two companies are better than one because they increase shareholder value over and above that of the two separate firms (Sharma, 2009).

(Onyango, 2015)Most studies on the profitability analysis of mergers and acquisitions for commercial banks however seem focused on developed markets. Though in recent times, substantial amount of research is also emerging in African markets. From the literature and empirical evidence review it is still not clear on the direction of the relationship between profitability and mergers and acquisitions.

(Hoorn & Hoorn, 2011) did a study on the impact of acquiring firms' board structures on mergers and acquisitions and firm performance in the US. (Brewer et al., 2010) added to the literature investigating the relationship between corporate governance and control mechanisms such as independent directors, independent block holders, and managerial share ownership are usually important predictors of the size and distribution of the incremental wealth generated by M&A transactions They also found that research on banks in this area has not received adequate attention. On top of that, not enough research has been done that focuses on the relationship between corporate governance and the success of bank mergers and acquisitions especially in the African context.

2.4.1 M&A Performance

Mergers and acquisitions of banks are not exactly a recent phenomenon for Kenya. As early as 1989, Kenya witnessed the merger of 9 insolvent financial institutions to form the Consolidated Bank of Kenya Ltd. This incorporation was under the financial sector reform program established by the Government with the objective of taking over and re-structuring various troubled institutions (Ogada, 2015).

(Anderibom, n.d.) Found that the performance of the banking industry in Nigeria over the years had been characterized by inefficiencies, a high regime of insolvency, serious incidence of distress, vulnerability to systemic financial crises and macro-economic instability. They did a study on the effects of mergers and acquisitions on the performance of commercial banks in Nigeria. (Joash & Njangiru, 2015) Mergers and Acquisitions perform a vital role in corporate finance in enabling firms achieve varied objectives and financial strategies. In Kenya, banks have been merging with the goal of improving their financial performance.

Studies done on mergers and acquisitions have not conclusively established whether or not banks benefit from mergers. (Joash & Njangiru, 2015) his examined the banks that have merged or acquired in Kenya for the period between 2000 and 2014. The aim of the study was to analyse whether the merger had any effect on the banks' performance. The study was guided by the following specific objectives; to determine the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of mergers and acquisitions on profitability.

2.5 The bond market in Kenya

The Kenyan bonds market traces its origin back to the 1980s when the Government of Kenya first launched a bid to use treasury bonds as a source of funds to finance government deficit. Similarly, the first corporate bond was issued on 8th November 1996 by the East African Development Bank (EADB), which issued a multi-lateral bond (Ngugi & Agoti, 2007).

Over recent years the corporate bond market has become an increasingly important component of the total bond market in the Sub Saharan region. The growth of corporate bonds relative to government securities suggests that the corporate bonds could in the future be a very important source of finance for many sub-Saharan African (Mu et al., 2013). The corporate bond market in Kenya currently accounts for barely 10% of all bond transactions at the Nairobi Securities (Machel, 2013)

2.6 Corporate bond issuance

(Machel, 2013) did a study to establish the effect of bond issues on the performance of the stock price of firms listed at the Nairobi Securities Exchange. The study explored the various measures of stock price performance were explored in an effort to highlight the possibility of bond issues as being another source of information to the market, which could have an effect on share prices. A descriptive analysis was then carried out and the event study methodology employed to investigate this relationship. The market model was used to estimate the market returns. The result of the parametric t-test carried out at a 5% significance level resulted in results where bond issues have a positive effect on the share price of the issuing company and where the bond issues have a negative effect or no effect at all.

A study by (Chin & Abdullah, 2013) investigated the effect of bond issuance announcements so as to determine the company characteristics that could influence this effect. The results revealed positive cumulative average abnormal returns following bond issuances, indicating that the market considers bond offers to be favourable news. They also confirmed that there is a signalling effect of bond issuance announcements and that this effect is not affected by company characteristics

3. METHODOLOGY

3.1 Introduction

This chapter is focused on the research methodology. This chapter addresses the methodology that was employed to carry out this study and analyse the data gathered. The research design is highlighted, and there after a definition of the population of the study. The data collection methods employed and a description of the statistical methods employed to analyse the data bring the chapter to a close. Thus this chapter covers the research design, the study population, data collection, and data analysis.

3.2 Research Design

The objective of this research was to compare by means of secondary data the impact of mergers and acquisitions to the impact of corporate bond issuance to the value of Kenyan banks using share prices. It is a quantitative study which is comparative in nature which seeks to use event study methodology to find the impact of certain events to the value of banks in Kenya. The effects of an economic event on the value of firms can be measured using an event study (MacKinlay, 1997).

The rationality in the marketplace, is that the effects of an event will be reflected immediately in security prices. Event study methodology will be used for both mergers and acquisitions as well as corporate bond issuance enabling easy comparison. A descriptive study was carried out using the event study methodology. Event study analyses differentiate between the returns that would have been expected if the analysed event would not have taken place (normal returns) and the returns that were caused by the respective event (abnormal returns). The ‘market model’ was used for predicting the normal returns around the event date. In this paper the market model is appropriate because it incorporates the mean adjusted model and market adjusted model. The market model for any stock i is:

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

For bond issuance we will use the issue date instead o0f the announcement date because issuance of bonds is generally associated with major corporate events (Chin & Abdullah, 2013). The investigation window is from day t=-30 through to t=+30. The pre-event investigation window which is also known as the estimation window therefore ranges from day t= -125 to t= -31 and the post-event investigation window ranges from day t=+1 to t=+30.

This study uses daily data to compute abnormal returns because this approach provides smaller standard deviations than using monthly returns.

3.3 Population and Sampling

The study will focus on the banking industry in Kenya. The population includes bank mergers and acquisitions in Kenya between 2000 and 2015. This period is important as it marks the halfway mark of vision 2030 of the millennium development goals. The sample of banks was not randomly selected, however the sample is narrowed down to banks listed on the NSE whose share prices are readily available.

The details about the mergers and acquisitions deals are obtained from Central Bank of Kenya (CBK). There is record of a total of 33 mergers and 6 acquisitions from 1989 to 2015. However of these we will focus on the mergers and acquisitions between 2000 and 2015 which include 6 acquisitions and 13 mergers. Among the 19 banks that have undergone mergers and acquisitions within that period only 7 banks that have undergone mergers are listed on the NSE. With 4 mergers and acquisitions falling within our period of interest. The event of interest taken into consideration is the announcement date of the mergers and acquisitions however sometimes changes in share prices are recognised not only due to the event of interest but also due to the market acquiring information about the earnings prior to the actual announcement. For the corporate bonds issued by banks the population consists of banks listed on the NSE. The date of corporate bond issued are also obtained from the NSE. A sample of banks listed on the NSE were selected to allow number of events observed for bonds to be almost the same as that for mergers and acquisitions.

3.4 Data Collection Methods

The study used secondary data from the NSE, CBK and published facts, figures and reports for that period. For the mergers and acquisitions the study focused on a 30 day period before and after a merger and acquisition was announced. For the corporate bond issue the study also focused on a period of 30 days before and after each bond issue date for each of these firms. The t-test was then computed to test the null hypothesis.

3.5 Data Analysis Methods

The event's impact requires a measure of the abnormal return. The abnormal return is therefore the actual ex post return of the security over the event window minus the normal return of the firm over the event window (MacKinlay, 1997). The normal return is defined as the expected return without conditioning on the event taking place. The event study methodology is described below in detail. In an event study for a firm, *i* and event date t. The abnormal return is calculated as:

$$AR_{it} = R_{it} - E\,(Rit)$$

Where, AR_{it} is the abnormal return for company *i* in period *t*; R_{it} is the actual return for company *i* in period t and *E(Rit)* is the expected return for the company *i* in period *t*. This tests for an effect of the announcement on stock prices. The expected return for stock i at time t is calculated as:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt}$$

Where, $E\,(R_{it})$ *t*he expected return for company i in period t; α_i is the intercept term, β_i is a regression constant and, R_{mt} is the return in the market in period t.

The significance of the average abnormal returns for each day of the window period are then found by using t-statistic calculations for each (AARt):

$$t_{AR} = \frac{AAR_t}{\sigma_{AR}/\sqrt{n}}$$

Where, t_{AR} is the t- statistic, *AARt* is the average abnormal return for time t, σ_{AR} is the standard deviation of abnormal returns at time t; and n is the sample size. Thereafter in order to get the magnitude of the abnormal returns we calculate firm specific cumulative abnormal returns (CARs) and the cumulative average abnormal returns (CAARs) overall using the formula:

$$CAR_t = CAR_{t-1} + AR_t$$

Where, CAR_t is the cumulative abnormal return at time t, CAR_{t-1} is the cumulative abnormal return at time t-1; and, AR_t is the abnormal return at time t.

We will then test the hypothesis $H_o = 0$, that there is no significant abnormal return surrounding the announcement of the events. This means that cumulative average abnormal returns of all the bidder companies should be zero. H_1 is not equal to zero indicating a significant abnormal return surrounding the event. The alternative hypothesis H1 indicates both a positive and negative abnormal return

4. RESULTS AND FINDINGS

This chapter contains the data results of the analysis and discussion.

4.1 Preliminary Data Analysis

The table below consists of banks that have undergone mergers and are at the same time listed with the Nairobi Stock Exchange (NSE).

<u>Mergers</u>

No.	Institution	Merged with	Current Name	Date of approval by CBK
1	National Industrial Credit Bank Ltd	African Mercantile Banking Corp	NIC Bank Ltd	14.06.1997
2	National Bank of Kenya Ltd	Kenya National Capital Corp	National Bank of Kenya Ltd	24.05.1999
3	Standard Chartered Bank (K) Ltd	Standard Chartered Financial Service	Standard Chartered Bank (K) Ltd	17.11.1999
4	Barclays Bank of Kenya Ltd	Barclays Merchant Finance Ltd	Barclays Bank of Kenya Ltd	22.11.1999
5	Kenya Commercial Bank	Kenya Commercial Finance Co	Kenya Commercial Bank Ltd	21.03.2001
6	Co-operative Merchant bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
7	CFC Bank Ltd	Stanbic Bank Ltd	CFC Stanbic Bank Ltd	01.06.2008
8.	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010

Table 1

4.2 Model Implementation

The market model has been to analyse the data on Microsoft excel for the period of 2000-2015 when there are only 4 merger events. Kenya Commercial bank merger in 2001, Co-operative bank of Kenya in 2002, CFC Stanbic Bank in 2008 and another merger by KCB in 2010. Using the available data on share prices on the NSE to compute the Expected return, Abnormal Return and Cumulative Abnormal Return and do a t-statistic test for these banks.

Data obtained from the NSE gave dates of bonds issued by CFC Stanbic and Barclays bank which were used. The Expected return, Abnormal Return and Cumulative Abnormal Return are computed again to get a t-statistic test for these banks. By using the same model it allows effective comparison between mergers and bond issued and their effect on firm value.

		E (R)	AR	CAR	AR t-test
-5	**5/26/2008**	-0.01638	-0.01752	0.131821	-0.89475
-4	**5/27/2008**	0.005689	0.011855	0.143676	0.605483
-3	**5/28/2008**	-0.00923	-0.00801	0.135668	-0.40897
-2	**5/29/2008**	-0.02065	-0.02321	0.112462	-1.18525
-1	**5/30/2008**	0.021777	0.033269	0.145731	1.699169
0	**6/3/2008**	0.001893	0.006803	0.152533	0.347439
1	**6/4/2008**	0.005559	0.011682	0.164215	0.596661
2	**6/5/2008**	-0.00184	0.001837	0.166053	0.093844
3	**6/6/2008**	-0.00547	-0.003	0.163051	-0.1533
4	**6/9/2008**	0.009162	0.016479	0.17953	0.841623
5	**6/10/2008**	-0.00541	-0.00292	0.176609	-0.14918

Figure 1

4.3 Findings

Mergers and acquisitions effect on firm value can be observed in the tables derived from the cumulative abnormal return of the window period of 30 days before and after the event took place.

The cumulative abnormal returns of the observed firms when represented on a line graph give varied results. All line graphs have different slopes indicating three scenarios, good new or positive influence on firm value, bad news or a negative impact on firm value and a neutral effect which shows no actual change in firm value.

If the absolute value of the t-statistic is greater than 1.96 then the abnormal return is statistically significant at the 5% significance level. The abnormal returns over the 61 day window period were calculated. For CFC Stanbic bank from day -1 the abnormal return became positive until two days after the announcement and thereafter returned to normal. This is further supported by the t-statistic for day -1 which was the day before the announcement where the t-statistic recorded was 1.699 indicating that rumours concerning the merger and the merger itself had significant impact on the firm value.

In 2001 and 2010 KCB underwent mergers which seemed to have differing results as the abnormal return of 2001 tend towards being positive whereas the abnormal returns in 2010 are generally negative. In 2010 the absolute value of the t-statistic reduces in value around the date of the announcement. 4 days prior to the announcement the t-statistic was 1.96704 and two days prior to the announcement the t-statistic was 2.74924 indication a change in value of the firm as a result of rumours concerning the merger. In the long-term the t-statistic which was 1.2303 increases steadily after the announcement indicating that the announcement of bank mergers have an impact on firm value.

The more negative the CAR the lower the value of the firm. The CAR of CFC stanbic was generally positive, but the CAR of KCB at the different periods differed, it was generally positive and increasing in 2001 but in 2010 was generally negative and still decreasing as shown in the chart.

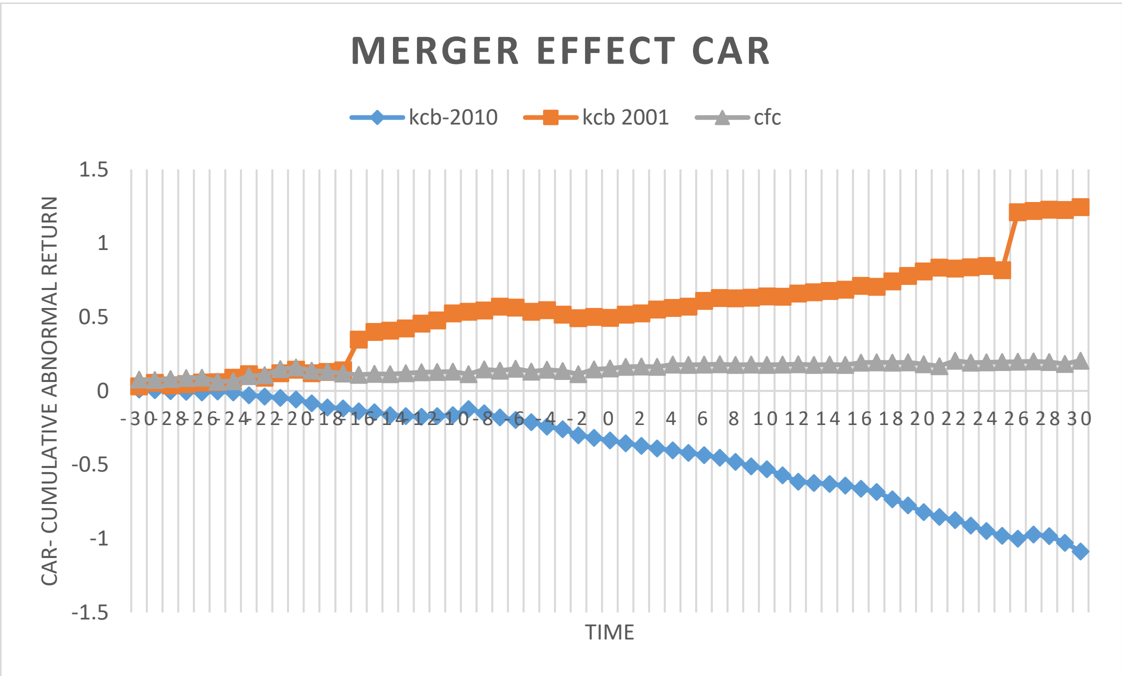

Figure 2

Plot of cumulative abnormal return for earning announcements from event day -30 to event day 30. The abnormal return is calculated using the market model as the normal return measure.

Two corporate bonds each from two banking institutions were deemed appropriate for the event study. The cumulative abnormal returns (CAR) results for the window period varied for the different bonds. CFC Stanbic issued two bonds on the same date in 2009 indicated by CFC 1 on the chart. The CAR drops a few days before the date of issue and the CAR values increase again by the date of issue. However the CAR remains almost unchanged in the long term thereafter signifying there was no significant change in firm value due to the bond issue. In this case the absolute value of the t-statistic was less than 1.96 indicating that the abnormal return is not significant.

Another bond issue by CFC in 2010 was observed in the study. The CAR value decreased over time during the event window up until a few days prior to the bond issue when the CAR rose sharply and thereafter continued to show a steady increase. This indicates that the bond announcement affected the value of the firm during the event window. The t-statistic absolute measure on the day of bond issue was 1.005308 and the next day it increased to 2.444531 indicating that the abnormal return is statistically significant at 5%. Because the t-statistic increases the probability of the abnormal return occurring randomly reduces to below 5%.

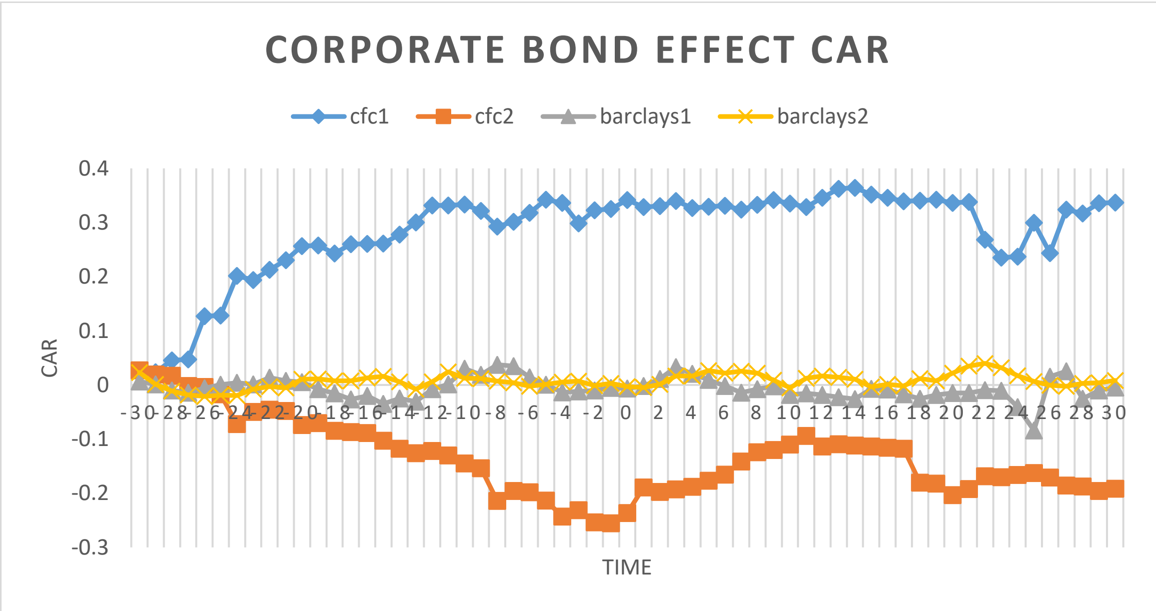

Figure 3

Plot of cumulative abnormal return for earning announcements from event day -30 to event day 30. The abnormal return is calculated using the market model as the normal return measure. The bond issue effect on cumulative abnormal returns is not large. The line graph for the bonds issued by Barclays in 2007 and 2008 indicate this. The absolute value of the t-statistic for the 2007 bond on the issue date is 0.10541. For day -1 and +1 it was 0.4223 and 0.4045 respectively. Thus since it is below 1.96 the abnormal return is not significant at 5% significant level. Since it is followed by a steady increase in value of 1.06034572 then 1.799112493 the probability of the abnormal return occurring because of randomness falls below 5%. The bond issued by Barclays in 2008 however shows no change in abnormal returns as a result of the announcement. Thus the abnormal return is not statistically significant and thus the particular merger did not affect company value.

The results of this samples are consistent to a great extent with the existing literature on the information content of earnings. Thus indicating that M & A's and bond issuance announcements do indeed convey information useful for the valuation of firms.

4.4 Discussion

In comparison mergers and acquisitions have a greater impact on firm value than bond issuance however this does not explicitly mean that mergers and acquisitions announcement result in a change in firm value. We conclude that there are cases that agree with the null hypothesis whereby firm value is not affected by merger and acquisition announcement or the date of bond issue. There are also cases whereby the firm value is impacted positively and negatively by the same events.

5.0 CONLUSION, RECOMMENDATIONS AND LIMITATIONS

5.1 Conclusion

We conclude that there are cases that agree with the null hypothesis whereby firm value is not affected by merger and acquisition announcement or the date of bond issue. There are also cases whereby the firm value is impacted positively and negatively by the same events. Both M & A’s and corporate bond issuance are therefore events of great interest to shareholders whose main concern is to make profits. From this study we find that mergers and acquisitions have a greater impact on firm value than bond issuance.

5.2 Recommendations

The financial market has a lot of potential both in terms of mergers and acquisitions and corporate bond issuance, it is available that measures be taken to encourage the issuance of bonds by companies.

There is a gap in relatable studies concerning different aspects in the financial market. Institutions can encourage carrying out of more comparative studies to make the financial industry in Kenya more comprehensible and thus encouraging its development.

Promoting financial literacy will enable and increase market confidence and it will increase the numbers of investors, allowing deepening of the financial market further.

5.3 Limitations of the Study

One major limitation of the study would be the bond market is still very small and the number of bonds actively traded that have been issued by listed firms. The growth of this market has been hindered by a number factors, such as information asymmetry among potential issuers, lack of a yield curve to price long term instruments ,a high and unstable interest rate regime and the crowding out effect of the government’s domestic debt.

Another limitation of this study is the chance that the results or firm value can be affected by other factors.

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