

**IMPACT OF MERGERS AND ACQUISITION ON THE FINANCIAL PERFORMANCE  
OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE**

**By**

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### DECLARATION AND APPROVAL

I declare that this research proposal is my own work and it has not been submitted for any degree or examination in any other university. to the best of my knowledge and understanding, the project contains no material previously published or written by another person except where due reference is made in the project itself.


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## **DEDICATION**

I dedicate this project to the Almighty God my creator, my source of inspiration, wisdom, knowledge and understanding for seeing me through the project. I also dedicate this work to my dad-Stephen Musyoka, my aunt Jeniffer Cirindi, my brothers Michael, Austine and Boniface for their encouragements that has made sure that I give it all it takes to finish that which I had started. Their support both morally and socially is invaluable and shall remain indebted always.

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## **ABSTRACT**

Mergers and acquisitions activities around the world have generally increased according to various surveys conducted, this has been due to high competition and the urge of generating cost efficiency through the implementation of economies of scale hence the need for alternative forms of company restructuring through mergers and acquisitions with a major goal to improving the firm's financial performance. This study aimed to investigate the impacts of mergers and acquisitions on the financial performance of firms listed at the Nairobi Securities Exchange. A review of literature was conducted to identify what has been done and the knowledge gap. It was guided by specific objectives that sought to: To evaluate the effect of risk diversification on the financial performance of firms listed in Nairobi Securities Exchange, To determine the effect of synergy on the financial performance of firms listed in NSE and to establish the impact of market share on the financial performance of firms listed in the NSE. The study employed a descriptive research design and the stratified random sampling technique to get the sample for the study.

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### **List of Abbreviation and Acronyms**

<b>NSE</b>	Nairobi securities Exchange
<b>M&amp;A</b>	Mergers and Acquisitions
<b>ROA</b>	Returns on Assets
<b>ROE</b>	Return on Equity
<b>EPS</b>	Earnings per Share

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## Chapter 1:

### INTRODUCTION

#### 1.1 Background to the Study

The changes faced by operating environment of several listed companies have forced financial institutions to bring together their business operations into a common ownership with the aim of increasing the firms value through increased returns on investments (Chatterjee & Banerjee, 2013). The firms hence put more pressure to employees to ensure that the shareholders' value of better returns are maximized. One of the corporate strategy adopted by several firms to meet this core objective of value addition is through merger and acquisitions strategy (Inoti, Owino, & Muiro, 2014). Mergers and acquisitions have been adopted to expand firm's portfolio as an enterprise risk management scheme and also to enable firms enter into new market segments to support growth (Kemal, 2011).

According to market power theory, the motive behind the topic of study is to effect on the selling price of goods, the quality of goods and service provision (Kubick, Lynch, Mayberry, & Omar, 2014). Therefore the research topic is meant to increase the market power and creating value to the shareholders of both the predator (acquirer) and the target company (Nyambati, 2012). It is thus used as a vital tool for growth in the corporate world with the most firms engaging in it as growth motive. According to (Chatterjee & Banerjee, 2013) mergers and acquisition can bring about growth. Nevertheless, growth is not the only motivating factors. Some Mergers and Acquisitions could be attributed by the ability to raise finances, improving liquidity as well as managerial motives. According to Synergy theory, mergers and acquisitions are taken as motivating factors towards growth because firms tend to have greater gains as a result of combined entities effort as compared to separate firm's performance (Garzella & Fiorentino, 2014). According to the economic theory (Becker, 2017), firms opt for mergers and acquisitions with aim to reap better economic benefits in terms of greater revenue, increased market share through value generation and achieve cost efficiency.

Thus the purpose for embracing mergers and acquisitions differ and practically it is presumed that mergers and acquisitions are attributed by the need for firms to meet the improved market

share power through expansion of distribution network ,increased the synergy, enhanced profitability and risk diversification strategies. (Kiarie, 2014).

### **1.1.1 Mergers and Acquisitions**

Merger refers to pooling of interest by more than one entity which results into a common ownership(Horwitz et al., 2002).A merger is said to occur when two organizations join their operations into one(McGraw, 2011) .Mergers occur when two firms voluntarily accept to consent with one another by bringing their forces into a common pool (Apunda, 2018).

(Horwitz, 2002) states that an acquisition arises when one entity buys a stake in another firm to extend the control and attain possession of another entity. Acquisitions occurs when one firm acquires another ;the target firm loses its identity and becomes part of the acquiring firm(McGraw, 2011).Acquisition occurs when a company acquires control over another operations either partly or wholly(Apunda, 2018).

M&A is guided by the Competition Act(2016) and is also controlled by the CAK(Inoti et al., 2014).This body was established to boost competition and give protection to customers against harmful and market inefficiency acts.

### **1.1.2 Mergers and Acquisitions in the Nairobi Securities Exchange**

The Nairobi securities stock exchange (NSE) was registered under Societies Act in 1954 as a voluntarily association of stock brokers and charged with the duty of advancing the securities market and regulating trading activities .The name was amended to the Nairobi Security Exchange in the month of March 2011 .The NSE is a leading African Exchange situated in Kenya .Its known as an international commercial entity globallytrading whose motive is to achieve revelation to Kenya and Africa's Economic Growth.(CMA,2015).

NSE has 65 listed companies from 14 different sectors according to the latest report with a market capitalization of 2281.69 Billion in trading stats (NSE,2019). The central Bank reports in the year 2017 on M&A of commercial banks explained the several mergers of commercial banks from 1998 where 9 organisations in finance sectors brought together under the name Consolidated Bank of Kenya limited which was part of the total of 33 mergers in addition to this 9 were bought in the Kenya Banking Industry. Latest mergers include the Equatorial Commercial Bank Ltd and Southern Credit Banking Corporation Ltd to form Equatorial

Commercial Bank Ltd in 2010, which was further bought by Mwalimu Sacco Society limited in 2014 and retained the name, the City Finance Bank and Jamii Bora Kenya Ltd merged to form Jamii Bora Bank Limited in 2010. On the other hand, there has been several acquisitions which include; Fina Bank Ltd Acquired by Guaranty Bank plc to form Guaranty Trust Bank (Kenya) Ltd in 2013, K-Rep Bank Ltd acquired by Centum Ltd under the name K-Rep Bank Ltd in 2014, Equatorial Commercial Bank Ltd in 2014. The Recent acquisitions being Giro Commercial Bank being acquired by the I&M Bank Ltd to form I&M Bank Ltd in 2017, Fidelity Commercial Bank Ltd acquired by SBM Bank Kenya Ltd to form SBM Bank Kenya Ltd in 2017 and Habib Bank Ltd acquired by Diamond Trust Bank Kenya to form Diamond Trust Bank Kenya Ltd in 2017, (Central Bank,2017). At the beginning of the year 2019, a merger between the NIC Bank with the CBA bank Occured after obtaining approval from the shareholders of the two respective banks during their annual general meeting. This thus indicates an increasing trend to this corporate restructuring strategy.

### **1.1.3 Mergers and acquisitions and Financial performance**

Financial performance is a good tool used by managers in evaluation of how efficient the organization employs it's resources from its operations to generate revenue and return(Pandey,E, 2008).Firms are supposed to have enough cashflow to be able to sustain their financial obligations as and when they fall due,(Tsuma,M & Gichinga,L, 2016).This research uses return on equity as a basis of measurement.

The operating synergy is one of the driving elements in mergers and acquisition which in turn affects the financial performance.(Kimocho, 2018)established that the managerial economics of production, research, marketing or finance can be achieved by any firm having in place a proper financial strategy. Thus to remain in a proper state the entities opt for mergers and acquisition strategies with the motive of making their financial results better (Olusola & Olusola, 2012).

## **1.2 Problem Statement**

The world is experiencing changes which are influenced by the political economic, social cultural, technological, ecological, legal, Global, industrial and the competitor environment(Apunda, 2018). The changes in customer behavior as well as advances in technology are the main causes of the mergers and acquisitions which are driven by efficiency motive.(Inoti et al., 2014) investigated that the major Supporting factor of merger and acquisition

is as a result of every organization becoming an attainable takeover target and the process is objected at increasing the financial performance.

Kenya has sustained an improved growth in mergers and acquisitions activities, this is well proved by the Nairobi Securities Exchange where most of the listed companies have gone through mergers and acquisitions (NSE,2019). These activities have thus impacted positively listed firms through increased profitability as a result of improved financial performance. Companies tend to merge with the aim of creating synergies and economies of scale, achieving of dominance as well as for tax purposes(Kiarie, 2014).

Many researches have been dealt with into this study. A study by (Abudullah & Mohamed, 2012) on the impacts of Mergers and Acquisitions and financial performance of Pharmaceutical firms in India whose findings brought out that mergers and acquisitions improved financial performance. An Investigation on the impact of Acquisitions on the financial performance of the acquiring companies in Kenya(Inoti et al., 2014) concluded that the corporate acquisitions had no effect in the financial performance of the acquiring firm..

(Mungai, 2015)conducted a research on the effects of mergers and acquisitions on financial performance of Banks , his survey focused on the commercial banks in Kenya, from the study his findings provided bank managers and shareholders of similar banks with insights upon which they would base their decisions concerning mergers and acquisitions.(Nyambati, 2012)study targeted to establish the impact of M&A on the firm value of the companies in Kenya. His findings brought about a clear motive that companies that had gone through mergers and acquisitions performed better in the economy compared to those companies that conducted their operations separately. The major limitations from previous research are the limited time period and the inadequate sample sizes for studies and thus this research intends to fill the research gap by using a different performance measure to evaluate the financial performance into assessing the topic of the study.

### **1.3 Research Objectives**

### **1.3.1 General objectives**

The objective was to investigate the impacts of mergers and acquisition on the financial performance of firms listed in NSE.

### **1.3.2 Specific Objectives**

- 1) To evaluate the effect of risk diversification on the financial performance of firms listed in the Nairobi Stock Exchange.
- 2) To establish the effect of synergy on the financial performance of firms listed in the Nairobi stock exchange.
- 3) To identify the impact of market share on the financial performance of firms listed in Nairobi Stock Exchange.

### **1.4 Research Questions**

- 1) What are the effects of risk diversification on the financial performance of firms listed in the Nairobi Stock Exchange?
- 2) What are the effects of synergy on the financial performance of firms listed in Nairobi Stock Exchange?
- 3) What is the impact of market share on the financial performance of firms listed in the Nairobi Stock Exchange?

### **1.5 Significance of the research**

#### **Researchers and Academicians**

In Thesis, the Researchers and Academicians are the individual who tend to take advantage of the research by identifying what was left over by other researchers performing the same and thus build on their knowledge. The research knowledge and information can also be used up by other researcher in building up a different concept not only within the listed firms but also on other financial or commercial sectors.

#### **Shareholders**

To the shareholders the study would help them in evaluating the portfolio performance of the organization by determining the Earnings ratios and average beta of the firm to ensure that the short-term decisions maintain or exceed value of shareholders leading to the long-term goal of a firm thus shareholder wealth maximization is achieved.

### **Managers**

To the manager of the company the information would help him in finding for best ways to analyze the firm's performance in terms of sales volume which will eventually assist in knowing where the firm stands when compared with the competitors.

### **Customers**

To the customer this research will impact them positively since its through mergers and acquisitions where product quality is improved as well as efficiency achieved through reduction in production costs thus benefit driven to the customers.

### **Government**

To the government the research would be helpful since they will wish to know the kind of regulations to put across the merged firms so as to control the various activities in terms of tax regulations and also the business permit.

### **Policy makers**

The study would enable the policy makers to bring into place new standards in identifying an appropriate level of merger and acquisition. The findings will thus enhance the coming up of more appropriate methods of running the liquidity levels of a firm.

## Chapter 2:

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews the literature and explains the theories related to the topic of study, the factors attributing to financial performance, the conceptual framework and summary of the empirical study on the effect of synergy, the effect of risk diversification and the impact of market share on the financial performance. The theories set forth under this study include the market power theory, economic production theory and the synergy theory. It also presents limitation of the study reviewed and the research gap.

#### 2.2 Theoretical Foundations of the Study

The section explains theories on mergers and acquisitions. It identifies the various opinions and thoughts from different researchers and their perspective on the mergers and acquisitions. The main logic on the significance of merger and acquisitions is explained in the following theories; the market power theory, economic production theory and synergy theory.

##### 2.2.1 Market Power Theory

It informs a principal theory for this research. Market power entails the effects on the sales price, the quality of goods or service delivery and the type of commodity in the market being potentially influenced by the buyers in the specific segment (Kubick et al., 2014). Mergers and acquisitions becomes significant if it strengthens the entity's dominance in the market in driving prices and the quality of goods and service delivery (Cartwright & Coope, 2014).

Various views have been brought forth by the different types of mergers, an example being the horizontal merger which is attributed to the size and by combining their powers thus reducing the number of competitors in that particular firm, (Moeller, Schlingemann, & Stulz, 2005) learned that big firms ought not derive benefits when both firms are big, unlike small firms which tend to perform well. Mergers and acquisitions may not achieve its intended purpose if well integrated approach in evaluation of cost reduction on financial performance is not factored in. This theory is significant to this research topic as it gives the mechanisms firms employ in order to achieve market power in the case of market failure, it also matches the main purpose for the research.

### **2.2.2 Synergy Theory**

It refers to combination or coming together of two or more entities or firms to achieve or improve the effects which are superior compared to the effect achieved on separate firms hence greater gains attainment from the cooperation, it thus explains the concept that “1+1=3”

This further puts across that firms which are performing poorly in the market should combine efforts with another firm whose financial performance and the going concern is promising (Garzella & Fiorentino, 2014). The main forms of synergy include revenue synergy which is achieved through the generation of more sales by combined firms as opposed to separate firms operating independently, operational or cost synergy which is attributed by combining efforts to reduce costs of capital for the two firms. The final one being the financial synergy which simply deals with benefit the combined entity is entitled to for instance access to debt, tax savings and cashflows as opposed to if the entity were operating independently since they are chances for reduction in the gearing. This theory is significant to this study as it gives light to users of its information on proper evaluation strategy to employ in choosing the forms of synergies that suits them and the benefit derived from each (Lubatkin, 2013). Therefore, this study will thus evaluate firm's performance in terms of growth by looking into the effect of the synergy.

### **2.2.3 Economic Production Theory**

The theory presents that entities merge with the motive to reap economic benefits like greater revenue supply, improved market power through value generation, benefit in tax gains and cost efficiency (Becker, 2017). The idea further explains that firms operating as a joint entity records higher economic benefits as opposed to those operating separately.

These theory is applied in mergers with aim of reducing the cost of production employed by merged entity as it gives light to the shareholders of the predator to make a good decisions on how much of the firms commodity's sold are likely to be produced by the entity ,and how much of each labor would be employed in the production (Becker, 2017). By this increased efficiency through increased revenue will be achieved thus maximization of profits of the merged firms. The theory is significant as it gives light to the merged firms on the proper resource allocation mechanism with the motive of minimizing on operation cost.

## **2.3 Factors attributing to Financial Performance**

Financial performance is a good tool used by managers in evaluation of how efficient the organization employs resources from its operations to generate revenue and return (Pandey, 2008). It's a key measure of the profitability of the business entities and is influenced by the organization efficiency, the macroeconomic factors, the firm's size and the leverage.

### **2.3.1 Leverage**

Leverage refers to the using of the loan capital to conduct a firm operations (Kling, 2006). Firms that tend to use more loan capital to finance the business operations are said to be highly levered while those using less of loan capital to finance their operations are termed as low levered firm. (Bae, Kang, & Wang, 2011) study investigated the employee treatment and the firm leverage and the findings were that, firms that maintained a good relation with their employees through treating them fairly sustained low debt ratios, thus the purpose for an adverse relationship between the leverage and the firm's ability to treat employees with equity. Firms that faces finance challenges seek the venture capitalists, Government grant and subsidies as well as taking bank loan to conduct their business operations. Highly levered companies are faced with high risks these may include the limited potential to growth since the borrowers will be required to give back the funds to lenders on a timely basis and the risk of losing assets is also key.

### **2.3.2 Organization Efficiency**

This element informs a major part of the financial performance measure. The ability of a firm to utilize the available funds effectively in business operations will either have a best result or negative implications on performance. The organization efficiency norm is aimed at minimizing wastage of money and time, thus a good measure to be explain by the earnings growth. Efficiency can also be measured using the expenses to assets ratio, where the lower the expenses to the assets ratio the better the organization efficiency while the higher the expenses to assets ratio the poor the firms efficiency (Gibbs, 2007).

### **2.3.3 Macroeconomic Factors**

Political pressures and economic factors through interest rates has an impact on the financial performance either positively or negatively. Where the political environment are conducive the firms tend to achieve greater returns due to promised international trade agreement as well as chances for more investment arise hence positive financial performance as opposed to firms that

face political instability due to unfavorable tax regulation schemes discouraging trade thus a poor financial performance indication. On the other hand economic factors are likely to affect the organization in the case of high rates of interest charges the lesser the firm achieves as net worth for instance the companies that finance their business operations using more loan capital(Ismail, Abdou, & Annis, 2010)

#### **2.3.4 Firms size**

The most significant variable in the corporate finance is the firms size(Kioko, 2013).(Liargovas & Skandalis, 2008)argues that there exist a positive relations between the firms profitability as compared to its size ,in that the larger the firm the better the financial performance while smaller firms records low performance. The ability of larger firms enjoying the economies of scale of production through bulk buying which attracts more discounts as compared to small firms that buys their commodities in small portion.

### **2.4 Empirical Review**

This subsection reviews previous research conducted on the research topic.

#### **2.4.1 Effects of Risk Diversification on the Financial Performance**

Actions of M&A results to a bigger scope for widening of companies by expansion and diversifications. Big firms take part in diversification acquisitions strategy with the motive of minimizing the risks of the target firm not performing well in the market segment or as a way of maximizing the firm's overall earnings to remain competitive. Diversification involves the introduction of new firms by assigning finances in a manner that minimizes the exposure to a define asset or risk. An improvement or expansion in the number of firms an organization is attributed to the product, service and geographical segment(Chandler, 2012).

On the contrary(Shim, 2011) investigated Mergers and Acquisitions ,Diversification and Performance in the U.S. property-liability Insurance Industry from his findings concluded a negative link between the financial performance and earnings during the development time span after M&A which was attributed due to increased cost associated with the mergers as well as the agency problem element. He therefore concluded that the cost associated with diversification exceeded the benefits expected from it.

(Yigit, 2012) Studied on how mergers and acquisitions performance were affected by the diversified Turkish Banks. A representative data of 40 Banks were selected between the period of 2007 and 2011 data sources was gotten from the Banking Regulation and Supervision Agency (BRSA), in addition to this the analysis employed the (Return on Assets) ROA and (Return on Equity) ROE as a performance measure whereas Herfindahl Index (HI) evaluated the extend of diversification of banks. The results from his findings concluded that ROA and ROE were described by diversification.

(Njuguna, 2018) investigated on the influence of Geographical Diversification Strategy on performance of Non -Financial Firms Listed at the Nairobi Securities Exchange in Kenya, a census was used. The study considered both the primary and secondary data ,where the secondary data were extracted from reported financial statements of firms for a five year time span .Semi-structured questionnaires were distributed to 135 departmental managers ,analysis was informed by descriptive and inferential .The study identified a direct relationship between the geographical diversification and performance which approved that companies should diversify in areas where competition is not intense and capitalize on the freedom to identify prices that are optimal to ensure profitability.

#### **2.4.2 Effects of Synergy on the Financial Performance**

Synergy refers to the combination or coming together of two or more entities or firms to achieve or improve the effects which are superior compared to the effect achieved on separate firms hence greater gains attainment from the cooperation, it thus explains the concept that “1+1=3”.It is worthwhile for a firm whose financial performance is in trouble to combine its efforts with those that has positive returns so as to have a combined work force with greater profitability(Garzella & Fiorentino, 2014).

The main forms of synergy include revenue synergy which is achieved through the generation of more sales by combined firms as opposed to separate firms operating independently, operational or cost synergy which is attributed by combining efforts to reduce costs of capital for the two firms. The final one being the financial synergy which simply deals with benefit the combined entity is entitled to for instance access to debt, tax savings and cashflows as opposed to if the entity were operating independently since they are chances for reduction in the gearing(Akenga & Olang, 2017) . Synergy has enhanced explorations of new ideas between the merged entity in

terms of improving the firms productivity, minimizing the firms cost ,increasing firms profitability as a result of increase in the revenues ,increasing the customer satisfaction as way to gain competitive advantage(Kiarie, 2014).

(Frank, Gopaldaswamy, & Malik, 2006)investigated on the effect of mergers and acquisitions on the firm's value of insurance sector in India, where a representative sample of the 15 mergers and 13 acquired firms were picked from the representation of 92 mergers and acquisitions, the findings established that firms that went through mergers and acquisitions were more efficient in their performance as compared to firms that operated as separate entities.

(Abudullah & Mohamed, 2012)Study investigated the impact of mergers and acquisition on the performance of pharmaceutical firms in India in the period of 2001 to 2009,52 representative sample of firms that had been through mergers and acquisitions was used, data estimation technique was used for the study , it was established that the firms revenue was effected by the marketing technique that was used by the firm, which thus brought to a close that firms that had gone through mergers and acquisitions were exhibiting better performance.

Rhodes(2001) study established the impact of mergers and acquisitions on the operating performance of insurance companies listed at the New York in USA ,the research used the secondary source of information which was derived from the financial statement of listed firms in the insurance sectors, the study analyzed the performance by use of a representative sample of 32 firms that had been acquired by then ,through evaluations of the firms earnings per share and the dividend per share for the firms in question .Findings confirmed that insurance firms performance was more better after going through acquisitions.

A Study conducted on effects of mergers and acquisitions on the Firms listed in the Nairobi Stock Exchange confirmed that merged firms resulted into cooperation of two or more firms to induce a common effect which is contrary to the sum of individual firm (Kiarie, 2014) these effect thus impacted positively the financial performance.

(Mishna, 2010) Identified the effect of mergers and acquisitions on financial performance of firms in Canada. The study used a sample of 31 firms from the total of 57 firms, linear model of regression was employed, the findings from the study was that mergers had a better influence on the financial performance.

### **2.4.3 Impact of market share on financial performance**

Mergers and acquisitions becomes significant if it strengthens the entity's market power to affect the prices and the quality of goods and service delivery thus increasing the firms profitability (Cartwright & Coope, 2014). The market share entails the portion of an entity or firms sales revenue that is achieved by a particular firm over a period of time.

(Mahamood, 2010) Identified mergers and acquisitions and their impacts on the financial performance of commercial banks in Nigeria. Time span ranged between the 2001 to 2006, where a sample of 27 financial institutions were picked out of the total 71 banks, the research employed the linear regression model to explain the relationship that existed between the parameters under the study, where the findings signified that performance of the commercial banks improved with a greater margin.

(Ashfaq, Hanif, & Yousaf, 2014) examined the impact mergers and acquisitions actions had in the post-merger financial performance of firms in Pakistan non-financial sector, a representative data of 16 firms were used during the period 2000-2009, effect of mergers and acquisitions were evaluated by the absolute and relative financial performance. The Post-merger financial performance was analyzed using return on equity, return on assets and earnings per share as a performance measure. The conclusion resulted to that firms continue with their market share in the existence of an international competitor.

(Mukami, 2014) study on the impact of mergers of Kenol Limited and Kobil Oil Limited in Kenya to form KenolKobil in 2002. The study used a secondary source of information to assess the financial performance of the firm by making a comparison between the post and pre-merger of time span of two years, where a linear regression model was employed by the firm. The results from the mergers confirmed that the merged company performed well financially as opposed to the separate entities that they had exhibited.

(Mutiso, 2015) looked into the impact of impact of M& A s on the firm value of oil firms in Kenya. The study considered a time span of six years from 2001 to 2011 by using a target of 14 oil firms that had been through mergers and acquisitions. He evaluated the firm's performance by considering the post and pre-merger in a five-year time span employing the regression model analysis, findings were that the M & A s activities did not have any effect on the financial performance.

(Mungai, 2015) conducted a research on the effects of mergers and acquisitions on financial performance of Banks, his survey focused on the commercial banks in Kenya, from the study his findings provided bank managers and shareholders of similar banks with insights upon which they would base their decisions concerning mergers and acquisitions.

## **2.5 Research Gap**

A number of research has been done on Mergers and Acquisitions on the financial performance of the firms listed in the Nairobi securities Exchange, which has resulted to conflicting results .Some studies have put across that mergers and acquisitions of firms have resulted to financial gain through risk diversification while other studies tend to differ with these notion by confirming that no financial gain is achieved through diversification due to the associated increased cost borne by the firm in acquiring the target company. Other studies have explained on the effect of synergy which accrue to the firm as a result of M &A while others have put across the increase in the firm's market share achieved from mergers and acquisitions. All the studies put across a mixture of conclusions on the topic under study, thus the current study tends to breach the gap by looking into the limited samples used by expounding on the source of secondary data and also increasing the time span for the research.

## **2.6 Conceptual Framework**

This section deals with analyzing the researcher's way of thought of how the parameters in the study connect to one another. The Research seeks to investigate the impact of mergers and acquisitions on the financial performance of firms listed in the Nairobi Securities Exchange. The predictor Variable of the study is the effect of risk diversification, effect of synergy and the impact on market share on mergers and acquisitions while the criterion variable being the financial performance.

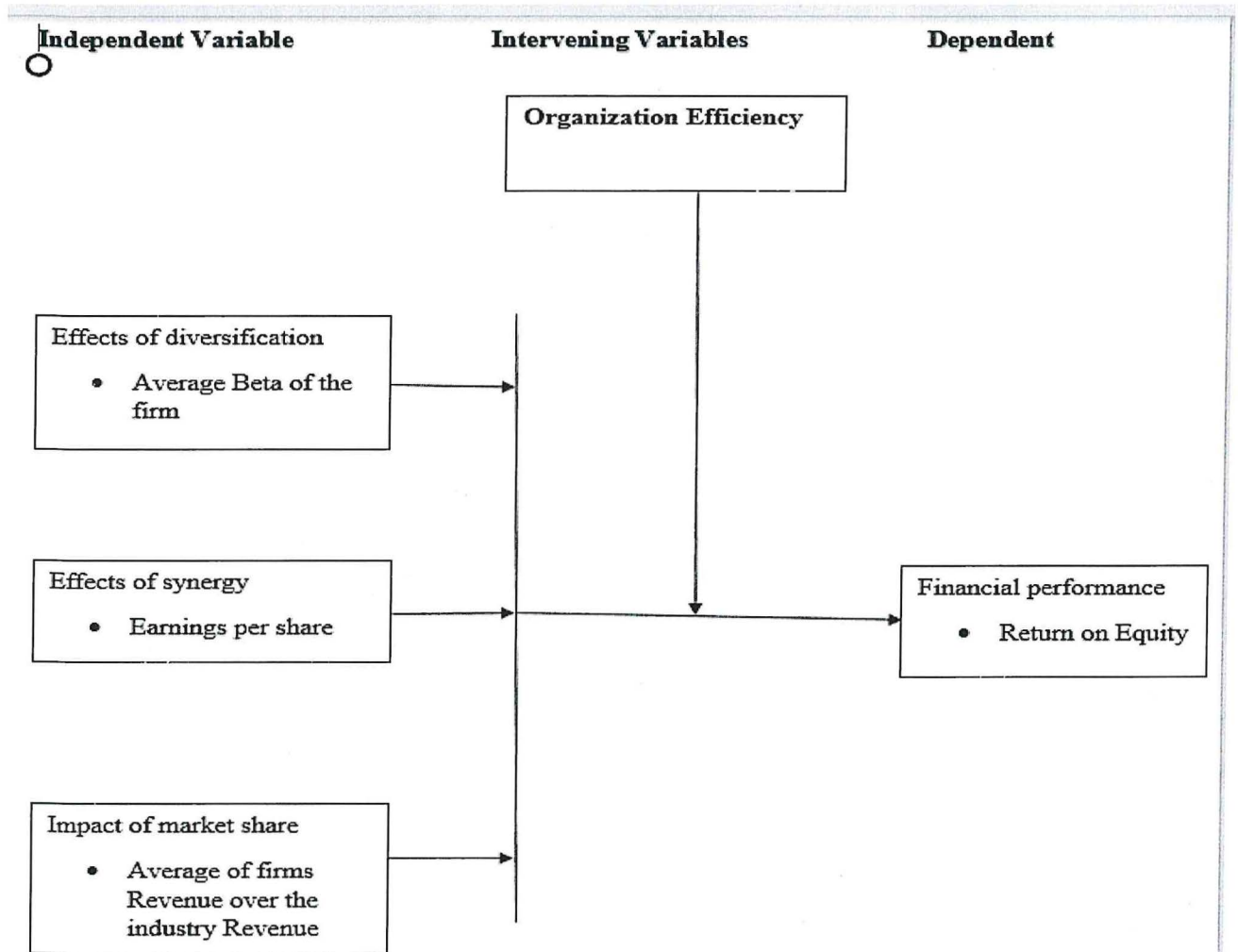


Figure 2.1 Conceptual Framework

### 2.6.1 Operationalization table

The table explains the elements used in the study. The parameter that is the independent and dependent variables are analyzed and the indicators to be used in the study are well elaborated. The study has used the Likert scale items to evaluate the effect of minimizing risk exposure on performance measure, effect of synergy on performance and the impact of market share on the performance as a primary data. On the hand the secondary data has employed the return on equity measure to measure the financial performance, the beta of the firm to measure the effect

of risk diversification, the earnings per share ratio to evaluate the effect of synergy and the average firm's revenue over the industry revenue to measure the firm's market per share.

**Table 1 Operationalization Table**

<b>Variables</b>	<b>Operational definition</b>	<b>Indicators</b>	<b>Measurement scale</b>	<b>Citations</b>
Risk diversification	Minimization of the exposure to risk	Average Beta of the firm	Ratio	Yigit,( 2012 ) Njuguna, (2018)
Synergy	Increased sales revenue Reduced cost of production	Increase in firms' earnings per share	Ratio	(Garzella & Fiorentino, 2014). Akenga & Olang, (2017).
Market share	Increase in product Quality	Average of firms Revenue over the industry Revenue	Ratio	Mutiso,( 2015)  Mungai,( 2015)
Financial performance	Increase in firm's profitability	Return on Equity	Ratio	Audited financial statements.

## Chapter 3:

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter described the research techniques employed in the study which entailed the research design, population targeted, sampling techniques, data collection technique and the data analysis techniques. This part further explained how the data was gathered and analyzed to answer the research questions and achieve the intended objectives.

#### 3.2 Research Design

Research design refers to a technique employed to act as a guide into the collection and analyses of data. The study has adopted a descriptive research technique. Nassaji, (2015) claims that the descriptive research studies are those which are involved with explaining features, the reporting of facts or specific forecasts. According to Kothari, (2008), the descriptive research is employed when explaining the characteristics of a particular condition. The objective of the descriptive design is to make sure that all aspects of the research has been taken note of during the research to minimize biases during the collection of data. This kind of research design was relevant to this particular study when gathering and analyzing data about the effect of synergy, the effect of risk diversification and the impact of market share of company's financial performance that have gone through mergers and acquisitions.

#### 3.3 Population

The target population is the entire set of individuals in a particular segment from which a sample is selected for analysis (Fowler, 2013). The population used in the research employed all the firms listed in the Nairobi Securities Exchange that have been through mergers and acquisitions in the time span of 2000 to 2019.

**Table 2 Target Population and Sample Size**

Number	Sectors	Number of populations for M&A	Sample
1	Banking	10	4
2	Insurance	2	1
3	Commercial & Services	3	1
4	Energy & Petroleum	2	1
5	Manufacturing & Allied	2	1
6	Investments	2	1
	<b>TOTAL</b>	<b>21</b>	<b>9</b>

### **3.4 Sampling**

Sampling design entails the selection of a portion of the entire population for the purposes of conducting analysis and formulating conclusion on specific variables under study(Fowler, 2013).The study used stratified random sampling technique to select a sample nine companies from the six different sectors that have undergone Mergers and Acquisitions and are listed in the NSE for the analysis.

### **3.5 Data Collections.**

The study adopted the secondary source of data .The data was extracted from the audited financial reports of the firms listed in the Nairobi securities Exchange which helped in the computation of the firms beta, determining of the changes in the earnings of the firm through analyzing the firms earnings per share ratios , determining the firms growth using the firms revenue and also determining the firms profitability by computing the return on Equity for the eight firms that had gone through M& A. The data was also extracted from the various companies' websites, the Nairobi Securities Exchange and the Capital Markets Authority.

### 3.6 Data Analysis

The study used the statistical Package for Social Sciences (SPSS) Version 23 to analyze the data. The method looked into the independent parameters that is the effect of synergy, the effect of risk diversification as well as the impact of market share of the firm in relation to the overall financial performance. This was done by picking data from audited financial statements of the sampled firms and entered the said data into the statistical software, which generated information on the coefficient of determination and the correlation coefficient of the before and after merger for all the sectors.

Multilinear regression model was performed to determine the relationship the three explanatory variables had on the response variable. The model was presented as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where:

Y= Financial performance

a=constant, b, c, dare coefficients of X1, X2, X3 respectively

X<sub>1</sub>=Risk diversification

X<sub>2</sub>Synergy

X<sub>3</sub>= Market Share.

E<sub>j</sub>= Error term

### 3.7 Research Quality

The research employed various data collection technique to maintain the quality of the research. There was a consistent measure of variables from previous studies that were employed hence the aspect of reliability. The information for analysis were extracted from the secondary sources such as audited financial statements thus an indication of reliability since documented work is more reliable as it serves as a source of evidence. The research satisfied the criteria for evaluation of the quality sources which include the Relevance, Expertise of the Author, Viewpoint of the author or Organization, the intended audience, Evidence and when it was published. **(REVIEW)**.

### **3.8 Ethical consideration**

The research was guided by the academic integrity, which was explained with respect of knowledge, honesty, truth and scholarship. The research has acknowledged the contribution of writers by citing and giving the respective references.

## Chapter 4:

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter presents a summary of the collected data, the analysis and the findings of the study as explained in the research objective and the research methodology elaborated above. The findings from the study are presented on the impacts of mergers and acquisitions on the financial performance of firms listed in the Nairobi Securities Exchange in terms of synergy, risk diversification and the market share. The data was analyzed using the secondary source of information from the audited financial statements.

#### 4.2 Financial performance of M&A by sectors

##### 4.2.1 Banking sector

##### 4.2.1.1 Kenya Commercial Bank Limited

The study tried to investigate the financial performance on the banking sector using the return on Equity of the two banks before and after merger. The return on Equity is a performance measure used by the investors to understand how efficient a company takes in charge of money that shareholders have contributed to it. Kenya commercial Finance Company had a reduction on the return on equity of 9.68, 4.29 and 3.21 for the years 1998 to 2000 this is to mean that the financial position of the firm is questionable since a lower return on equity over the years explains that the business operations were not efficient in the generation of profitability. On the hand the Kenya commercial Bank reported a rising, falling and finally a rising positive trend of 2.9, 2.67 and 3.21 for the years 1998 to 2000, this thus indicates that the company's ability to generate profit without needing as much capital is high. After the merger the ROE for the new firm dropped as compared to the average performance of the firms before merger, a year after it declined further to 1.37 after picking up in the merger in the third year, the ROE rose to 10.6.

**Table 3: Kenya Commercial Bank Ltd ROE**

Institution \Year	Pre-merger			Post-merger		
	1998	1999	2000	2001	2002	2003
Kenya commercial Finance Co.	9.68	4.29	5.98			
Kenya Commercial Bank	2.9	2.67	3.21			
Average	6.3	3.48	4.6			
Kenya Commercial Bank Ltd.				2.65	1.37	10.6

**Source: Research Findings**

The study also investigated on the earnings per share of the company of the before and after merger .EPS of a company indicates how well a company is able to generate profits for its shareholders .The Earnings per share increased from 1.45 to 1.52 then declined to 1.36 in 2000 whereas the EPS for Kenya Commercial Bank was 1.3 then it fell to 1.15 the rose again to slightly 1.2.The average for both banks was 1.38 ,1.34 to 1.28 respectively from 1998 to 2000.The average decline in EPS for the before mergers was highly attributed due to the poor and reduced earnings as well as the debt reduction. On the other hand the post-merger depicts a rise from 1.28 to 1.31 then a fall to negative 20.06 then a rise again to 3.57 .The rise in the EPS in 2003 was a good prospect for the merged company since the investors of the company will be willing to pay more for a company that reported better profits .

**Table 4: Kenya Commercial Bank Ltd EPS**

Institution \Year	Pre-merger			Post-merger		
	1998	1999	2000	2001	2002	2003
Kenya commercial Finance Co.	1.45	1.52	1.36			
Kenya Commercial Bank	1.3	1.15	1.2			
Average	1.38	1.34	1.28			
Kenya Commercial Bank Ltd.				1.31	-20.06	3.57

Source: Research Findings

#### 4.2.1.2 CFC Stanbic Bank

The study established the ROE of both the banks before and after the merger .The findings before the merger were as follows 15.4, 19.4 and 27.59 for the period 2005 to 2007 which depicts a positive trend in ROE this clearly indicates that the ability of the firm :to generate profits without the need for extra cash is possible thus a good credit to any investor wishing to invest in the firm. On the other hand, Stanbic Bank Ltd ROE was 21.6 ,24.3 and 33.48 respectively for a period between 2008 to 2010.

**Table 5:CFC Stanbic Ltd ROE**

Institution \Year	Pre-merger			Post-merger		
	2005	2006	2007	2008	2009	2010
CFC Bank Ltd	15.4	19.4	27.59			
Stanbic Bank Ltd	21.6	24.3	33.48			
Average	18.5	21.85	30.54			
CFC Stanbic Ltd				18.4	25.4	28.43

Source: Research Findings

#### 4.2.1.3 Diamond Trust Bank

The study established the ROE for both the banks before and after the merger. The findings before the merger of Habib Bank were as follows 23.03, 23.4 and 22.6 for the period 2014 to 2016 which depicts a rise then lastly a fall in the ROE over the years while that of Diamond Trust Bank was 20.4, 18.7 and 19.1 which also indicated a decline in the return on the shareholders equity. The growth in the shareholders fund by 17% in the year 2017 was mainly attributed due to a sh.64 billion profit in the after tax that was retained and the also the issuance of shares with the aid to acquire the Habib Bank assets and liabilities during the year.

The operating income over the years increased, this was due to the increase in the net interest income over the years from 13,737,096 in 2017 to 14,227,507, on the other hand the net interest income increase was as a result of increase in the government security.

**Table 6: Diamond Trust Bank Ltd ROE**

Institution \Year	Pre-merger			Post-merger		
	2014	2015	2016	2017	2018	2019
Habib Bank	23.03	23.40	22.6			
Diamond Trust Bank Ltd	20.4	18.7	19.1			
Average	21.72	21.05	20.85			
Diamond Trust Bank Ltd				12.79	12.13	6.21

**Source: Research Findings**

The EPS for the Habib Bank indicated a decline from 2014 to 2016 that is 43.03, 33.37 and 33.10 whereas that of DTB Bank was increasing from 2014 to 2016 with the EPS of 21.92, 24.42 and 26.94 respectively. The overall EPS after merger from 2017 to 2018 indicated a rise by 2.3% this resulting performance was driven by a 2% increase in total operating income as well as a 2.5% decline in the total operating income.

**Table 7: Diamond Trust Bank Ltd EPS**

Institution \Year	Pre-merger			Post-merger		
	2014	2015	2016	2017	2018	2019
Habib Bank	43.03	33.37	26.94			
Diamond Trust Bank Ltd	21.92	24.42	26.94			
Average	32.48	28.90	29.87			
Diamond Trust Bank Ltd				24.8	25.3	-----

**Source: Research Findings**

#### **4.2.1.4 Equatorial Commercial Bank**

The study evaluates the return on Equity of the two institutions individually before the acquisitions and after the acquisitions. Equatorial Bank indicated a risen ROE while that of Southern Credit indicated a rise then later a fall. The ROE after the merger reported a higher figure of 11.78 which kept on declining from 2011 to 2012, this was driven by the growth in assets and liabilities compared to the previous year. The earnings in the year was also impacted negatively by the significant increase in the Banks cost of funds.

**Table 8:Equatorial Commercial Bank ROE**

Institution \Year	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Equatorial Commercial Bank	---	0.59	7.03			
Southern Credit Banking Corporation	1.42	1.6	-0.7			
Average	0.71	1.10	3.17			
Equatorial Commercial Bank Ltd				11.78	10.02	- 40.02

**Source: Research Findings**

The EPS for the Bank was reported as -0.36 ,,-0.50 and -1.40 respectively in the years 2010 to 2012 this illustrates an increase in EPS but negatively which means that the company has more money available to either re-invest in business or distribute to stockholders in the form of dividend.

#### **4.2.2 Investment sector**

##### **4.2.2.1 Centum Investment Company Limited**

The return on Equity of Centum Investment indicated a rise from 2010 to 2011 then a fall in 2012 on the other hand Platcorp Holdings has a decline in ROE of 3.2 ,1.6 and 1.42 respectively from 2010 to 2012.The ROE after the merger reported a rise to 18.39 from 6.64 this was driven by an increase in the earnings and debt reduction. This later fell to 15.07 then rose again to 24.87 in 2015, the rise in EPS from 2014 to 2015 was driven by the increase in the book value of the shareholders' funds was 291%.

**Table 9:Centum Investment Company ROE**

Institution \Year	Pre-merger			Post-merger		
	2010	2011	2012	2013	2014	2015
Centum Investment Company Limited	13.75	24.00	11.85			
Platcorp Holdings	3.2	1.6	1.42			
Average	8.55	12.8	6.64			
Centum Investment Company Limited				18.39	15.07	24.87

**Source: Research Findings**

The EPS OF Centum Investment Company Ltd was 18.39 in 2013 which fell to 13.32 in 2014 then rose to 24.87 this symbolizes an improvement in company expense as well as improved margins in 2013, on the other a decline in EPS in 2014 indicated a reduction in the company's earnings which then rose to 24.87 in 2015.

### 4.2.3 Commercial Services Sector

#### 4.2.3.1 Kenya Airways Limited

The ROE of the KQ reported a decline from 40.22 to 18.68 and lastly 11.66 whereas that of Precision indicated a rise then fall from 1.5 to 5.5 then later a decline to -5.82. The results after the merger reported a rise in ROE then a fall in the respective years 2004 and 2005. The rise after the merger was driven by an increase in the Revenue of the firm while the fall was as result of the increase in the operating cost of the firm .

**Table 10:Kenya Airways Limited ROE**

Institution \Year	Pre-merger			Post-merger		
	2000	2001	2002	2003	2004	2005
Kenya Airways Limited	40.22	18.68	11.66			
Precision	1.5	5.5	-5.82			
Average	20.86	12.09	2.92			
Kenya Airways Limited				85.80	31.40	27.98

**Source: Research Findings**

The EPS for KQ indicated a rising trend of 1.18,8.40 to 10.45 respectively from 2003 to 2005, this means that the company has more money available to distribute to stockholders in the form of dividend payments.

### 4.2.4 Manufacturing and allied sector

#### 4.2.4.1 EABL

The ROE of the Serengeti Breweries reported a decline in the trend from 2011 to 2013 with returns of 38.46,37.08 and 36.87 on the other the returns for EABL was also depicting a fall in the trend from 86.43 to 53.53 in the respective 2012 and 2013 before the merger. Results after the merger of the two firms indicates arise in ROE of the firm from 45.2 the average to 77.27. This figure then declines in 2015 due to the high transaction costs incurred during its operation,

later in 2016 the firms returns reported resilient returns. This was as a result of the revenue delivered during that period was ksh 70 billion and had grown up 9% compared to the previous years. The selling and administrative costs for the company reported a decline by 11% and 8% respectively on the hand the net finance costs and tax expenses also declined compared to the prior years.

**Table 11:EABL ROE**

Institution \Year	Pre-merger			Post-merger		
	2011	2012	2013	2014	2015	2016
Serengeti Breweries	38.46	37.08	36.87			
EABL	72.54	86.43	53.53			
Average	55.51	61.76	45.2			
EABL				77.27	59.63	93.29

**Source: Research Findings**

The earnings per share for EABL rose from 8.21 to 11.27 in the year 2014,2015 and decline in 2016 to 9.37 due to the debt reduction in the firm.

#### **4.2.5 Insurance sector**

##### **4.2.5.1 BRITAM**

The ROE for BRITAM before the merger in the years 2011 to 2013 were , -39.93,36.10 and 31.97 respectively , the decline in the returns in 2011 was caused by the formulation of a new strategic plan focused on driving profitability and operational excellence thus the project Jawbu was involved with operational costs bored by BRITAM,while that of Real insurance reported a fall by 7.75 from 2011 to 2012 which later rose in 2013 by 2.52 . The rise in the return on equity of Real Insurance in 2013 was caused by the growth in total income by 35.6% in 2013(ksh 24.94 billion) from 2012 (ksh 18.39 billion ).The results after the merger reported a positive backed up by an increase in the ROE from 2014 to 2015 this was explained by the increase in the firms earnings in the respective periods.

**Table 12:BRITAM ROE**

Institution \Year	Pre-merger			Post-merger		
	2011	2012	2013	2014	2015	2016
BRITAM	(39.93)	36.10	31.97			
Real insurance	28.44	20.69	23.21			
Average	(5.75)	28.40	27.59			
BRITAM				96.51	113.90	125.11

**Source: Research Findings**

### **EPS**

The EPS for BRITAM company after the merger (2014) reported a positive figure of 1.31 which fell later in 2015 by 1.81 reporting a negative EPS of (-0.50) for the period this was due to debt reduction the company was trying to settle. The figure then rose again in 2016 to 1.26 which indicated improved firms earnings after the merger.

### **4.3 Regression Analysis**

To determine the impacts of mergers and acquisition on the financial performance of firms listed in the Nairobi Securities Exchange the research employed the regression analysis. The research applied the statistical package for social sciences (SPSS) which helped to measure the multiple regression of the firms before and after merger.

**Table 13: Banking sector—Premerger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.845 <sup>a</sup>	.714025	.6963	0.73413	.714025	2.134	1

The R-squared is a statistical measure which further explains how data is closely fitted in the regression line by the extent to which the change in the dependent Variable (Return on Equity) to be explained by the change in the three independent variable ( Average Beta ,Earnings per share and the firms revenue).

The independent variable for the study contributed to 71.40% of Impacts of mergers and acquisitions on the financial performance of firms listed in the NSE under the banking sectors denoted by the R<sup>2</sup>. Thus it explains that 71.40% of the Impacts of Mergers & Acquisition on the financial performance can be explained by the three independent variable whereas for the remaining 28.06% is unexplained and these can be as a result of sampling error or other factors such as limited time span .

**Table 14;Banking sector - post-merger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.9925 <sup>a</sup>	.9851	.7963	0.73413	.9851	2.316	1

The independent variable for the study contributed to 98.51 % of Impacts of mergers and acquisitions on the financial performance of firms listed in the NSE under the banking sectors

denoted by the  $R^2$ . Thus it explains that 98.51 % of the Impacts of Mergers & Acquisition on the financial performance can be explained by the three independent variable whereas for the remaining 1.49% is unexplained and these can be as a result of sampling error or other factors such as limited time span.

**Table 15: Investment Sector-Pre-merger**

Model Summary					Change Statistics		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1
1	.841 <sup>a</sup>	.707	.415	2.41215	.707	2.418	1

$R^2$  has a value of .707. This means that 70.7% of the variation in the dependent variable i.e financial performance demonstrated by the Return on Equity can be explained by the variation in the independent variable( Average Beta ,Earnings per share and the firms revenue).The remaining 29.3% of the variation is unexplained.

**Table 16: Investment Sector- Post-merger**

Model Summary					Change Statistics		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1
1	.650 <sup>a</sup>	.423	.924	1.41615	.423	1.428	1

About 42.3% of the variation in the financial performance of firms in investment sector listed in the Nairobi securities Exchange can be explained by the variation in the market share, synergy and Risk diversification whereas the remaining 57.7% of the variation in the investment sector is unexplained this could arise due to the unlimited time allocated in analyzing this sector.

**Table 17: Commercial Sector-Pre-merger**

Model Summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	-.999 <sup>a</sup>	.9998	.99968	1.61225	.9998	1.6234	1

This further explains that 99.98% of the variation in the financial performance of firms listed in NSE under the commercial sector can be explained by the variation in the market share, synergy and Risk diversification on the hand the remaining 0.02% of the variation in the financial performance of firms listed in NSE under the commercial sector is unexplained .

**Table 18: Commercial Sector-Post-Merger**

Model Summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	-.8912 <sup>a</sup>	.7942	.67072	1.5123	.7942	1.4513	1

79.42% of the variation in the financial performance of firms in the commercial sector listed in the Nairobi securities Exchange can be explained by the variation in the market share, synergy and Risk diversification whereas the remaining 20.58% of the variation in the investment sector is unexplained this could arise due to the unlimited time allocated in analyzing this sector.

**Table 19: Manufacturing and allied Sector-Pre-merger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.6164 <sup>a</sup>	.37999	.8760	2.21815	.37999	2.217	1

The coefficient of determination of the manufacturing and allied sector before merger shows 37.99% of the variation in the Impacts of M& A on the Financial performance of firms listed in NSE can be explained by the Variation in the Marketshare, Synergy and Risk diversification.

On the hand the remaining variation in the Impacts of M&A on the financial performance of firms listed in NSE is unexplained. Correlation Coefficient for the sector is .6164 which suggests that there is a moderate correlation between the variables under study.

**Table 20: Manufacturing and allied- Post-merger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.4758 <sup>a</sup>	.2263	.8760	2.21815	.37999	2.217	1

The 22.63% of the variation in the dependent variable on the impacts of M&A (financial performance) can be explained by the variation in the independent variable (Market share, Synergy and Risk diversification) whereas the remaining 77.37% of the variation is not well elaborated in study.

The correlation coefficient of the sector records .4758 which further explains that there's a weak correlation between the dependent variable and the independent variable hence a poor prediction can be gotten on the financial performance based on three independent variables.

**Table 21:Insurance Sector-Pre-merger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.8554 <sup>a</sup>	.7318	.57088	2.1342	.7318	2.1453	1

The coefficient of determination in the insurance sector before merger records 73.18% of the Variation of financial performance can be explained by the variation in the independent variable while the remaining 26.92% of the variation is unexplained this could be attributed by the sampling error that was encountered during the study.

The coefficient of correlation in the insurance sector indicates .8554 which shows a high degree of correction between the two variables.

**Table 22:Insurance sector -Post -merger**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.9923 <sup>a</sup>	.9846	.97548	2.4673	.97548	2.2457	1

98.46% of the variation in the Insurance sector after merger is higher than the premerger, this ideally explains that the variation of financial performance can be explained by the Variation in the market share, synergy and the risk diversification. The remaining 1.54% cannot be well elaborated on. On the other hand, the coefficient of correlation indicates .9923 which further suggests a high correlation between the variable under study. Thus, a good prediction of the financial performance can be made using the three independent Variable.

**Table 23:Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.825 <sup>a</sup>	.680625	.489	0.73249	.680625	2.217	1

**Pre-merger Regression**

The diagram above demonstrates the three independent variable contribution in the regression analysis by 68.06% variation on the impact of merger and acquisition on the financial performance of firms listed in the Nairobi securities Exchange in all the sectors while the remaining 31.94% of the variation is not explained by the regression model but other factors different from what has been discussed .This thus calls for further research in the remaining variation.

**Table 24: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.972 <sup>a</sup>	.9443	.9221	0.73249	.9221	2.105	1

**Post- merger Regression**

The post-merger regression analysis reports higher coefficient of determination of 94.43% variation. This explains that 94.43% of the variation on the impact of mergers and acquisition on the financial performance can be explained by the independent variable. The other 5.57% is unexplained and can be due sampling error or other factors which are beyond control.

**Table 25: Coefficient of determination**

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.454	.385		-1.156	.271
Risk Diversification	.151	.074	.264	2.214	.041
synergy	.133	.112	.199	1.456	.193
Market Share	.234	.059	.526	1.143	.262

a. Dependent Variable: financial performance

The study investigated the relationship between the financial performance using the Return on Equity against the three independent variables. As per the generated data above as SPSS

Findings ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ ) which becomes

$$Y = -0.454 + 0.151X_1 + 0.133X_2 + 0.234X_3 + e_j$$

Where:

Y= Financial performance

a=constant, b, c, dare coefficients of X1, X2, X3 respectively.

X<sub>1</sub>=Risk diversification

X<sub>2</sub> =Synergy

X<sub>3</sub>= Market Share.

E<sub>j</sub>= Error term

Based on the regression equation demonstrated above, considering all elements for the study (effects of Risk Diversification, effects of Synergy and Impacts of market Share on the financial performance of firms listed in NSE) constant at zero, Financial performance will be -0.454. The analysis of the data is also gotten by factoring the three independent variable at Zero, where a unit increase in the effects of risk diversification in the process of M&A will result to a 0.151 increase in the firm Financial performance ;a unit increment on the impacts of synergy in the process of M&A will lead to 0.133 increase in the financial performance and finally a unit increase on the Impacts of Market share in the process of M&A results to a 0.234 increase in the firm's financial performance.

Descriptive analysis above shows the relationship between all independent Variable and the dependent Variables. On the other hand, Inferential statistics explained by multiple linear regression indicates that only the effect of risk diversification in the process of M&A had a P-value of less than 0.05. This observation thus explains that the effects of Risk Diversification is the only variable that can demonstrate statistically the Firms financial performance after the process of Mergers and Acquisitions.

### **Interpretation of Findings**

The analysis on impacts of mergers and acquisition on the financial performance of firms listed in the NSE on the ROE presents a mixture of results after the merger. The results identified explains that some sector ROE declined for some years then rose after adapting to the new market environment whereas other sector gave a positive trend through increased return on equity after the firm's reconstruction through the merger and acquisitions. Return on Equity is a measure of efficiency for a firm and so the higher the ROE a firm report suggest that a company ability to generate profits is increasing without the need to use more capital. It also indicates how well the firm employs the shareholders capital. The firms that tend to use high level of debt with less shareholders equity reports a high ROE on their firm's financial performance which is a good prospect for the firm. On the other hand, a decline in ROE indicates that the management is making poor financial decision on reinvesting in unproductive assets, which is an indication of firm's financial trouble in foreseeable future.

Analysis of the Earnings per share for the firms after the mergers and acquisitions presented different results in that others reported positive rise in the EPS, other firms reported negative EPS and others began with a lower EPS then Rose after the firms operation had stabilized after the reconstruction. EPS generally explains how the firm generates profits for its shareholders .Higher EPS is preferred to lower EPS, since the higher EPS a firm reports suggests that the firm's ability to generate more profits to distribute to its shareholders is higher. On the other hand, firms reporting a negative EPS shows that the firm has negative Earnings which is not favorable the investors.

Based on the information presented above, the impact of mergers and acquisition on financial performance of firms listed on NSE from the different sectors reported different results on their performance after merger. The insurance sector under the merger and Acquisition between BRITAM and Real insurance firm reported a positive and higher ROE which resulted to improvement in the financial performance for the merged (firm) following the formulation of a new strategic plan by the name Project Jawbu that was introduced in 2011 to help in the improvement of firms profitability. Whereas based on the EPS, the banking sector in the merger

between Habib Bank and DTB Bank reported the highest EPS which explains that the firm has the capability to generate more profits to distribute to its shareholders.

In conclusion the banking sector is seen to give better results in terms of its coefficient of determination and the correlation coefficient of its before and after merger, this ideally explains the variation in the firms financial performance in the banking sector can give a good prediction about the firms going concern based on the variation of its risk diversification, market share and synergy.

## Chapter 5:

### DISCUSSION, CONCLUSION AND RECOMMENDATION

#### 5.1 Introduction

This chapter presents a summary of the findings discovered in the study, conclusion arrived at as well as the necessary recommendations and suggestions that are important for improving mergers and acquisition.

#### 5.2 Summary of findings

The research was meant to identify the impacts of mergers and acquisition on the financial performance of firms listed in NSE. The study looked into the quantitative features on the audited financial reports that impacted on the success or failure of merging and acquisition in the different sectors that were affected by the process. The major area of concern was on the effects of Risk diversification, Effects of synergy and the impacts of the market Share on the financial performance which informed the main independent variables for the study.

The findings demonstrated that the effects of risk diversification is very critical in the success of mergers and acquisition of firms .This was backed up by the inferential statistics which demonstrated this variable to be statistically significant. Focussing on Risk Diversification will result to minimal risk of loss since if one investment performs poorly over a certain period for instance in this study the manufacturing and allied reports on its coefficient of determination and correlation coefficient before and after merger gave a poor prediction of the financial performance with regards to the three independent variables , other investments may perform better over the same period a good example was the banking sector which gave the best prediction on the financial performance after the merger when looking into the coefficient of determination and correlation coefficient .This is to mean that with the risk diversification one is able to reduce the potential risk losses of their investment portfolio from concentrating all their equity components under one type of investment.

The study concludes that risk diversification in mergers and Acquisition impacts the financial performance of firms listed in NSE since holding all the elements for the study constant a unit increase in the effects of Risk diversification leads to 0.151 increase in the financial

performance. This goes hand in hand with the study findings by(Njuguna, 2018) which identified a direct relationship between the geographical diversification and performance which approved that companies should diversify in areas where competition is not intense and capitalize on the freedom to identify prices that are optimal to ensure profitability.

The study brings to an end that the effects of synergy on impacts the mergers and acquisition affects the firm's financial performance of firms listed in NSE that have been affected by the said process. This is so because holding all the other factors constant a unit increase in the effects of synergy leads to 0.133 increase in firm's financial performance. The results for this findings are in accordance with findings brought out by Garzella & Fiorentino,( 2014) who identified that it was worthwhile for a firm whose financial performance were in trouble to combine its efforts with another firm whose financial performance reported positive returns since by so doing greater profitability will be attained through synergy. However, this variable for study was not statistically significant.

Finally on the statements regarding the impact of market share on the impacts of mergers and acquisition in the firms financial performance reports a positive results on the same .Market share for any firm is an important aspect to look into as the larger the market share which for this case will come as a result mergers and acquisition will bring about better future prospect through increased profitability of the said firm. The results of increased market share will thus give the merged firm a competitive edge from allowing their competitors into taking away their business. As a unit increase in the impacts of market share in the process of mergers and acquisition lead to a 0.234 increase in firms' financial performance. The results of this findings are in agreement with the findings highlighted by Mutiso, (2015) on the impact of mergers of Kenol and Kobil Ltd which confirmed that the merged firm performed well financially as opposed to firms that existed separately.

### **5.3 Conclusions and Recommendations**

Based on the findings of the study the following suggestion in agreement with the study should be factored in.Before the firms in the different sectors decide to merge and acquire other firms, proper analysis on risk management process should be done to enhance better results in line with Risk diversification to

minimizing the potential losses that comes along with the process. This can be looked at through the following steps; first identification of the risk involved with the process by this one has to come with a number of techniques or methods to assess the potential risks the organization will encounter in the mergers & acquisition process. Secondly analyze the risk by establishing the likelihood of the risk occurring and then drawing the consequences of each identified risk. Thirdly Evaluation of the potential risk which assesses the combination of likelihood and consequence. Fourth treatment of the potential risk, this could be done through proper planning by evaluating the highest ranked risks and setting out plans on how to treat or modify them. Fifth step entails Monitoring and reviewing the identified risk and looking for better ways to achieve firms end goal.

To increase the firm's synergy which will finally lead to better financial results due to improved financial performance after mergers and acquisition the firms in question should look into into the following elements. First they should know the reason or the objective they wish to achieve by the end of the said process could be increased firms profitability and returns ,secondly the need to communicate the objective to the people concerned for this case the shareholders of the target company in the case of a friendly takeover .Thirdly the said firms need to employ technology to share the information after the integration of shareholders of both the acquiring and the target firm. Fourth, encourage contribution this can be achieved once the information is let out to the public and finally make it fun, this can be achieved through offering of some payments through premium by the acquiring to the shareholders of the target company.

Market share of the firm can be improved by building a referral program this can be achieved by requesting for the names of the companies that can easily be acquired , their location ,the firms mission and vision and whether they can be aligned to yours then reaching out to this new leads. One can as well increase their engagement with customers as a way to increase market share since the more you engage with your customer the more you build loyalty in them which will help maintain the firms current share in the long-run as well as turning new customers into loyal buyers.

Firms market share can be impacted by developing unique brand position this will aid the firm into maintaining their current market share and improving it for a longer time span. The firms that have undergone mergers and acquisition can increase their market share by staying ahead of competition this could be through undertaking of various innovation strategy which informs a

marketing strategy which is aimed to achieving firms competitive edge through new products and customized solutions.

#### **5.4 Limitation for the study**

The researcher experienced some challenges in obtaining relevant information pertaining the topic for the study. This was so because it heavily relied on the secondary data which is publicly available. The secondary data was general and vague which resulted to difficulty in making financial decision. Some of the data was not availed on the websites and the researcher had to seek permission to collect information from the different companies in question. This thus affected the project completion time due to the incomplete information.

#### **5.5 Suggestions for the study**

The study suggests for further study on the impacts of merger and acquisitions on the financial performance of firms listed in NSE. The findings brought out the statistically significance difference in the risk diversification after the merger. The study puts forward to determine the difference of each sector in terms of risk diversification.

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**APPENDIX 1: LISTED FIRMS IN MERGERS AND ACQUISITIONS**

Number	Institution	Merged with/ Acquired by	Current name	Date approved
	<b>Banking</b>			
1.	Kenya Commercial Bank	Kenya Commercial Finance Co	Kenya Commercial Bank Ltd	2001
2.	Co-operative Merchant Bank Ltd	Co-operative Bank ltd	The Co-operative Bank of Kenya Ltd	2002
3.	CFC Bank Ltd Stanbic Bank Ltd.	CFC Stanbic of Kenya	Holdings Ltd	2008
4.	Equatorial Come Bank	Southern Credit Banking	Equatorial Commercial Bank Ltd	2010
5.	City Finance Bank	Jamii Bora Kenya	Jamii Bora Bank Ltd	2010
6.	Fina Bank Ltd	Guaranty Bank	Guaranty Trust Bank	2013
7.	Krep Bank Ltd	Centum Ltd	K-rep Bank	2014
8.	Giro Commercial Bank	I\$M Bank Ltd	I\$M Bank Ltd	2017
9.	Fidelity Cores Bank	SBM Bank Kenya	SBM Bank Kenya Ltd	2017
10.	Habib Bank	Diamond Trust Bank Kenya	Diamond Trust Bank Kenya Ltd	2017
	<b>Commercial and Services</b>			
7.	Standard Newspapers Ltd	Baraza Ltd	Standard Group Ltd	2001
8.	Nation Media Group	Mwananchi Communications Tanzania & Radio Uhuru Ltd Uganda	Nation Media Group	2002
9.	Kenya Airways ltd	Precision	Kenya Airways	2003

	<b>Insurance</b>			
10.	Pan Africa Insurance Holdings Ltd	APA Insurance Limited	APA Insurance Limited	2001
11.	Jubilee Insurance Co. Ltd	Jubilee Insurance of Uganda Jubilee Insurance of Tanzania	Jubilee Insurance Co. Ltd	2002
12.	Real insurance ltd	Britam	Britam	2014
	<b>Energy &amp; petroleum</b>			
13.	Kenya oil Company	Jovenna Zambia	Kenya Oil Company Kenol	2002
	<b>Manufacturing &amp; Allied</b>			
14.	East African Breweries UDV(K) Ltd	International Distillers Uganda Ltd	East African Breweries	2002
15.	Unga Group Ltd	Unga Millers (Uganda) Ltd	Unga Group Ltd	2013
16.	Serengeti Breweries	EABL	EABL	2014
	<b>Investment</b>			
15.	Trans-Century Ltd	Rift Valley railway	Trans-Century Ltd	2006
16.	Centum Investment Co Ltd	Platcorp Holdings	Centum Investment Co Ltd	2013

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