EFFECTS OF MERGERS AND ACQUISITIONS ON SHAREHOLDERS' WEALTH OF LISTED COMPANIES IN KENYA

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Declaration

This research project is my original work and has not been presented to a degree award in any other University.

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Table of Contents

Declaration ..... **ii**

Acknowledgement ..... **iii**

Table of Contents ..... **iv**

List of Tables ..... **vi**

Table of Figures ..... **vii**

Abbreviations and Acronyms ..... **viii**

Operational Definition of Terms ..... **ix**

Abstract ..... **x**

CHAPTER ONE **1**

INTRODUCTION **1**

1.1 Background to the Study 1

1.1.1 History of Mergers and Acquisitions 3

1.1.2 Listed Companies in Kenya Involved in Mergers and Acquisitions 4

1.2 Statement of the Problem 5

1.3 Objectives 8

1.4 Research Questions 8

1.5 Justification of the Study 8

1.6 Scope of the Study 9

1.7 Limitations 10

1.8 Assumptions of the Study 10

CHAPTER TWO **11**

LITERATURE REVIEW **11**

2.1 Introduction 11

2.2 Theoretical Review 11

2.2.1 Theoretical Framework 11

2.3 Empirical Review 14

2.3.1 Shareholders Wealth 22

2.3.2 Cost Efficiency 22

2.3.3 Capital Base 23

2.3.4 Market Share 25

2.4 Summary of Literature and Research Gaps 27

2.5 Conceptual Framework 28

CHAPTER THREE **30**
METHODOLOLY **30**
3.1 Introduction 30
3.2 Research Design 30
3.3 Target Population 31
3.4 Sampling Technique and Sample Size 31
3.5 Data Collection Procedure 31
3.6 Data Processing and Analysis 32
3.6.1 Variables 32
CHAPTER FOUR **37**
DATA PRESENTATION, ANALYSIS AND DISCUSSIONS OF FINDINGS **37**
4.1 Introduction 37
4.2 Descriptive Statistics 37
4.3 Two-Sample T-Tests 38
4.4 Rationalizing the Choice of Model 40
4.4.1 Hausman Test for Fixed Effects and Random Effects Models 40
4.5 Effect of Capital Base on Shareholders Wealth of Kenyan Firms Involved in M&A .. 41
4.6 Effect of Cost Efficiency on Shareholders Wealth of Kenyan Firms Involved in M&A 43
4.7 Effect of Market Share on Shareholders Wealth of Kenyan Firms Involved in M&A. 43
CHAPTER FIVE **45**
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS **45**
5.1 Introduction 45
5.2 Summary 45
5.3 Key Findings of the Study 45
5.3.1 Effect of Capital Base on Shareholders Wealth 45
5.3.2 Effect of Cost Efficiency on Shareholders Wealth 46
5.3.3 Effect of Market Share on Shareholders Wealth 46
5.4 Conclusions 46
5.4.1 Recommendations of the Study 46
5.4.2 Recommendations for Future Research 47
References **48**
APPENDICES **50**
Appendix I: Data Collection Sheet 50

List of Tables

Table 2.1: Operational Definition of Variables 29
Table 4.2: Summary Statistics Before and After M&A 37
Table 4.3: Two-Sample T-Tests for All Variables 39
Table 4.4: Hausman Test for Fixed Effects and Random Effects Models 40
Table 4.5: Regression Model 41

Table of Figures

Figure 2.1: Conceptual Framework 28

Abbreviations and Acronyms

CA Capital Adequacy

CE Cost Efficiency

EPS Earnings Per Share

ERC Energy Regulatory Commission

GSK GlaxoSmithKline Kenya PLC

KIC Kenyan Investment Council

M&A Mergers and Acquisitions

NPV Net present Value

NSE Nairobi Security Exchange

OLS Ordinary Least Squares

SPSS Statistical package for social sciences

Operational Definition of Terms

Merger A merger typically occurs when companies join forces to create a new organization, which, because of complementary skills and expertise, will be a stronger and more competitive outfit. A merger typically refers to two companies joining (usually through the exchange of shares) as peers to become one. It implies a mutually agreed decision for joint ownership between organizations.

Acquisitions An acquisition typically has one company, the buyer that purchases the assets or shares of another, the seller, with the form of payment being cash, the securities of the buyer or other assets that are of value to the seller.

Shareholder wealth This is the economic value created for the shareholders as a result of Mergers and Acquisitions.

Abstract

This research project sought to establish the effect of Mergers and Acquisitions (M&As) on the shareholders' wealth of Kenyan listed firms involved in Mergers and Acquisitions. The study adopted a descriptive research design in order to establish the relationship between Mergers and Acquisitions and shareholders' wealth. The objectives of the study were, to determine how capital base, cost efficiency and market share affect shareholders' wealth of Kenyan listed companies involved in M&A. Comparisons were made between the mean of 3 years pre-merger/acquisition and 3 years post merger/acquisition financial ratio while the year of merging and period of acquisition were exempted. The study found that the performance of the Kenyan companies in shareholders wealth was on average the same following the M&A. In addition, performance in capital base, cost efficiency and market share was on average the same before and after M&A. Furthermore, the study established that an increase in capital base will lead to a significant increase in shareholders' wealth, but an increase in either market share or cost efficiency will lead to a decrease in Earnings Per Share (EPS), though not large enough to guarantee a significant change in the shareholders' wealth. The study recommends the following:- management ought to ensure that earning per share for the shareholders is increased following growth in equity or after an expansion in capital base. In addition, management should not increase the earning per share based on the increase in operating expenses or even after a decrease in operating revenues or following the increase in the cost efficiency. Management ought not to increase the earning per share even after an increase in company's sales in relation to total sales of the industry. The study recommends that a comparative analysis ought be conducted to ascertain the effect of Mergers and Acquisitions in the different sectors of the economy.

CHAPTER ONE

INTRODUCTION

This chapter is organized as follows, the background to the study, statement of the problem, purpose of the study, objectives, research questions, the significance of the study, limitations and delimitations, and assumptions of the study.

1.1 Background to the Study

Corporations carry out numerous ways in efforts to boost money performance that is predominant to the success of any organization. It reflects the money health of firms within the market and also the performance as compared to alternative players within the trade. Mergers and Acquisitions are undertaken in efforts to boost organization's performance thanks to the advantages they're believed to hold on. up money performance through mergers and acquisition is principally thought-about a management strategy. Management considers Mergers and Acquisitions to cut back prices and expenses and maximize shareowner price (Maranga, 2010). Failure by the management to undertake financial investments which are risky that may otherwise be needed to maximize wealth of shareholders, however, poses a conflict of interest between shareholders and management (Clacher, Hillier, & Mccolgan, 2010).

Whether getting company shareholders expertise a wealth impact from Mergers and Acquisitions could be a matter of in progress discussion among educational researchers (Hassan, Patro, Tuckman, & Wang, 2007; Nyambura, 2014). Different studies have been done but there is still controversy as to whether Mergers and Acquisitions increase shareholder wealth or not. In addition, contradicting results have emanated following the empirically reviewed studies in relation to the determinants of shareholders wealth. The contradicting

findings of the determinants on shareholders wealth, namely capital base, cost efficiency, and market share in this study is discussed in the immediate three paragraphs.

Onikoyi and Awolusi (2014) observed that, a firm working in a prosperous economy with great quality resources, satisfactory liquidity and having a sound administration is probably going to require a little measure of funding to sufficiently look after dissolvability. Lole (2012) deduced that the financial performance of Faysal bank limited decreases insignificantly in terms of capital base measures. However, according to Gachanja (2013) capital base of majority of the banks increased after acquisition or merging.

Mergers and Acquisitions can potentially improve cost efficiency by increasing scale efficiency, scope efficiency or managerial efficiency. Maranga (2010) indicated that firm which engaged in take-over of subsidiaries had no significant changes in levels of their cost efficiency after mergers. However, some of the firms that merged with other banking institutions demonstrated significant declines in their cost efficiency. Sufian (2004) found that in Malaysia the bank's post-merger average overall efficiency of 89.1% was still lower compared to pre-merger when the bank had been operating at about 95.8% average overall efficiency, as the merged entity is burdened with high overhead costs and excess employees.

A firm that is growing its market share will be growing its revenues faster than its competitors. Companies are always looking to expand their share of the market by appealing to large demographics, lowering prices or through advertising (Pan, 2005). Ondieki and Njangiru (2015) found that majority of the respondents (77% of the respondents) indicated that the process of merging enlarged the market share in the banking industry in Kenya. Avulala (2015) also deduced that mergers and acquisition of companies in the insurance industry led to

increased market share of the merged/acquired companies. However, Mishra and Chandra (2010) in an Indian study on M&As found that firms with larger market share experience lower profitability in the long run.

The thought processes behind Mergers and Acquisitions are; expanded piece of the pie and incomes, economies of scale, cost productivity, tax collection, more extensive land regions among other basis (Motis, 2007). Mergers and Acquisitions are ceaselessly being received for dynamic organization's aggressiveness by growing piece of the overall industry. M&A are utilized to broaden an organization's portfolio as a hazard administration methodology. Moreover, to empower organizations enter to new topographical markets to help development by benefiting from economies of scale and increment on client base among different reasons (Gugler, Mueller & Weichselbaumer, 2012). The rationale behind any corporate Merger is the cooperative energy impact; two is superior to one. Organizations trust that by either blending or securing another organization, the execution would be superior to a solitary substance. This is ascribed to the way that investor esteem would adequately be amplified. In any case, different exact outcomes have uncovered that huge numbers of mergers were frustrated, where the inspirations that drive mergers can be defective and efficiencies from financial matters of scale may demonstrate subtle (Gorton, Kahl, & Rosen, 2005).

1.1.1 History of Mergers and Acquisitions

Mergers and Acquisitions on the planet have been happening in waves, with various thought processes behind each wave (Steger and Kummer, 2007). Four times of high merger action have occurred ever of and Acquisitions. These periods were essentially formed by the exercises of organizations in United States. These periods are described by cyclic movement, that is, an abnormal state of mergers is trailed by a time of moderately less mergers. The primary wave

happened in the early piece of the twentieth Century, when organizations attempted M&A's with the express target of overwhelming their enterprises and making syndications. The second wave corresponded with the rising business sector of 1920s, when firms again set out on M&A as a method for broadening their venture into new markets and extending their piece of the overall industry. The third wave happened in 1970s, when firms concentrated on obtaining others in different lines of business, with the purpose of broadening and shaping combinations (Qiu and Zhou, 2007). The fourth wave happened in the mid 1980s, when firms were obtained fundamentally to restructure resources. As of now, Mergers and Acquisitions are embraced generally as a piece of vital rebuilding process by the organizations that have the target of being one of the best three organizations on the planet.

In Europe, M&A have been a notable instrument in view of different formative periods since the start of twentieth Century. In any case, the advance of Mergers and Acquisitions are not quite the same as that of America. The primary wave was amid 1920s, when organizations utilized M&A's with the point of expecting and exploiting delivering at a lower cost for each unit, which brought about an awesome increment underway. A second development time of M&As happened amid 1960s because of the internationalization of the economy. The third blast was created basically in UK amid 1980s. Amid this wave, the key point was showcase development for corporate control. The fourth wave happened in mid 1990s, when organizations concentrated on M&A's to adjust the single European Market.

1.1.2 Listed Companies in Kenya Involved in Mergers and Acquisitions

In Kenya Mergers and Acquisitions occurs in different sectors in the economy. The study is undertaken on seven listed companies involved in Mergers and Acquisitions across six different sectors in Kenya for the period between the years 2008 and 2014. The different sectors

were agriculture, manufacturing, petroleum, banking, mining, communications and technology. In each of the sectors only one firm was selected save for petroleum sector. The firms selected included Rea Vipingo, Unilever, Total Kenya, KenolKobil, Stanbic holdings, Bamburi cement, and Safaricom Ltd. The enlisted firms were involved in M&As in the respective years as follows. Rea Vipingo (2014), Unilever (2009-2010), Total Kenya (2007-2009), KenolKobil (2008), Stanbic holdings (2008), Bamburi cement (2014), and Safaricom Ltd (2008-2009).

Rea Vipingo acquired Afchem Limited in October 2014. In September 2009, Unilever agreed to acquire the personal care business of Sara Lee Corporation, including brands such as Radox, Badedas and Duschdas, strengthening its category leadership in skin cleansing and deodorants. The Sara Lee acquisition was completed on 6 December 2010. In 2007 Total Kenya acquired all the assets of Chevron in Kenya while in 2008 Kenya Oil Company Limited (Kenol) merged with Kobil to form Kenol/Kobil Ltd. On 24 September 2007, the Stanbic bank merged with Stanbic Bank Nigeria Limited, a wholly owned subsidiary of Stanbic Africa Holdings Limited, a subsidiary of Standard Bank Group of South Africa, acquired majority shareholding (50.77%) in the bank whose name was subsequently changed to Stanbic Investment Banking & Trust Company Bank Plc. Holcim and Lafarge announced their merger project in 2014. Safaricom Ltd acquired Onecom on 21st August, 2008 in a partnership that saw Safaricom own 51% and the Onecom shareholders retaining 49%.

1.2 Statement of the Problem

Mergers and Acquisitions have been undertaken in efforts to improve organization's performance due to the benefits they are believed to carry along. Improving financial performance through Mergers and Acquisition is mainly considered a management strategy.

Management considers Mergers and Acquisitions to reduce costs and expenses and maximize shareholder value (Maranga, 2010).

In practice, there is possibility of managers pursuing their own personal objectives (Pandey, 2005), thus agency relationship arising from separation of owners and managers becomes a weakness where management is tempted to over invest or over emphasized growth or market shares and would want to maximize its own wealth at the expense of shareholders wealth. Failure by the management to undertake financial investments which are risky that may otherwise be needed to maximize wealth of shareholders. This, however, poses a conflict of interest between shareholders and management (Clacher et al., 2010).

Different studies have been done but there is still controversy as to whether Mergers and Acquisitions increase shareholder wealth or not. There is substantial evidence to support the view that Mergers and Acquisitions, in general, can add value to combined entity. There is evidence on the positive impact of corporate Mergers and Acquisitions by merger on firms (Selvan, 2009; Kling, 2006). However, it is crucial to note that Mergers and Acquisitions are capable of having adverse effect as suggested by Yook (2004), and Ismail, Abdou and Annis, (2010). A high level of wealth gain is often achieved by target firms, while the insignificant and even negative wealth changes are generated by bidder firms (Kaplan and Weisbach, 1992). Hence, shareholder wealth effects of Mergers and Acquisitions are still an area not fully understood, especially for the shareholders of acquiring firms.

Whether acquiring company shareholders experience a wealth effect from Mergers and Acquisitions is a matter of ongoing debate among academic researchers (Hassan et al., 2007; Nyambura, 2014). Mergers and Acquisitions create synergies that benefit both the acquiring

company and the consumers, though M&A activities also create agency problems, resulting in less than optimal returns. Hence, the net effects of M&A activity remain unclear, despite a number of studies, a need exists for continued research on this subject.

Studies on Mergers and Acquisitions undertaken in Kenya include the following; Chesang (2002) surveyed Merger restructuring and financial performance of Commercial Banks in Kenya; Katuu (2003) undertook a survey of factors considered important in Mergers and Acquisitions decisions by selected Kenyan based firms; Njenga (2004) undertook an investigation on whether the demerger of coffee marketing societies have created or eroded owners wealth in parts of central Kenya; Yash Pal Bansal (2005) studied the process and challenges in the Merger between Apollo & Pan Africa general Insurance Companies; Kiplagat (2006) studied the effects of Mergers on financial performance of Companies listed at the NSE; Mukele (2006) undertook a study of the factors that determine the choice of Mergers & Acquisition partners in Kenya; Marangu (2008) studied the effects of Mergers on financial performance of non listed banks in Kenya; Barasa (2008) researched on the effects of Mergers and Acquisitions announcements on share prices – evidence on the Nairobi Stock Exchange (NSE); and Oyuke (2009) studied Mergers and Acquisitions as competitive strategic options within the banking industry.

Despite the studies done on Merger and Acquisitions, contradicting results have been isolated following the empirically reviewed studies in relation to the determinants on shareholders wealth, namely capital base, cost efficiency, and market share. Hence, this study seeks to determine the effect of the three variables enlisted on shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions.

1.3 Objectives

The general objective of the study is to investigate the effect of Mergers and Acquisitions on shareholder's wealth of listed companies in Kenya involved in Mergers and Acquisitions. Specifically the study sought to:

i. Determine how Capital base affects shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions.

ii. Establish how cost efficiency affects shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions

iii. Ascertain how market share affects shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions.

1.4 Research Questions

Hence this research aimed at answering the following questions:

i. What is the effect of capital base on shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions?

ii. How does cost efficiency affect shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions?

iii. How does market share affect shareholders' wealth of listed companies in Kenya involved in Mergers and Acquisitions?

1.5 Justification of the Study

The study was motivated by the fact that M&A when properly formulated can lead to enormous benefits to the shareholders and prospective investors in Kenya. The research will fill the existing knowledge gap on the effects of Mergers and Acquisitions on shareholders' wealth. To academicians and researchers the study constitutes a source of empirical reference and

literature. It also forms a ground of further research to the scholars. To the government, the Kenyan Investment Council (KIC) will be in a good position to educate investors on the Kenyan market via Mergers and Acquisitions. The government can also apply the results of the studies in setting up policies on market entry strategies and will help the anti-trust authorities in controlling the activities of mergers. Investors will understand the effects on their values as a result of Mergers and Acquisitions in Kenya. Regulatory bodies will gain a better understanding on Mergers and Acquisitions. These will be beneficial to them in the future as they come up with policy controls to govern Mergers and Acquisitions.

Study may be important to staff working in Mergers and Acquisitions companies to allow them understand its importance and assist in the successful adoption of Mergers and Acquisitions in Kenya. The study will help shareholders to widen the knowledge of the stakeholders when faced with decision on mergers and acquisition by analyzing the effects of mergers on financial performance of the firm's involved. Employees will be in a position to establish the stability of the firms and hence their job security. Managers of various organizations engaging in joint operations will be in a position to highlight the effects that are characteristic of such operations and make wise decisions. Customers of the firms will bring out the positives and negatives of Mergers and Acquisitions, this will ensure that customers' interests are taken care of as Mergers and Acquisitions only reduce the value that customers get.

1.6 Scope of the Study

The study was limited to the Kenyan listed companies that engaged in Mergers and Acquisitions for the period between the years 2008 and 2014. The study is undertaken on seven listed companies involved in Mergers and Acquisitions across six different sectors in Kenya for the period. The different sectors were agriculture, manufacturing, petroleum, banking,

mining, communications and technology. Comparison was made between the three (3) years pre- and three (3) years post-Mergers and Acquisitions while the year of acquiring or merging was exempted.

1.7 Limitations

Obtaining of the secondary data from the concerned Kenyan listed companies involved in Mergers and Acquisitions had been a challenge. However, challenge was overcome by obtaining the same from the regulatory bodies like the Kenya Investment Council (KIC) and Capital Markets Authority (CMA).

1.8 Assumptions of the Study

The general assumption of the study was that all the variables were homogeneous throughout the market. Moreover, the researcher assumed that all the required data was readily available and correct.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study which is to investigate the effect of Mergers and Acquisitions on shareholder's wealth of Kenyan listed companies involved in Mergers and Acquisitions. The chapter is organized according to the specific objectives namely to determine how capital base, cost efficiency and market share affects shareholders' wealth in order to ensure relevance to the research problem. The chapter presents; the theoretical context of Mergers and Acquisitions; the determinants of shareholders wealth; empirical review; literature overview; Research gaps and the conceptual framework for the study.

2.2 Theoretical Review

In this section the study looks at Mergers and Acquisitions versus shareholders' wealth this study.

2.2.1 Theoretical Framework

Organizations combine or get others with a specific end goal to make an incentive over the aggregate of the different firms. This happens when organizations confront issues and need to get by amid tough circumstances. Organizations consolidate to contend positively, lessen on expenses and increment available offer (Peter, Namusonge, Waema & Ngonzo, 2014). This has made organizations to yield to the weight when they can't remain solitary. There are several theories that explain the rationale for Mergers and Acquisitions which inform this study.

2.2.1.1 The User Cost of Capital Theory

This theory is relevant in this study in that shareholders are entitled to dividends at the end of each financial year and should appreciate seeing the value of their shares going up. User Cost alludes to before-impose capital rental, the rate of restore that guarantees that the (after-charge) cost of capital is equivalent to the post-assessment forms The idea of client cost identifies with the rate of come back to capital, alluded to as the rental, that emerges in a benefit augmenting circumstance (Creedy & Gemmell, 2015). It is held that the capital utilized by firms is leased however not possessed by the organizations that utilization it along these lines firms must think about this hypothesis before getting into a Mergers or Acquisitions relationship. For firms to obtain different others or consolidation, a firm should think about the hypothesis in settling on its choice. That is, to keep utilizing its own particular capital, team up with another firm in utilizing it or offer it. The impediments of this hypothesis is that it doesn't make sense of any system through which desires influence the adjustment in capital and it doesn't provide food for the change of cost of capital.

2.2.1.2 The Agency Theory

Before any M&As, the interests of the shareholders should always be given priority hence making this theory relevant in this study. This theory states that investors might not have the fundamental aptitudes, mastery and time required to deal with an organization. Subsequently, they wind up designating different gatherings (known as administration) to run the organization for their sake (Clacher et al., 2010). At the point when chiefs need to build their riches to the detriment of the investors this hypothesis happens. Regardless of whether the hypothesis may diminish the estimation of the predator firm, administration still likes to look for an objective and afterward the reliance of the firm with the goal that their own skill can be improved.

Proprietorship and control perspectives are isolated in broad daylight constrained organizations. This partition of possession from control is quality as in it permits division of obligations in view of specialization. Responsibility for restricted organizations is more often than not on the hands of the investors while control is inside the administration named by the Board of Directors. This makes the Principal-Agent connection between the investors and the administrators where the investors are the Principals and supervisors, the specialists. Managers as the agents of shareholders are expected to act in the best interest of shareholders namely maximizing the net worth of the organization.

In practice, there is probability of supervisors seeking after their very own goals, along these lines office relationship emerging from division of proprietors and chiefs turns into a shortcoming where administration is enticed to over contribute or over underscore development or pieces of the pie and would need to expand its own particular riches to the detriment of investors riches. Disappointment by the administration to attempt money related ventures which are unsafe that may somehow or another be expected to augment abundance of investors. This, be that as it may, represents an irreconcilable circumstance between the investor and administration (Clacher et al., 2010).

2.2.1.3 The Theory of Managerial Entrenchment

This theory is relevant in this study due to the fact that, managers being agents of the shareholders should always endeavor before any M&As to maximize on the value/wealth of shareholders. The theory of managerial entrenchment contends that unsuccessful mergers happen in light of the fact that supervisors fundamentally make speculations that limit the danger of substitution (Berger, Ofek & Yermack, 1997). It recommends that supervisors seek after activities not with an end goal to amplify venture esteem, but rather with an end goal to

settle in themselves by expanding their individual incentive to the firm. Digging in directors will, as needs be make supervisor particular ventures that make it all the more exorbitant for investors to supplant them and esteem will be diminished in light of the fact that free assets are put resources into chief particular resources instead of in an investor esteem expanding elective. Entrenchment isn't sought after for employer stability itself, yet additionally in light of the fact that dug in administrators might have the capacity to separate more riches, influence, notoriety and popularity.

2.3 Empirical Review

Different studies on corporate Mergers and Acquisitions have concentrated on the impact of Mergers and Acquisitions on firm execution. This is on account of mergers and acquisitions have been the commonest technique for corporate procedure to enhance firm execution. Various investigations on mergers have uncovered differing discoveries and conclusions.

Kiplagat (2006) looked into on the impacts of mergers on money related execution of organizations recorded at the Nairobi Security Exchange (NSE). The populace utilized as a part of the examination was 48 organizations recorded on the Nairobi Stock Exchange and an example of 20 recorded organizations was reached. It comprised of 10 organizations that blended and 10 that never combined and were constantly in activity for the period partners were consolidated. Kiplagat inferred that mergers enhanced the execution of organizations recorded at the NSE.

Nyagah (2007) explored on specialist's impression of mergers and acquisitions in the pharmaceutical business in Kenya. The number of inhabitants in enthusiasm for this examination involved medicinal specialists in Nairobi and an example size of 50 specialists

was considered genuinely sufficient and delegate. In his discoveries, respondents unequivocally concurred that combined pharmaceutical organizations in Kenya were benefit and market situated.

Maranga (2010) considered the impacts of Mergers and Acquisitions on cost and scale productivity of the joined business banks in Kenya. His populace of premium involved 25 business banks that had converged between the period January 1994 to June 2009. His perceptions fixated on a multi year time span previously and 5 years term after merger. He utilized T-test to test changes in productivity scores between pre-merger and post-merger periods. His discoveries were that organizations which occupied with takeover of backups had no noteworthy changes in level of their cost effectiveness after mergers. He additionally watched that some consolidated firms exhibited huge decrease in their cost proficiency that would doubtlessly be ascribed to elements, for example, overstaffing because of joined workforce, long expectation to learn and adapt of administration on the most proficient method to best utilize innovation to lessen expenses and increment operational cost occasioned by the mix of tasks of two already free establishments. The examination set up that, cost proficiency does not really mean benefit effectiveness for the joined bank since staff who are in charge of bringing new business are not ready to create incomes to balance their costs which are settled and this influences both the cost productivity and benefit effectiveness. After Mergers and Acquisitions, some business banks kept on acknowledging benefit against declining cost productivity and generally low benefit effectiveness since they were enter players in loaning to government through okay treasury bonds and bills from which they understood great returns. He inferred that, the issue of human capital is exceptionally pivotal in first phases of merger and sound administration arranging is required for mergers to succeed.

Ndura (2010) explored on the impacts of Mergers and Acquisitions on monetary execution of insurance agencies in Kenya. Auxiliary information was utilized from productions from the Association of Insurers of Kenya. He contemplated the money related execution of six insurance agencies by concentrate four long stretches of four organizations and three long stretches of two organizations when merger between in the time of 1995 to 2005. The examination inferred that mergers had no constructive outcome on the benefit of insurance agencies in Kenya as productivity either continued as before as before merger or crumbled in initial four years after merger. He likewise included that mergers had no impact on the level of capital ampleness and long haul dissolvability of combined insurance agencies.

Muthiani (2008) studied the cross cultural perspective of Mergers and Acquisitions done by GlaxoSmithKline Kenya PLC (GSK) by conducting the study on 50 senior and middle managers at GSK. It was established that the GSK"s staff were highly motivated and performance driven inherent from organizational culture evolving from the merger. The study thus concluded that culture is a very important element for the success of merger as it is also a key to success of a business and a good culture also leads to better performance of a business.

Selvam, Babu, Indhumathi, and Ebenezer (2009) conducted a study on the impact of mergers on the corporate performance of acquirer and target companies in India. A sample of companies which underwent merger in the same industry during the period of 2002-2005 listed on the Bombay Stock Exchange was used. The study focused on comparing the liquidity performance of the thirteen sample acquired and target companies before and after the period of mergers by using ratio analysis and t-test. It was found out that the shareholders of the acquirer companies increased their liquidity performance after the merger event.

Muchae (2010) studied challenges of cross border Mergers and Acquisitions and the factors influencing the same in Tiger Brands Limited. Muchae found that performance related factors such as perceived synergies, wider product scope, and new market for products were the driving factors for Mergers and Acquisitions of Tiger Brands Limited (HACO). The study however, found that following acquisition staff were less motivated with loss of incentives, coupled with uncertainty regarding their job security.

Chesang (2002) studied how merged commercial banks in Kenya influence their financial performance. Chesang found that firm size and financial performance of acquiring firms can be the determinants of poor performance in the post-acquisition period. Muya (2006) carried out a survey of experiences of mergers and found that mergers do not add significant value to the merging firms. Njenga (2004) also conducted a survey on investigation into whether the demerger of coffee marketing societies have created or eroded owners‟ wealth in parts of Central Kenya. Njenga found mixed results on whether demergers leads to wealth creation or erosion of coffee firms as depicted by both positive and negative returns on post-merger firms.

Ndung'u (2011) looked to decide the impacts of Mergers and Acquisitions on the budgetary execution of business banks in Kenya. The examination concentrated on the monetary execution of 24 business banks in Kenya which converged somewhere in the range of 1999 and 2005. Relative examination of the bank's execution pre and post-merger periods was directed to build up whether mergers prompt enhanced budgetary execution. He presumed that there was change in budgetary execution after banks combined. The examination additionally found that there was general increment in the benefit of the banks after merger and furthermore increment in dissolvability and capital sufficiency.

Njoroge (2007) led a review of Mergers and Acquisitions encounters by budgetary foundations in Kenya. The investigation of the money related foundations execution for pre and present merger periods sort on set up whether there was noteworthy change of budgetary execution on regions of benefit, venture and liquidity. The aftereffects of the information dissected demonstrated that Return on Asset and Return on Investment show a unimportant distinction while Return on Equity and Debt Equity Ratio show huge contrast between measures of execution when merger.

A few analysts have researched cross-fringe Mergers and Acquisitions and the outcomes are blended however transcendently negative. Hassan et al. (2007) record critical negative comes back to US bidders amid the three and five years following cross-fringe mergers. Gugler, Mueller, Yurtoglu, and Zulehner (2003) additionally exhibit that cross fringe acquisitions make a critical reduction in the market estimation of the obtaining firm finished a multi year post securing period.

Moeller, Schlingemann, and Stulz (2004) contemplated the impact of firm size on strange comes back from acquisitions. The investigation utilized more than 12,000 acquisitions from 1980-2001 in the U. S, and discovered acquisitions by littler firms prompt factually critical higher strange returns than acquisitions by bigger firms. It theorized that the bigger firms offer premium costs on their acquisitions and wind up having net riches misfortune.

Tse and Soufani (2001) investigated the effect of wealth on both the bidders" and the targets" performance by using the sample of 124 deals collected from the period 1990 to 1996. The sample also was divided into two sub-periods based on the economic status: the recession from 1990 to 1993 and the recovery from 1994 to 1996. To evaluate the performance of the firm,

they employed the event study to compute the cumulative abnormal returns, then concluded about the effect of economic performance on the abnormal return. The results showed that the deals carried out in the recovery period make positive returns while the deal during recession create negative returns. More important, the results revealed that the acquired firms experienced positive gains while the acquiring firms showed unclear gains. However, the conclusion from this study explained the impact of economic condition, regardless of other determinants.

Andre, Kooli, and L'her (2004) contemplated the long haul execution of 267 Canadian Mergers and Acquisitions that occurred somewhere in the range of 1980 and 2000, utilizing diverse schedule time approaches with and without covering cases. Their outcomes proposed that Canadian acquirers altogether fail to meet expectations over the three-year post-occasion period. Advance investigation demonstrated that their outcomes are steady with the extrapolation and the strategy for installment theories, that is, charm acquirers and value financed bargains fail to meet expectations.

Sufian (2004) learned about the effectiveness impact of Mergers and Acquisitions of banks in Malaysia. For the reason, Malaysian business banks were taken to investigate the specialized efficiencies amid the merger year, pre-and post merger period. Results proposed that amid the example time frame, Malaysian banks had shown a honorable in general productivity level of 95.9% recommending negligible info misuse of 4.1%. The investigation additionally found that scale wasteful aspects overwhelm unadulterated specialized productivity in Malaysian keeping money post merger. It was likewise watched that the post merger program was effective and results propose that the little size Malaysian banks have profited the most from merger program

however huge Malaysian banks are as yet confronting scale wastefulness issue from merger program.

To assess the post merger execution of gaining firms with reference to business banks in Kenya, Muruthi (2012) attempted an examination to test whether the business write affects the result of merger for the consolidating firm, as far as effect on working execution. This was required by taking a gander at both the pre and the post merger execution of Prime Bank for the period between the years 2005 and 2010. The merger happened in the year 2008. The outcomes from the investigation of pre-and post-merger working execution proportions for the procuring firms in the example demonstrated that there was a general increment in execution after the merger and specifically piece of the pie of the firm demonstrated an impressive increment throughout the years.

Ismail, Abdou, and Annis (2011) assessed the impacts of Mergers and Acquisitions on firms working execution based on its impact on effectiveness, gainfulness, and development. The examination intermediary add up to profitability as a pointer of the company's productivity, return on resources and profit for value as measures of gainfulness, and deals and development in work to file for company's development rate. Utilizing an example of 86 Japanese corporate mergers somewhere in the range of 1970 and 1994, it was understood that there was immaterial negative change in efficiency, noteworthy decrease in gainfulness, critical unfriendly impact on deals development rate, and that merger caused cutting back in the workforce.

Saboo and Gopi (2009) assessed the effect of mergers on the working execution of procuring corporate in various ventures, by looking at some pre-merger and post-merger money related proportions, with the example of firms picked as all mergers including open constrained and

exchanged organizations in India somewhere in the range of 1991 and 2003. The outcomes propose that there are minor varieties as far as effect on working execution following mergers, in various enterprises in India. In particular, mergers appear to have had a somewhat positive effect on benefit of firms in the managing an account and back industry; the pharmaceuticals, materials and electrical gear divisions saw a minimal negative effect on working execution as far as gainfulness and rates of return. For the synthetics and Agri-items parts, mergers had caused critical decay both as far as productivity edges and rates of return and resources.

Mishra and Chandra (2010) surveyed the effect of Mergers and Acquisitions on the budgetary execution of Indian pharmaceutical organizations over the period from 2000 – 01 to 2007 – 08. By applying board information estimation systems, they found that the benefit of a firm depends specifically on its size, offering endeavors and fares and imports powers yet contrarily on their piece of the overall industry and interest for the items. Their exact discoveries recommends that M&A does not have any critical effect on benefit of the organizations over the long haul perhaps because of the resultant X-wastefulness and passage of new firms into the market.

Marembo (2012), set out to research the effect of mergers and obtaining on the money related execution of business banks in Kenya over the period 1994 to 2010. Marembo utilized bookkeeping investigation relapse models and found that the new monetary organization shaped after the merger was all the more monetarily solid. He additionally prescribed that business keeps money with a frail and temperamental capital base should look to solidify their foundations through Mergers and Acquisitions. Lole (2012) utilized bookkeeping examination relapse models to explore the impacts of the merger of Apollo Insurance Company Ltd, and

Pan Africa Insurance Company to shape APA Insurance in 2004. Lole (2012) found that the merger was viable on the money related execution of the insurance agency.

2.3.1 Shareholders Wealth

The dependent variable in this study is shareholders' wealth which is the economic value created for the shareholders as a result of Mergers and Acquisitions. It is operationalized as the ratio of net profit after tax to number of shares.

2.3.2 Cost Efficiency

Cost efficiency is characterized as the proportion of working costs to working income of a firm. M&A can possibly enhance cost proficiency by expanding scale productivity, scope (Product blend) effectiveness or administrative proficiency. The discoveries in the keeping money writing propose that scale and extension proficiency changes are probably not going to change unit's expenses by in excess of a couple of percent for expansive banks (Vander & Gropp, 2003). Pilloff (1996) propose that, cost decreases can happen by dispensing with repetitive Labor, shutting covering company's branches and merging office capacities. Mergers with operational cover can result in cost reserve funds of up to 30% of the objective's non-intrigue costs.

The discoveries in an examination by Maranga (2010) showed that firm which occupied with assume control of auxiliaries had no critical changes in levels of their cost effectiveness after mergers. Notwithstanding, a portion of the organizations that converged with other saving money establishments showed huge decreases in their cost effectiveness that would in all likelihood be inferable factors, for example, overstaffing because of the consolidated workforce, the long expectation to absorb information of administration on the most proficient

method to best utilize innovation to diminish costs, and expanded operational expenses occasioned by the mix of tasks from the two already free foundations.

Onikoyi and Awolusi (2014) found that cost reserve funds was measurably huge based on the individual measurement which breezed through the trial of insights at 5% level of essentialness under the two-followed test with the p-estimation of 0.000 under 0.05. This implies there is critical connection between investors riches and cost funds of the combined banks, inferring that consolidated banks' cost reserve funds is one of real determinants of investors riches. Henceforth mergers can possibly enhance cost proficiency by expanding scale effectiveness, scope (item blend) productivity, or administrative proficiency.

A Malaysian report by Sufian (2004) found that the bank's post-merger normal by and large effectiveness of 89.1% was still lower contrasted with pre-merger when the bank had been working at around 95.8% normal by and large productivity. The move is in this way recommended to be exorbitant to the gathering, as the combined element is loaded with high overhead expenses and abundance representatives. At 5% level of centrality, proficiency was observed to be huge in clarifying the connection amongst Mergers and Acquisitions system in Kenya (Gachanja, 2013). The dynamic merger examination demonstrates that the cost proficiency of combining banks is decidedly influenced by merger (Christopoulos, Lolos, and Tsionas, 2002).

2.3.3 Capital Base

The proportion of value to add up to resources is viewed as one of the fundamental proportions for capital quality. An organizations capital is finance ascribed to the investors (Proprietors) as distributed in a critical position sheet and for the most part is required to help business.

Sufficient capital is the quantum of assets which an organization ought to have or plan to keep up to direct its business in a judicious way (Olalekan & Adeyinka, 2013). The more the capital an organization has, the more misfortunes it can support without going bankrupt, therefore, capital gives the measure to the time a firm needs to redress for pass, for example, inward shortcoming or negative improvements.

Reinforcing an association's capacity to pull in stores at a lower cost improves its liquidity position. The higher the fluid a firm is, the lesser the unsafe it is. Capital ampleness can be influenced by changes in both the national and universal condition. A firm working in a prosperous economy with brilliant quality resources, satisfactory liquidity and having a sound administration is probably going to require a little measure of cash-flow to enough look after dissolvability (Onikoyi & Awolusi, 2014). Based on the individual measurement, the investigation by Onikoyi and Awolusi (2014) set up that capital base breezed through the trial of insights at 5% level of importance under the two-followed test with a p-estimation of 0.000 is under 0.05. The ramifications of the outcome are that the model is measurably noteworthy. This implies there is huge connection between investors riches and capital base of the consolidated banks, suggesting that blended banks' capital base is a noteworthy determinant of investors riches.

Capital sufficiency looked at for a long time pre and post-merger from the money related proclamations of the example organizations by Lole (2012) derived that the budgetary execution of Faysal bank constrained reductions inconsequential as far as capital ampleness measures. As per Gachanja (2013) the respondents concurred that the capital base of greater part of the banks expanded after securing or consolidating and accordingly the business banks could meet the center capital prerequisite by the national bank. Also, taking all the autonomous

factors at zero, at that point a unit increment in capital base prompted 0.642 increments in execution, delineating that capital base keeps on having the main impact on business banks execution. Consequently capital base was huge in clarifying the connection amongst Mergers and Acquisitions methodology and the execution of business banks in Kenya since their levels of noteworthiness are underneath 0.05.

2.3.4 Market Share

Market share speaks to the level of an industry or market's aggregate deals that is earned by a specific organization over a predetermined era. It is figured by taking the organization's deals over the period and partitioning it by the aggregate offers of the business over a similar period. Financial specialists take a gander at the piece of the overall industry changes painstakingly in light of the fact that they can be an indication of the relative aggressiveness of the association's items or administrations. At the point when the aggregate market for an item or administration grows, an organization that is keeping up its piece of the overall industry is developing incomes at an indistinguishable rate from the aggregate market (Pan, 2005). A firm that is developing its piece of the pie will develop its incomes quicker than its rivals. Organizations are continually hoping to extend their offer of the market by speaking to substantial socioeconomics, bringing down costs or through publicizing.

Based on the individual measurement, Onikoyi and Awolusi (2014) likewise found that piece of the overall industry breezed through the trial of insights at 5% level of criticalness under the two-followed test, since p-estimation of 0.000 is under 0.05. The suggestions are that the model is measurably huge importance there is noteworthy connection between investors riches and piece of the overall industry of the consolidated banks, thus blended banks' piece of the pie is a noteworthy determinant of investors riches.

Ondieki and Njangiru (2015) found that the principle motivation behind why banks blended or obtained was to raise their gainfulness and to expand their piece of the pie as 38% of the respondents demonstrated. On the measure of piece of the overall industry, larger part of the respondents (77% of the respondents) showed that the way toward blending their business broadened the bank's piece of the overall industry. The banks that combined or gained to enlarge their piece of the pie and raise their benefit represented around 76% of the considerable number of Mergers and Acquisitions in the managing an account industry in Kenya. Avulala (2015) additionally found that mergers and securing of organizations in the protection business had prompted expanded piece of the overall industry of the consolidated/procured organizations. This is as per the mean reaction acquired (1.976) which means that a solid degree of consent to the given part of development.

Mishra and Chandra (2010) in an Indian pharmaceutical examination on mergers, acquisitions and firms' execution discovered that gainfulness of a firm depends contrarily on its piece of the overall industry. Firms with bigger piece of the pie encounter bring down gainfulness over the long haul. This may repudiate to the general observation that bigger piece of the pie results in higher gainfulness, however isn't astonishing. A firm may encounter bring down benefit in spite of having more noteworthy piece of the pie because of the passage of new firms into the business. The organizations with bigger offer in the market may appreciate higher gainfulness in the short run, which may urge new firms to go into the business. Over the long haul, nonappearance of legitimate passage boundaries and disappointment of the occupants to make key section obstructions make passage of new firms conceivable and along these lines diminish benefit of the officeholders.

2.4 Summary of Literature and Research Gaps

Reviews on Mergers and Acquisitions attempted in Kenya incorporate Chesang (2002) reviewed merger rebuilding and monetary execution of business banks in Kenya; Mukui (2003) embraced an overview of variables considered essential in merger and securing choices by chose Kenyan based firms; Njenga (2004) attempted an examination concerning whether the demerger of espresso promoting social orders have made or disintegrated proprietors riches in parts of focal Kenya; Bansal (2005) attempted an investigation on the procedure and difficulties in the merger between Apollo and Pan Africa general insurance agencies; Kiplagat (2006) contemplated the impacts of mergers on money related execution of organizations recorded at the NSE; Mukele (2006) embraced a study of the elements that decide the selection of mergers and obtaining accomplices in Kenya; Marangu (2007) contemplated the impacts of mergers on budgetary execution of non recorded banks in Kenya; Barasa (2008) attempted an investigation on the impact of Mergers and Acquisitions declarations on share costs prove on the Nairobi stock trade; and Oyuke (2009) contemplated Mergers and Acquisitions as focused vital alternatives inside the saving money industry.

Upon looking at the empirical literature, none of the studies conducted has examined the effect of Mergers and Acquisitions in the different sectors of the economy save for Kiplagat (2006). In addition, none of the reviewed studies based their research in the period between 2008 and 2014. The current study by focusing purely on listed companies in Kenya that were involved in Mergers and Acquisitions in the period 2008 to 2014 across different sectors bridged the gap, and generating new evidence for academicians. In order to make the study more relevant, the study considered three (3) years pre and post the Mergers and Acquisitions.

This Chapter looked at the literature review which included the discussion of the theoretical framework. Theories relating to Mergers and Acquisitions were explained. The chapter also presented empirical studies where it discussed the research done by other scholars relating to Mergers and Acquisitions. Also advanced in this chapter are the various determinants of shareholders' wealth.

2.5 Conceptual Framework

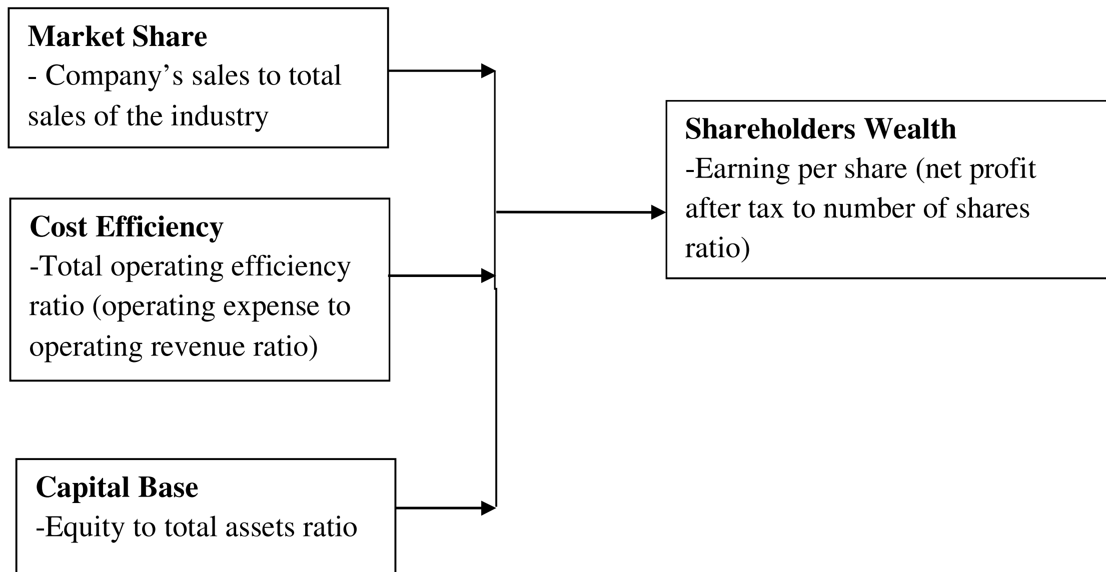

Figure 2.1: Conceptual Framework
Source: Author (2018)

The conceptual framework contains independent variables and a dependent variable. Independent variables are the variables that affect other variables to change and the researcher has control over them. The variables include shareholders' wealth, capital base, market share and operational/cost efficiency. The dependent variable shows the effect of manipulating the independent variables. From the framework, the dependent variable is shareholders' wealth.

The following ratios were adopted for this study:

Table 2.1: Operational Definition of Variables

Type	Variable	Notation	Measure
Dependent variables	Shareholders wealth	EPS	Net profit after tax / Number of shares
Independent variables	Capital base (capital adequacy)	CA	Equity / Total assets
	Cost Efficiency	CE	Operating expenses / Operating revenue
	Market Share	VoS	Company's sales / Total sales of the industry

CHAPTER THREE

METHODOLOLY

3.1 Introduction

This chapter outlines the methodology and procedures applied in conducting the study so as to achieve the purpose of the study. The chapter consists of the research design, target population, sampling procedure, data collection procedures, data analysis and presentation techniques, as well as ethical considerations.

3.2 Research Design

According to Kothari (2004) research design is defined as framework that shows how problems under investigation will be solved. Descriptive survey design was used for this study, since Mugenda and Mugenda (2012) argued it is capable of facilitating collection of data that describes specific characteristics of phenomena in order to determine the status of a population with respect to one or more variables. Descriptive research is used to describe the characteristics of certain groups; determine the proportion of people who behave in a certain way; make specific predictions; and determine relationships between variables.

By using a descriptive study, the research was able to depict whether Mergers and Acquisitions do have an effect on the shareholders wealth of Kenyan listed companies involved. The research was guided by the works of Onikoyi and Awolusi (2014) which sought to establish the effect of increase in capital base, the cost efficiency, the increased market share and increased revenue of merged banks in Nigeria on the shareholders' wealth.

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Orodho (2012), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population of this study comprised of the listed companies in Kenya that engaged in Mergers and Acquisitions for the period between the years 2008 and 2014. Comparison was made between the mean of three (3) years pre- and three (3) years post-Mergers and Acquisitions while the year of acquiring or merging was exempted.

3.4 Sampling Technique and Sample Size

Sampling design is that part of statistical practice concerned with the selection of a subset of individual observations within a population of individuals intended to yield some knowledge about the population of concern, especially for the purposes of making predictions based on statistical inference (Schindler & Cooper, 2003). In this study, the sampling frame comprised of all the listed companies in Kenya that had engaged in Mergers and Acquisitions three (3) years before the merger and 3 years after the merger. Purposive sampling was used to select only the firms listed in the CMA. This was to ensure that credible source of data for all the proposed study variables are available, for informing the study objectives. In order to determine the sample size, census survey was used to select all the seven firms across the different sectors, which were involved in Mergers and Acquisitions between the period 2008 to 2014.

3.5 Data Collection Procedure

The study used secondary data on financial statements of the merged companies before and after the M&As. The fundamental or intrinsic value was compared before and after the M&As. Secondary data was obtained from the Nairobi Securities Exchange and the Capital Markets

Authority (CMA) annual reports. Data from financial statements included; total assets, equity, operating revenue, operating revenue, net profit after tax and number of shares. Data from securities exchange included net revenue of firms listed in the Nairobi Securities Exchange and that had engaged in Mergers and Acquisitions. A data collection sheet was used to collect secondary data as attached in Appendix I.

3.6 Data Processing and Analysis

Data analysis refers to examining of collected data and making discussions, inferences and conclusions (Kothari, 2004). Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Scientists (SPSS) and Stata. The collected data was presented through frequency tables and various measures of central tendency such as means. The study conducted two-sample t-tests to ascertain and compare the mean performance of each of the variables before and after Mergers and Acquisitions. Afterwards multivariate regression analysis was used to establish the effect of the three factors on shareholders wealth.

3.6.1 Variables

Since the data collected was for various listed firms over a period of time, this constitutes what is regarded as panel data or pooled cross-sectional data, hence panel data regression models were employed in this study.

Dependent Variable –Shareholders wealth

The dependent variable for this study is shareholders wealth. This is the Economic Value made for the investors as consequence of Mergers and Acquisitions that occurred. In spite of the fact that fluctuating measures of investors esteems are being used, for example, strange returns and market estimation of offer costs. The bookkeeping measure of significant worth received for

this work is acquiring per share (EPS). This is characterized as net benefit after duty separate by number of offers.

$$EPS = \frac{\text{Net Profit after Tax}}{\text{Number of Shares}}$$

EPS simply demonstrates the productivity of the firm on a for every offer premise. Be that as it may, it doesn't reflect what amount is held in the business and what amount is paid as profit. However, as productivity file, it is important and broadly utilized proportion.

Independent Variables

These are factors that reason an adjustment in the reliant variable. They are likewise called illustrative factors. With the end goal of this examination, the free factors are capital base, piece of the pie and cost productivity. The proportion of value to add up to resources (CA) is viewed as one of the essential proportions for capital quality. It is normal that the higher this proportion, the lower the requirement for outside subsidizing and the higher the gainfulness of the element. Value to add up to resources proportion is relied upon to have positive connection with execution that all around promoted firms confront bring down expenses of going bankrupt which decreases their expenses of subsidizing and dangers. Piece of the pie is considered as one of the determinant of benefit since the greater the market, the bigger the company's potential for benefits. Greater piece of the pie additionally implies more capacity to the firm in controlling the costs and administrations it offers to client. For this investigation, add up to resources of the organizations are utilized as an intermediary for piece of the pie. This is spoken to by regular logarithm of aggregate resources. Add up to working proficiency proportion is characterized as working cost separated by working income as one of the working pointers to gauge cost effectiveness of firms.

Specifications of the Panel Data Models

The basic framework for this discussion is a regression model of the form:

$$Y_{it} = X'_{it}\beta + Z'_{i}\alpha + \varepsilon_{it}$$

Y_{it}= Shareholders' wealth (dependent variable), and there are three regressors in X_{it}, excluding a constant term. Specifically, X_1= capital base, X_2= cost efficiency, and X_3= Market Share, while β_0=population's regression constant β_1, β_2,and β_3 are coefficients of determination and ε_{it} is the error term. The heterogeneity, or individual effect is $Z_i\alpha$where Z_i contains a steady term and an arrangement of individual or gathering particular factors, which might be watched, or in secret. The arrangement of individual or gathering particular factors are taken to be consistent after some time t. On the off chance that $Zi$is watched for all individual recorded organizations, at that point the whole model can be dealt with as a normal straight model and can be evaluated utilizing the Ordinary Least Squares (OLS) procedure.

Pooled Regression

From the equation, $Y_{it} = X'_{it}\beta + Z'_{i}\alpha + \varepsilon_{it}$. If $Z_i$contains only a constant term, then ordinary least squares provides consistent and efficient estimates of the common α and the slope vector β.

Fixed Effects

Also, from the equation, $Y_{it} = X'_{it}\beta + Z'_{i}\alpha + \varepsilon_{it}$. If Z_i is unobserved, but correlated with X_{it} then the least squares estimator of $\beta$is biased and inconsistent, as a consequence of an omitted variable. However, in this instance, the model

$Y_{it} = X'_{it}\beta + \alpha_i + \varepsilon_{it}$

where $\alpha_i = Z_i \alpha$, exemplifies all the detectable impacts and determines a respectable contingent mean. This settled impacts approach takes α_ito be a gathering particular steady term in the relapse demonstrate. It ought to be noticed that the expression "settled" as utilized here shows that the term does not differ after some time, not that it is non-stochastic, which require not be the situation.

Random Effects

If the unobserved individual heterogeneity, however formulated, can be assumed to be uncorrelated with the included variables, then the model may be formulated as

$$Y_{it} = X_{it}'\beta + \alpha + \mu_i + \varepsilon_{it}$$

that is, as a regression model with a compound unsettling influence that might be reliably, though wastefully, assessed by minimum squares. This irregular impacts approach indicates that μ_iis a gathering particular arbitrary component, like ε_itexcept that for each gathering, there is nevertheless a solitary draw that enters the relapse indistinguishably in every period. The urgent refinement between these two cases is whether the in secret individual impact exemplifies components that are related with the regressors in the model, not whether these impacts are stochastic or not.

Hausman Test

Before running the regression model, it was crucial to conduct the Hausman test in order to determine the appropriate model to use (Hausman, 1978). In using panel data the test is utilized in choosing either the fixed effect or random effects model. Fixed effects model produces consistent estimates while random effects model produces efficient estimates. In the Hausman test the null hypothesis is that the estimates from the fixed effects model are the same as those in the random effects model. If we fail to reject the null hypothesis, then it is important to choose the random effects model since the estimated parameters would have minimum

variations. Otherwise if the null hypothesis is rejected then the fixed effects model is chosen and estimated.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSIONS OF FINDINGS

4.1 Introduction

This chapter provides an analysis, presentation, interpretation and discussions of the findings of the study. Descriptive analysis technique was utilized which involved use of descriptive statistics and tabulations. Descriptive statistics used included frequencies and percentages. The chapter is outlined as follows: section 4.2 gives the descriptive statistics while section 4.3 presents the two-sample t-tests. The rationalizing of the model is addressed in section 4.4. In addition section 4.5 addresses the effect of capital base on shareholders wealth while section 4.6 presents the effect of cost efficiency on shareholders wealth. Finally the effect of market share on shareholders wealth presented in section 4.7.

4.2 Descriptive Statistics

In this section, the summary statistics are presented and discussed for the companies involved in M&A. The summary statistics for the firms in Kenya before and after the Mergers and Acquisitions are given in Table 4.2.

Table 4.2: Summary Statistics Before and After M&A

	Before M&A				After M&A			
Variable	Earnings per share	Capital base	Cost efficiency	Market share	Earnings per share	Capital base	Cost efficiency	Market share
Mean	5.15	0.45	1.49	0.26	6	0.51	2.19	0.26
Std. Dev.	4.04	0.21	0.98	0.23	8.41	0.33	2.73	0.23

The mean earnings per share before the M&A was 5.15 while after the M&A, EPS was 6.00 hence, the EPS increased following the M&A, in line to findings by Mboroto (2013) who established there was an improvement in the firm's performance after the M&A takes place. Similarly, the capital base before and after M&A was on average 0.45 and 0.51 respectively, showing the capital base increased following the M&A.

Table 4.2 further illustrates that cost efficiency before and after M&A was 1.49 and 2.19 respectively, showing that there was an increased CE as a result of M&A, disagreeing with those in a Malaysian study by Sufian (2004) that the bank's post-merger average overall efficiency was still lower compared to pre-merger average overall efficiency and also by Maranga (2010) that merged firms demonstrated declines in their cost efficiency. The increase in cost efficiency could be due to the fact that, initially operating expenses are high while operating revenue initially is low, even though thereafter the operating revenues will increase, to affect the value of cost efficiency and specifically reduce it. The market share before and after M&A was on average 0.26 and 0.26 respectively, indicating the market share did not change following the M&A. This negated deductions by Avulala (2015) that mergers and acquisition of companies in the insurance industry have led to increased market share of the merged/acquired companies and also Ondieki and Njangiru (2015) that merging their business enlarged the bank's market share.

4.3 Two-Sample T-Tests

Both the dependent variable and the three independent variables were further subjected to two-sample test to ascertain the difference in the mean performance before and after the M&A and its significance level as shown in table 4.3.

Table 4.3: Two-Sample T-Tests for All Variables

Variable name and T-statistics	EPS	Capital base (CA)	CE	Market share
Difference	-0.85	-0.06	-0.70	-0.001
(T-statistics,	(0.4155	(0.6868	(1.0957	(0.015
P-value)	0.3400)	0.2481)	0.1399)	0.9881)
Mean Before M&A	5.15	0.45	1.49	0.2636
Mean After M&A	6.00	0.51	2.19	0.2647

The table 4.3 shows that the difference between the mean performance of EPS before and after the M&A was -0.85 and it was not statistically significant at 5 percent level. This clearly indicates that the firms' performance of EPS was the same before the M&A as its performance after the M&A. These findings concurs with those established by Mboroto (2013) who revealed that there was an improvement in the firm's performance after the M & A takes place.

The difference in capital base (CA) and CE before and after the M&A was respectively -0.06 and -0.70, indicating an improvement in CA and CE following M&A. This difference was not statistically significant implying that, the performance of the firms in capital base and cost efficiency was on average the same before and after M&A. The findings are in line with those by Lole (2012) who deduced that the financial performance of Faysal bank limited was insignificant in terms of capital adequacy measures. Hence, capital base and cost efficiency was not affected by the M&A.

Table 4.3 further shows that the difference in market share before and after the M&A was -0.001, indicating an improvement in market share following M&A. This difference was not

statistically significant indicating that, the mean performance of the firms involved in market share increased but statistically was the same after the M&A compared to its average before the M&A, similar to findings by Ondieki and Njangiru (2015) that the process of merging enlarged the bank's market share.

4.4 Rationalizing the Choice of Model

The study used data which was panel in nature. Before estimating the regression model to address the study objectives, the Hausman test was deemed as necessary condition to be satisfied before conducting regression analysis in order to choose between fixed effects and random effects models.

Table 4.4: Hausman Test for Fixed Effects and Random Effects Models

EPS		Fixed Effects Model	Random Effects Model	Difference
Capital base		10.3908	14.5844	-4.1936
Cost efficiency		-0.5782	-0.4715	-0.1067
Market share		31.8649	-2.7023	34.5672
Chi-Square Statistic	**3.71**	**P-Value**	**0.2944**	

4.4.1 Hausman Test for Fixed Effects and Random Effects Models

The null hypothesis is that the coefficients estimated by the random effects estimator which produces efficient parameters due to the fact that the variances are minimal; are similar to the ones estimated by the fixed effects estimator which produces consistent parameters (implying as the sample size increases the estimated parameters tends to the true population parameters) according to the test of Hausman (1978). The test results illustrate that, the Chi-square statistics

for the difference were 3.71 with p-value of 0.2944. Since the p-value was larger than the critical value of 0.05, we cannot reject the hypothesis that the coefficients are the same. This means that, mutually the fixed effects and random effects models produce the same coefficients. Hence, we can choose the random effects model as the preferred model. Hence the results on hypothesis testing obtainable in thereafter are founded on the random effects model.

4.5 Effect of Capital Base on Shareholders Wealth of Kenyan Firms Involved in M&A

In this section, the study sought to establish the effect of capital base on shareholders wealth of listed companies involved in M&A.

Table 4.5: Regression Model

Random-effects GLS regression		**Model**
Explanatory variables		Coefficient (P-Value)
Capital base		14.5844* (0.000)
Cost efficiency		-0.4715 (0.222)
Market share		-2.7023 (0.697)
Constant		0.1857 (0.948)
R-squared:	Within	0.2629
	Between	0.6492
	Overall	0.5041
Chi-square statistic		19.22* (0.0002)

Upon controlling for other independent variables a positive coefficient of 14.197 on capital base was realized with a p-value of 0.000 which was statistically significant at the 0.05 level. Hence failing to reject that, capital base has no effect on shareholders wealth. This indicates

that, capital base is positively associated with shareholders wealth, and it does have a statistically significant effect on shareholders wealth.

The findings above implies that as capital base increase this will lead to an increment in EPS and the increment in EPS following an increment in capital base will be large to guarantee a significant change in the shareholders wealth. The findings are in line with those in a study by Onikoyi and Awolusi (2014) who established that there is significant relationship between shareholders wealth and capital base of the merged banks. In addition, it concurs with the findings by Gachanja (2013) who established that capital base was significant in explaining the relationship between Mergers and Acquisitions strategy and the performance of commercial banks in Kenya.

The R^2 values indicate that, 26.29% of the variations in shareholders wealth, as measured by earnings per share, within the firms are explained jointly by capital base, cost efficiency and market share. 64.92% of the variations in shareholders wealth between the firms are explained jointly by capital base, cost efficiency and market share. Only 50.41% of the variations in shareholders wealth of the firms involved in M&A (considering panel data) are jointly used to predict the level of shareholders wealth.

The joint effect of all the variables included in the model produced a chi-square statistic of 19.22 with an associated p-value of 0.0002. Since the p-value did not exceed 0.05 levels, consequently we reject the hypothesis with the indication that capital base, cost efficiency and market share do have a statistically significant joint effect on shareholders wealth. Therefore all the coefficients of the explanatory variables integrated in table 4.5 were significantly different from 0.

4.6 Effect of Cost Efficiency on Shareholders Wealth of Kenyan Firms Involved in M&A

The second objective of this study was to ascertain the effect of cost efficiency on shareholders wealth of listed companies involved in M&A. The results shows that upon controlling for other independent variables in the regression model, in which a negative coefficient of 0.4345 on cost efficiency was realized with a p-value of 0.246 which was not statistically significant at the 0.05 level. This indicates that, cost efficiency does not have a statistically major effect on the shareholders wealth.

The findings implies that as cost efficiency increase this will lead to a decrement in shareholders wealth, even though the decrement in shareholders wealth following an increment in cost efficiency will not be large to guarantee a significant change in the shareholders wealth. This findings are in line with those established in a study by Maranga (2010) who indicated that firms which engaged in take-over of subsidiaries had no significant changes in levels of their cost efficiency after mergers.

4.7 Effect of Market Share on Shareholders Wealth of Kenyan Firms Involved in M&A

Section 4.7 addresses the third objective of the study by examining the effect of market share on shareholders wealth of listed companies involved in M&A. Upon controlling for other independent variables in the regression model a negative coefficient of 2.7023 on market share was realized with a p-value of 0.697 which was not statistically significant at the 0.05 level. This indicates that, market share does not have a statistically major effect on the shareholders wealth.

The findings implies that as market share increase this will lead to a decrement in shareholders wealth, although the decrement in shareholders wealth following an increment in market share will not be large to guarantee a significant change in the shareholders wealth. Similar findings were established by Mishra and Chandra (2010) in an Indian pharmaceutical study on mergers, acquisitions and firms' performance who found that profitability of a firm depends inversely on its market share. However, they disagree with those by Onikoyi and Awolusi (2014) who deduced a significant relationship between shareholders wealth and market share of the merged banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, key study findings, conclusions, recommendations and the areas for further research.

5.2 Summary

The purpose of this study was to establish the effect of Mergers and Acquisitions on shareholders' wealth of Kenyan listed companies. Three research objectives guided the study which included; i) to determine the effect of capital base on shareholders' wealth of Kenyan listed companies; ii) establish the effect of cost efficiency on shareholders' wealth of Kenyan listed companies; and iii) find out the effect of market share on shareholders' wealth of Kenyan listed companies. The study adopted a descriptive survey design. Data was analyzed quantitatively to generate descriptive statistics, correlations, t-tests and multivariate regression.

5.3 Key Findings of the Study

5.3.1 Effect of Capital Base on Shareholders Wealth

The first objective set out to find out the effect of capital base on shareholders' wealth of listed companies involved in M&A. Upon controlling for other independent variables a positive coefficient which was statistically significant at the 0.05 level was deduced. An increase in capital base will lead to an increment in EPS and the increment in EPS following an increment in capital base will be large to guarantee a significant change in the shareholders wealth. Hence capital base has a positive effect on shareholders wealth.

5.3.2 Effect of Cost Efficiency on Shareholders Wealth

The second objective was to establish the effect of cost efficiency on shareholders wealth of companies involved in M&A. Upon controlling for other independent variables in the regression model, a negative coefficient which was not statistically significant at the 0.05 level on cost efficiency was realized. Thus, cost efficiency does not affect shareholders' wealth.

5.3.3 Effect of Market Share on Shareholders Wealth

The third objective aimed at establishing the effect of market share on shareholders wealth of companies involved in M&A. EPS is negatively related to market share and the relationship is not statistically significant at the five percent level of significance, indicating that as market share increase it does not have an effect on shareholders wealth. Thus, market share does not affect shareholders' wealth

5.4 Conclusions

Based on the findings of the study, it was concluded that the performance of the firms in shareholders' wealth, capital base and cost efficiency and market share was on average the same after the M&A compared to its performance before the M&A. An increase in capital base will lead to an increase in EPS large enough to guarantee a significant change in the shareholders' wealth. However, an increase in either cost efficiency or market share will lead to a reduction in EPS, though not large enough to guarantee a significant change in the shareholders wealth.

5.4.1 Recommendations of the Study

Emanating from the aforementioned conclusions the study recommends the following:-

(i) Management ought to ensure that earning per share for the shareholders is increased following growth in equity or after an expansion in capital base.

(ii) Management should not increase the earning per share based on the increase in operating expenses or even after a decrease in operating revenues or following the increase in the cost efficiency.

(iii) Management ought not to increase the earning per share even after an increase in company's sales in relation to total sales of the industry.

5.4.2 Recommendations for Future Research

i). A comparative analysis ought be conducted to ascertain the effect of Mergers and Acquisitions in the different sectors of the economy. This would provide crucial information on effect of each of the determinants of shareholders wealth in individual sectors, then compare where the magnitude of the effect is greater.

ii). Studies need to be conducted on the determinants of shareholders' wealth for a longer period of time. This would ascertain whether some of the determinants such as cost efficiency would have a significant effect on shareholders' wealth.

iii). Future studies need to be conducted using other variables related to shareholders' wealth. When other variables related to the dependent variable (namely shareholders wealth) are included in a model the coefficients are usually affected and some of the statistically insignificant variables could become significant or even alter the direction of causation.

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APPENDICES

Appendix I: Data Collection Sheet

A. Dependent variable

Year	**Company name**	**Shareholders Wealth (EPS)**	***Capital Base ; (CA)=Equity/Total Assets***	***Cost Efficiency (CE)=Operating Expenses/Operating Income***	***Market Share (Log A)=Natural Logarithm of volume of sales***	**Net profit**	**Number of Shares**	**Equity**	**Total Assets**	**Operating Income**	**Operatin Expenses**
2005	Stanbic Holdings										
2006	Stanbic Holdings										
2007	Stanbic Holdings										
2009	Stanbic Holdings										
2010	Stanbic Holdings										

2011	Stanbic Holdings											
2011	Bamburi Cement											
2012	Bamburi Cement											
2013	Bamburi Cement											
2015	Bamburi Cement											
2016	Bamburi Cement											
2017	Bamburi Cement											
2005	Kenolkobil											
2006	Kenolkobil											
2007	Kenolkobil											
2009	Kenolkobil											
2010	Kenolkobil											
2011	Kenolkobil											
2011	Rea Vipingo											
2012	Rea Vipingo											

2013	Rea Vipingo											
2015	Rea Vipingo											
2016	Rea Vipingo											
2017	Rea Vipingo											
2005	Safaricom											
2006	Safaricom											
2007	Safaricom											
2010	Safaricom											
2011	Safaricom											
2012	Safaricom											
2004	Total Kenya											
2005	Total Kenya											
2006	Total Kenya											
2010	Total Kenya											

2011	Total Kenya										
2012	Total Kenya										
2005	Unilever										
2006	Unilever										
2007	Unilever										
2009	Unilever										
2010	Unilever										
2011	Unilever										