EFFECT OF MERGERS AND ACQUISITIONS ANNOUNCEMENT ON THE VALUE (MARKET SHARE PRICE) OF LISTED COMMERCIAL BANKS IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

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DECLARATION

This research project is my original work and it has not been presented and submitted to any university or college for examination.

Signed **Date17/11/2022**

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D61/6197/2017

This research project has been submitted for examination with my authority and approval as the university supervisor.

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DEDICATION

I dedicate my master's project to my mum, Sarah Mueni, for her love and support through my education.

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ABBREVIATIONS

AR - Average Returns

CBK - Central Bank of Kenya

CMA - Capital Markets Authority

DTB - Diamond Trust Bank

EBIT - Earnings Before Interest and Tax

EPS - Earnings Per Share

ER - Expected Return

KBC - Kenya Commercial Bank

KES - Kenya Shillings

M&As - Mergers and Acquisitions

MP - Market Price

NBK - National Bank of Kenya

NPV - Net Present Value

NSE - Nairobi Securities Exchange

P/E - Price Earnings Ratio

ROA - Return on Assets

ROE - Return on Equity

ROI - Return on Investment

SPSS - Statistical Package for the Social Sciences

ABSTRACT

Firms enter merger and acquisitions with an intention to gain various synergies, improve their values and financial performance. However, the results of M&A have been varied in Kenya making players in the banking industry to wonder whether to support or discourage mergers and acquisitions. Literature shows that Kenya's M&A activity has prompted both successes and failures which necessitated this study to evaluate the effect of mergers and acquisitions on the market value of banking firms in Kenya. The objective of the examination was to scrutinize the effect of mergers and acquisitions on the market value of commercial banks listed in NSE. The researcher applied secondary data and event study research design in which the population was all the licensed banks as at 31st December, 2020. The scholar utilized the purposive sampling to select the 11 banks which have either acquired or merged with other banks. The research sample was thus all mergers and acquisitions between 1999 to 2020 involving commercial banks listed at NSE. There were 11 mergers and acquisitions in that study period but the researcher dropped one due to incomplete historical share data. The researcher employed SPSS version 26 and excel for analysis of the data collected. The scholar established that all the announcement of M&A positively affects the value of commercial banks in Kenya listed at the NSE. In most instances, the announcements of M&A lead to rise in the share prices whereas in certain times it leads to no significant change in share prices. This is demonstrated by the t-test results whereby the rise in share prices was significant after M & A involving NCBA, Standard Chartered, Coop, DTB, and Habib Bank because they all had p-values of 0.000, which is less than the 0.05 significant level. Then, the announcement of the merger of KCB and Savings and Loan (K) Limited in 2010 had no significant change in the market share price of KCB since its p-value of 0.666 was higher than the 0.05 significant level. Also, the announcement of the acquisition of NBK by KCB led to no significant change in the market share price of KCB because the p-value was 0.139, which is greater than the 0.05 significant level. Additionally, the change in prices before and after the merger of Barclays Bank indicates a p-value of 0.155, which is higher than 0.05, denoting that the change in price was insignificant. Besides, the change in share prices of I & M following the acquisition of Giro bank by I & M had a p-value of 0.087, indicating that there was an insignificant change in value. In a nutshell, majority of the firms under study realized upsurges in their values following the announcement with most of them recording abnormal returns shortly after the M&A. However, the M &A announcement led to insignificant effect on some few banks under study. The study resolved that the announcement of M&A significantly and positively influenced the share returns of commercial banks listed at NSE. Therefore, they were able to maximize wealth for the stockholders in the short run. The few banks that had insignificant changes in their values depict that companies need some time after the mergers and acquisitions to profit from their undertakings. Also, the M & A immensely impacted the value of banks that had low performance before the announcement compared to those which performed better prior the M&A. Hence, this emphasizes the verdict that the M&A improve the value of commercial banks but the effect may only be limited by time. Therefore, it is

believed that these firms that registered insignificant changes in values after the consolidations can only give more time to reap from them.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Investors' stake is impacted by a variety of factors when it comes to Mergers and Acquisitions (M&A), and these reasons include the goals of gaining a larger market share and reducing operating costs (Pandey, 2006). According to Brealey, Myers, and Allen (2006), market forces occur when manufacturing costs may be decreased as a result of increased output. The effectiveness of suppliers and customers decreases as market share rises, as well as using recent technology developments, companies may go toe-to-toe with competitors in the pricing war (Pandey, 2006). The resulting agency issue forces many businesses to combine and acquire, since management decides to add advantages while sacrificing shareholders' interests (Berkovitch, 1993). More competition creates agency problems, but it's not enough to remove them. Culpability causes agency and earnings growth to erode shareholder value (Jensen, 1988).

Jensen and Meckling's (1976) agency theory will be an important basis for the research. A lack of expertise and time commitment among shareholders are the main anchors of this concept. The shareholders hand over the control of the business to other parties; the management. This occasions the risk of maximizing of managerial wealth being prioritized above shareholders' value maximization. Also in this book, Jensen (1986) describes a means by which management of a company may get a financial institution even if the purchase causes the predator firm's value to decrease. Although they seek new business opportunities for expansion, management is cautious about taking risks for themselves. The Monopoly-Market Power hypothesis was launched by Trautwein (1990).

Mergers are most often concluded when firms can establish an effective monopoly in the market. Mergers made up of horizontal and conglomerate firms occur in the theory.

Bank mergers have occurred severally in Kenya. For instance, CFC Stanbic bank was formed from the merger of two commercial banks: Credit Finance Corporation and Stanbic banks. Standard Bank Group has a 30% share in the business as a consequence of this merger one of these acquisitions may help a business expand into a competitive business, or in reaction to a government law, they will. If the Central Bank of Kenya (CBK) is able to enact its strategy to raise the statutory deposit requirement for commercial banks to KES 5 billion, then more mergers and acquisitions are probable in Kenya (Delloite, 2015). To enable all financial institutions to meet with the criteria by 2012, the Kenyan government proposed raising the minimum financing needs for financial institutions to KES 1 billion (from KES 250 million). A further result of the delay in implementing capital requirements was that Kenya's financial institutions turned to consolidation to fulfil the deadline to increase minimum core capital. The announcement of several mergers over the previous months related to the rationale of expanding branch networks and sound bank balance sheets. In addition, as a result of more stringent capital requirements imposed in other countries after the 2008 global financial crisis, it has pushed banks to acquire other financial institutions (Beck et al., 2010).

1.1.1 Mergers and Acquisitions Announcement

A merger is a corporate strategy of combination of two companies which operate as a single legal entity. The firms forming a merger are typically equal in terms of size and scale of operations. On the other hand, acquisitions are when one company acquires another and then keeps the name and business, but the acquired firm is gone (Ross, Westerfield, Jordan, and Etling (2003). M&A is all about boosting the value of shareholders and increasing the effectiveness of the company (Pazarkis, Vogiatzoglo, Christodoulou & Drogalas, 2006; Gaughan, 2011; Nakamura, 2004). In many instances, the terms mergers and acquisitions are used interchangeably. M&A is a business strategy that is typically used by two or more corporations. They may use a merger agreement to accomplish the merger. Companies may negotiate to determine whether or not they would like to act alone or as a collective body. If both firms agree, then a merger results (Gaughan, 2011).

M&A deals are usually motivated by the following reasons: economies of scale, enhancing revenue, and cutting taxes (Nakamura, 2015). As a result of the rising competitiveness, mergers have grown more common. Acquisitions and mergers provide businesses with a variety of new goods and services that may be investigated. With the formation of a joint venture, the company's portfolio is augmented and increases profitability (Ross et al., 2003).

Mergers and acquisitions can be measured by utilizing a dummy variable, with periods preceding the mergers having the ascribed value of 0 and periods subsequent to the merger having the ascribed value of 1, and an econometric regression analysis conducted (Guest, 2016). In another approach, the significance of the value before and after the mergers can be unravelled by utilizing T-tests, Analysis of Variance (ANOVA), difference of means by obtaining the Z-Score, and chi-square tests (Njambi & Kariuki, 2018). With regard to present research, a specific event study method was used to determine the impacts of mergers and acquisitions. After analysing the stock market movements before and after a merger of a listed bank, any significant difference was determined via t-tests.

1.1.2 Firm Value

The phrase company value pertains to the value of its assets, as well as any additional tax advantages. Because of this, the total worth of a company comprises both long-term debt and equity. Equity includes the cash and stockholders' equity, as well as a rise in assets or decrease in liabilities. In his book, Modigliani (1980) postulates that the firm's worth is made up of stock, debt, and revenue flow and is entirely reliant on the level of business generated. Organizations’ value of equity is the reduced worth of shareholder’s wages referred to as net revenue. For instance, the net income divided by the expected tariff of return on equity. To obtain the net income, interest on debt is subtracted from the net operating income. Firms’ worth of debt in contrast is the reduced value of interest on debt.

Achieving the aim of shareholder wealth maximization is the primary purpose of fund management. Shareholders' wealth, which is to a large extent identical with company value, it also represents advantages that will be available in the future. Market has the possibility of measuring the success of publicly listed companies, since it uses current stock prices to estimate market value, the application, and its corresponding improved profitability. P/E ratio and marketplace-to-book value/cost ratio also suffer from flaws: rather, the regulations that alter reported profits have had no effect on the actual company. a variety of issues, including that companies have many loopholes in their accounting, as well as CEOs' propensity to mislead investors (Cheng, Liu & Tzeng, 2011;

Boyd, Chandy & Cunha Jr, 2010; Chowdhury & Chowdhury, 2010; McConnel & Servaes, 1990).

There are many methods for determining the worth of a business, for instance, the market share price and the Tobin's Q ratio. There are many different ways that a firm's value may vary, dependent on factors such as the size of the company, the price-to-earnings (P/E) ratio, the dividend coverage percentage, the book value per share, the dividend payment percentage, and the total earnings (Tobin, 1969; Wilcox, 1984; Downs, 1991; Sharma, 2011; Gordon, 1963). In this study, the researcher employed market share price to measure the firm value. The research performed included the share prices over time of the commercial banks' shares listed on the NSE, whose companies have done a merger or acquisition.

1.1.3 Mergers and Acquisitions and Firm Value

Investing in M&A is a major motivation for doing these mergers and acquisitions, according to a study done by Sudarsanam (2003). Mergers and acquisitions are most often sought by organizations that aim to become the market leader in a key business unit's primary product or market. In an interview, Copeland and Weston claimed that corporate and financial buyers may get much improved results when using financial and corporate samples. The process of buying and selling corporations is seen to occur on a global scale because M&A are believed to help businesses increase market share and reduce risk. the merger or acquisition of two companies boosts both businesses' performance, which is shown in the growth of shareholder value (Sharma, 2009).

A study published by Botchway (2010) claims that M&A is an important avenue for corporations to drive productivity and development. Many firms are feeling intense rivalry, and in response they have taken on more merger and acquisition strategies in an attempt to get a larger market share against their competitors. Additional business factors that compel businesses to engage in mergers and acquisitions include extending their portfolios, simplifying their entry into new markets, and exploiting scale efficiencies (Kivindu, 2013). So, Ghosh (2001) investigated and found that mergers and acquisitions decreased the ability to meet financial goals. Muya (2006) says that the merger is meaningless from a value-added perspective, since both firms would be left with the same number of resources and assets.

Kenya's M&A activity has shown both successes and failures. This has made mergers and acquisitions visible, with bankers in various industries asking whether mergers and acquisitions should be allowed or opposed (Muniu, 2012). Thus, in order to evaluate the influence of mergers and acquisitions on the market value of firms in Kenya, the current study must be done.

1.1.4 Commercial Banks in Kenya

There are three important legal acts that regulate the financial industry in Kenya. These are the Banking Act, the Companies Act, and the Central Bank Act. The CBK has been granted the authority to develop and execute financial policies, manage banks' liquidity, and supervise the execution of monetary policy. The CBK grants licenses to commercial banks that enable them to receive deposits and then loan those funds to its customers (Githaiga, 2015). Kenya has 43 commercial banks and one home finance bank as of June

30, 2018. In the former, locals held 30 banks, whereas the latter consisted of 13 foreign-owned ones.

An increase in the minimum core financial regulations and an attempt to expand the market share in the local banking business have led to many M&As within the banking sector in Kenya in recent years. There were around 20 successful mergers between 1994 and 2010, and this increased to 28 by 2014 (Joash & Njangiru, 2015). As aforementioned, more competitiveness and financial leverage requirements are said to be the primary factors driving industry consolidation in a study by Beck et al. (2010). Corporate acquisitions in Kenya have often included mergers: for instance, when two or more businesses join together to combine across sectors. Investing in a company is much like playing a slot machine. When the results go up and down, the profits or losses are random. This has led the banking industry's stakeholders to question if M&A should be supported or discouraged (Muniu, 2012). This research was dedicated to figuring out the impact of mergers and acquisitions on market prices of commercial banks in Kenya.

1.2 Research Problem

When it comes to M&As, competition and the economy are moving towards globalization, which means the frequency of these two practices will increase significantly. That way, business may get a competitive advantage in the sector (Mender, 2014). Several licensed institutions, primarily commercial banks, have merged; agreed on conditions where one institution assumes control of another (Brito, Pereira & Ribeiro, 2013). In some cases, M&As are done for a variety of reasons including meeting market demand and increasing competition, expanding into international markets, employing the newer and more costly advanced technologies, or getting ahead of regulators like the banking sector who set new standards (Kithinji & Waweru, 2007). It's true that, in general, companies don't always reap profits after mergers. In fact, bad management of post-merger problems may be responsible for reducing the profits companies earn.

After merger and acquisition, many businesses seek to enhance their values and their financial performance. Though the results of M&A have been varied, shareholders and management of banks often resort to them in hopes of boosting the performance of their companies (Athanasoglou & Brissimis, 2004; Straub, 2007). The results of mergers and acquisitions in Kenya have been very bleak for a few of the combined banks, but most of the others have done quite well. Coupled with this, players in the banking sector began wondering whether mergers and acquisitions should be supported or discouraged (Muniu, 2012). Kenya's M&A activity has shown both successes and failures. This has made mergers and acquisitions visible, with bankers in various industries asking whether mergers and acquisitions should be allowed or opposed (Muniu, 2012). Thus, in order to evaluate the effect of M&As on the market value of banking firms in Kenya, the current study had to be conducted.

There have been many study efforts done on the association between M&As and company value. Büşra (2015) studied the impacts of mergers and acquisitions on company value in Turkey and found that acquisitions have a substantial influence on long-term value, but that their effect on short-term value is negligible. There was no attempt to look at the financial and Kenyan background in this research, which presented a void in context. A study conducted by Gupta, Mishra, and Tripathy (2021) discovered the consequences of M&As activities on company value. The results showed that mergers lead to increasing shareholder value for companies that acquire post-merger. Banking and

Kenyan conditions were not studied in this research, therefore providing a void in background. Russian political scientist Vladimir Borodin studied the effect of M&As on the economic condition of several US and European corporations in the year 2020. The research also included the Covid-19 epidemic as a variable that moderated the effects of the study. In both areas, most of the companies were lucrative, and despite mergers and acquisitions, they stayed that way. This investigation showed that both areas' ROI had decreased, as well as their EBIT/Total Revenue ratio. In contrast to the earlier study results, follow-up research could not show a correlation between M&As and a company's financial success. The research did not explore M&A's influence on company value, which means a conceptual gap was uncovered.

Although much attention has been paid to research on how mergers affect a business's overall performance, results have proved contradictory. In Muya (2006), no gain accrued to the merging businesses. There are some trends in the financial industry that may be attributed to mergers and acquisitions, as is noted in the Kithitu et al. study (2012). Shareholders get a rise in net worth with M&A transactions. In a 2011 survey, Irene (2011) examined the effects of M&A in Kenya and found that the results suggested M&A enhanced the business results of the country's oil companies. The conflicting results that were seen in the local research and highlighted in the meta-analysis provide a conceptual gap.

It is unclear if the research show that mergers and acquisitions are related to company value. The present research attempted to close the conceptual gap that this notion had created. Further research also pointed to the concept that mergers and acquisitions influence financial performance, instead of value for the company. This presented a conceptual knowledge gap which the study intended to fill. The global and regional studies reviewed were not conducted within Kenya; hence, presents a conceptual gap that this research aimed to fill. It was therefore concluded that given the significance of mergers and acquisitions, the researcher was motivated to find out how merger and acquisition activity relates to the worth of commercial banks in Kenya. To provide insight into how mergers and acquisitions announcement influence the value of banking firms in Kenya, this study established and verified previously unknown research gaps.

1.3 Research Objectives

The main objective of the current study was to establish the effect of mergers and acquisitions announcement on the value of commercial banks in Kenya.

1.4 Value of the Study

The study results would contribute to the existing body of knowledge, while also serving as a reliable reference source. Additionally, the study would provide a suggestion of areas that further research should be done on, which could benefit both academicians and scholar's knowledge on gaining better insights in the field of mergers and acquisitions together with its impacts on firm value.

This study would further be an enabler to the government and the financial institutions regulatory agencies, mainly CBK, in coming up with policies that will maximize value to shareholders. The CBK can gauge whether an increment in the banks' core capital requirement, which will ultimately trigger mergers and acquisitions in the banking sector, will increase or erode shareholders wealth. This will protect the public deposits and stakeholder's welfare. Also, the study will also assist the legislators in formulating better regulations to improve the operations of commercial banks and support contemporary practices to safeguard deposits made by the public and the resources of the investors.

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter's aimed to provide insights into the ideas, structures, and empirical research pertaining to corporate governance so that it may be more easily understood. The significance of the chapter was to establish the probable knowledge gaps in the studies undertaken previously by scholars on the effect of mergers and acquisitions on value of firms.

2.2 Theoretical Foundation

The literature review explored the work conducted by other scholars concerning the influence of governance on the value of listed firms. The section encompasses the detailed knowledge of related concepts and provides a platform on which the results was built upon and in addition overcame the shortcomings of the study. Theories were essential in the various sections as they established the phenomena and principles that related to the topic. The theoretical framework depicted the interrelationship between different ideologies and provided the guidelines for the project or business endeavour (Lyon, 1977). The study focused on the agency, monopoly-market power, and the free cash flow theories.

2.2.1 Agency Theory

Jensen and Meckling devised the idea known as the Agency Theory (1976). A lack of expertise and time among shareholders is a problem with this concept. When that happens, they find that other parties have control of the business. Management therefore takes charge of the company and is known as administration. Increasing the wealth of the management, at the cost of shareholders' value, is certainly an option. The theory resonates with Larcker’s (1983) argument that managers’ concentrate on the decisions that are short term in nature and try to maximise the available firm resources within the limited time frame. Most managers are employed for a short span and consequently they will try to maximise their personal wealth before the termination of their contract. On the other hand, shareholders prefer maximization of their return. To minimize this agency problem between the management and shareholders, it is imperative for companies to provide their managers with incentives such as share options.

In addition, Jensen (1986) raised the ante even higher by saying that even though the purchase of a company by the management of the predator firm reduces the value of the predator firm, it is possible to buy the target firm. According to executives, the main goal for them at this time is building a vast empire, but they also think that their company's competence may be enhanced by taking on more clients. Waegelein and Travlos (1987) discovered that long-term compensation plans lead to better results than acquisition firms with short-term pay schemes in place. The researchers go on to note that those with greater equity-based remuneration, including the opportunity to purchase shares, are better at buying new companies. While this study has shown that acquirer returns are greater for companies with substantial management stock ownership, other studies have shown the opposite to be true (Lewellen, 1985).

The agency theory was relevant to the study because due to agency conflict, managers may acquire a target even if it will reduce the shareholders wealth in order to maximize on their utility. The management still prefer to seek the target firm for empire building purposes and also that their own competence can be enhanced. The managers could also be concentrating on the decisions that are short term and try to maximise their personal wealth before the termination of their contract because their contracts are short term.

2.2.2 Monopoly-Market Power Theory

The monopoly-market power hypothesis was developed by Trautwein (1990). According to this hypothesis, mergers are more likely to occur as a result of market dominance increasing rather than for other reasons. Horizontal and conglomerate mergers are explained by the hypothesis. Companies may wield market power via intentional supply reduction, cross-subsidies, and threatening market entrants (Trautwein, 1990; Rodermann, 2004). Collusive synergy (Chatterjee, 1986) and competitive interrelationships are sometimes referred to as cooperative advantage (Atkinson, 2011). (Porter, 1985). A corporation that does this often crosses-subsidizes goods, limits competition in many markets, and discourages rivals from entering the market (Trautwein, 1990).

In reference to competitive synergies, Barros (1998) stated that when enterprises conduct mergers and acquisitions, they may enhance their market power, which allows them to receive greater economic rents once the merger is complete. Even if this reasoning makes sense in certain sectors, such as the personal lines insurance business in the United States, the logic in issue may be subject to debate. The findings of Choi and Weiss (2005) do not support the notion that market dominance and anti-competitive circumstances arise from the concentration and scale of bigger firms.

The present research tied in with the idea since it explained how mergers occur in order to gain market dominance. Post-merger entities may receive greater economic rents if they have more market power after a merger, enabling them to capture more of the economic value created. As a result, it is said that mergers and acquisitions may enhance a company's worth.

2.2.3 Free Cash Flow Theory

The theory of Free Cash flow was developed by Jensen (1986). The theory designates that if a company's FCF is higher than required for positive NPV projects, the executives will get a chance to benefit themselves. Jensen believed that if a company has extra cash; the administrators might implement business undertakings that have negative NPV with an aim of profiting from the rise in firm size. FCF entices executives to expand the processes coverage and the firm size, thus increasing the managers' mandate and individual's payment. They achieve this through the use of the free funds in developments possessing negative NPVs. With increasing amount of dividend paid and lowering level of FCF, it results in lowering agency costs.

The FCF theory of finance structure is circular, not moveable, and not able to account greatly for risk and growth (Buus, 2012). The preceding cashflow models, as explained or created by various scholars resulting in costing of tax benefits (assets) or cost of debt. Lang and Litzenberger (1989) find out greater efforts towards cash flows so Lang and Litzenberger (1989) insists greater share price reaction agreeing with cash rising was greater in companies with unfortunate investment possibilities, on the other side, Denis, Denis & Sarin (1994) have discouraged the Lang and Litzenberger (1989) study's levels. Later, Nohel and Tarhan (1998) established that the continuous profitability of companies proceeding to enable improvement only in lesser firms, and these increases are created by more efficient use of assets greater than improved project chances. Nohel and Tarhan (1998) argued that share repurchases could be used as a portion with and vast packages tendered towards to removing inefficiencies greater with free cash flow to show new project activities.

The free cash flow theory was significant to the study as it helped in understanding why executives have the motivation to spend more in mergers and acquisitions instead of distribution of cash dividends. The theory explained the behaviour of managers when faced with a decision as to whether spend the available cash flow in dividends or M&A. Jensen (1986) implied that managers of firms with unused borrowing power and large free cash flows are more likely to undertake low-benefit or value-destroying mergers. Diversification programs fit this category, and the theory predicts they will generate lower total gains.

2.3 Determinants of Firm Value

This chapter is about investigating factors that influence the effectiveness of banking firms. The determinants included in the current study are: mergers and acquisitions, credit risk, capital adequacy, efficient management of firm resources, liquidity, and bank size.

2.3.1 Mergers and Acquisitions Announcement

Mergers usually pertain to changing ownership, company makeup, asset composition, and forming strategic alliances in order to maximize shareholder value and enhance a company's performance (Pazarkis, Vogiatzoglo, Christodoulou, & Drogalas, 2006; Gaughan, 2011; Nakamura, 2004). When one company acquires another, the acquiring firm absorbs the target firm while still maintaining the original firm's identity. While some observers believe that M&A are usually used interchangeably, this is not the case for all transactions. In mergers and acquisitions, two or more firms come together and form a new company through a merger agreement. As an example, two companies may agree that they work together regardless of whether or not they're an independent organization for their own mutual advantage, which results in a merger (Gaughan, 2011).

Sudarsanam (2003) discovered that carrying out M&A is, first and foremost, an effort to enhance shareholder value. A majority of companies looking to combine or acquire other companies are intent on becoming as the dominant player in the product-market space of the strategic business unit. According to Copeland and Weston, buyers from both corporate and financial sectors were able to perform better when using a sample of both corporate and financial buyers. M&A take place on a daily basis throughout the globe due to their beneficial impact on market competitiveness by resulting in more market share and lower company risk. Mergers or acquisitions are beneficial for company success since they lead to increased shareholder value (Sharma, 2009). M&A is a key vehicle in enabling business development and productivity, according to the study published by Botchway (2010). M&A's are used by businesses to enhance their competitiveness in the market by gaining market share over their rivals. They use M&A (mergers and acquisitions) in order to minimize business risk by expanding the portfolio and making it simpler for them to enter new markets. They also leverage economies of scale to make it possible for them to capitalize on cost savings (Kivindu, 2013). Ghosh (2001) found the opposite of what was expected: Mergers and acquisitions don't often benefit performance. According to Muya (2006), mergers fail to provide added value to the merging companies.

2.3.2 Credit Risk

Commercial banks generate more income from the issuance of loans. Loans are, therefore, a bank's main assets that aids in generating revenue. It is the portfolio determining whether banks make profit to a large extent. Dang (2011) stated that losses arising from bad loans pose a danger to banks, thereby affecting its performance.

These companies aim to maximize profits by lending money to borrowers, but they also minimize risk by avoiding giving out loans (Dehejia, Montgomery & Morduch, 2012). Some borrowers may not be able to pay the interest due on the loan. Sometimes, the borrower deliberately misses the deadline of the terms he/she agreed to. Thus, credit risk had to be taken into consideration while assessing performance.

2.3.3 Capital Adequacy

In a paper authored by Athanasoglou, Brismiss, and Delis (2013), the three authors describe the amount of money that banks can maintain themselves should be necessary, and serve as a safeguard in potentially hazardous times. Internal capacity and bank stability are proportionate to capital sufficiency and the ability to withstand short-term losses. Furthermore, it quantifies the banking institutions' assets, which are mostly owner-funded. It measures other ratios as well. Well-capitalized banks are better positioned, since they have more capital to satisfy the central bank's demand. This route is open to allow for any more money to be lent out. Banks with a high investment ratio suffer a significantly lower level of financial difficulties in the event of an overall financial crisis (Dang, 2011).

The aforementioned Prudential Guideline, which is based on Core Capital and Total Capital, stipulates that the minimum sufficient capital must be 8.0% and 12.0% respectively. Banks will lose money because of these losses. In addition, these operational and market losses are exposed to absorb the prospective losses and safeguard borrowers. According to Obyydang (2011), how much money is available dictates how much funding is provided. It shows the inner capacity of the bank to endure in bad times. The cost is proportional to the severity of bank in scripted catastrophes. Banks that benefit from expansion into other riskier sectors are assessed (Sangmio& Tabassum, 2010).

2.3.4 Management Efficiency

This is a fundamental attribute that helps to shape perceptions of commercial banks. Loan/growth-to-assets/earnings rate: It is difficult to assess these things using only financial measures like loan/growth-to-assets/earnings rate. In terms of their management efficiency, which is seen as of primary importance by banks' investors, corporations, and the public, controls systems, management of operations, quality of personnel, and organizational discipline all contribute to overall management efficiency. Ratios are helpful in evaluating management efficiency since they only account for operational expenses that may be directly linked with either the result of a bank's management or to the consequence of another entity's management (Athanasoglou, Brismiss & Delis, 2013). A rise in profitability results in better management, and this results in more earnings (Ireland, 2016).

For commercial banks, commercial insurance covers all operating costs while making loans, as well as when carrying out other activities. Banks charge interest on loans in order to cover the expenses as well as to turn a profit (Ireland, 2016). Because the administrative expenses of that particular company are quite expensive, it may opt to raise the interest rate by itself. This strategy may make borrowers who would explore other financing alternatives avoid you, and it could lead to losing new customers.

Management efficiency is often qualitative, a subjective process. An audit of the organization's control systems, management systems, and overall culture may provide a rapid assessment of management. Critical financial or administrative measurements may also assist evaluate the efficiency of overall management. The figures cover assets and loan growth, as well as profits or capital. Capacity measurement is done using ratios, which serve as a surrogate for evaluating the capacity of administering assets in a way that maximizes revenue (Nampewo, 2015).

Additionally, when any of the ratios increases, it suggests that the company's capacity to deploy resources in a beneficial manner to shareholders has also increased. Shareholders are also in a better position to evaluate their agents because they are focused only on bank-specific measures. The indicators listed above are deemed objective when it comes to the process of evaluating the bank's management. A report by Muiruri (2014) indicates that current market trends have caused commercial bank executives to be dismissed because the management board failed to meet their own expectations after board of directors’ usage of the aforementioned criteria to evaluate their performance.

2.3.5 Liquidity

Because of the presence of liquidity, a business has the capacity to fulfill its obligations when it is anticipated. According to the deposit to net liquid asset ratio, it has been calculated. Liquidity enables commercial banks to fulfill their responsibilities in ways that are appropriate, convenient, and beneficial when needed. The above point means that banks with a high degree of liquidity (that is, many cash positions and relatively few liquid liabilities) have an advantage in funding their everyday activities, Example: Financing to debtors and giving cash to the currency-depositors are among the most typical applications of digital currency. In a general sense, liquidity is defined by the ratio of deposits to bank money (Nyanga, 2012). Liquidity was there in the financial sector as early as the years prior to our research, which much beyond the bare minimal (CBK, 2007).

Thus, liquidity is an important element while considering how to perform for a financial institution. As long as the bank fulfills its responsibilities, primarily by depositors, it may do anything. This is supported by Dang (2011), which asserts that there is a positive correlation between bank liquidity and profitability. The degree to which a financial instrument represents liquidity is defined by how much an individual has in assets coupled with how much the overall amount owed is to clients. Liquidity is gauged by many measures including interest rates. For instance, in assessing liquidity levels, Ilhomovicho (2009) used the cash to deposit ratio. To investigate the connection between the eppiness degree of institutions and their effectiveness (Said & Tumin, 2011).

2.3.6 Bank Size

It is inversely proportional to the overall size of the bank. Banks with more financial strength have a greater opportunity to undertake significant investments in technology, resulting in greater overall efficiency. Additionally, client base expansion also improves, which increases the number of deposits that banks have available to provide additional loans. With this, we see greater performance in contrast to smaller financial institutions (Bakker, Schaveling & Nijhof, 2014). Bakker, Schaveling, and Nijhof (2014) found that the bigger banks acquire less expensive sources of financing and compete aggressively to provide credit whereas smaller banks have to pay higher amounts for loans owing to acuity Since creditors are dangers, it is important to have a large return.

2.4 Empirical Review

Büşra (2015) studied the impact of acquisitions on company value in Turkey in the global arena. Through the use of the conventional market value method, the research determined the degree of value generation across various time periods. This research found that M&A lead to increases in firm value over time, but that this change was only statistically significant over a longer period of time. Because the research was not performed in the Kenyan setting, it has an unidentified gap.

Many businesses that merge or acquire are associated with a rise in the total worth of their company. The research looks at how delayed synergy, which is shown by revenue growth, affects post-merger and acquisition activity. The dataset utilized in this study was a panel of 64 Indian businesses that began operation between 2012 and 2018 and made use of the System Generalized Method of Moment model. Additionally, mining, energy, construction, service, and real estate were all looked at alongside one other. Results from previous studies have shown that consolidations may provide more lengthy value for acquiring firms, but also that future synergies come with delayed synergy. The study was neither conducted in the banking nor the Kenyan context thus presenting a contextual gap. The study did not conduct an event study analysis but instead conducted a System Generalised Method of Moment model, thus presenting a methodological gap.

In 2020, Borodin (2005) sought to find out whether US and European M&A transactions influences the overall performance of those businesses. The analysis consisted of 138 M&A deals from 2014 to 2018 done in the two areas. ROS levels were examined and found to be correlated with factors such as the equity-to-enterprise value ratio. This research also looked at the correlation between the economic meltdown and M&A transactions in a combined business. It was found that the majority of companies that had been examined in both areas were profitable, and did not get into any trouble after acquiring other companies. Despite the research results, the ROS level and the EBIT/Total Revenue ratio both deteriorated in both areas. No correlation was found between merger and acquisition activity and key business performance metrics. Although the research failed to demonstrate any link between M&A and company value, it created a conceptual gap.

In the paper published by Rashid and Naeem (2017), the authors conducted an empirical investigation of M&A transactions in Pakistan utilizing data on all M&A agreements that happened during the years 1995-2012. An empirical study using OLS and empirical Bayesian estimate techniques was used. According to the results of the OLS regression, merger transactions had no substantial effect on the companies' profitability, liquidity, and leverage. On the other hand, the studies suggest that combined companies' quick ratio has a negative and statistically significant effect as a result of merger and acquisition activity. According to the observations of the empirical Bayesian approach, the results from the OLS method were similar. Researchers could not find a correlation between M&A and company value, leading to a conceptual gap.

In the study conducted by Jallow, Masazing, and Basit (2017), UK businesses' economic results was examined and it was discovered that mergers and acquisitions had little effect on company profits. One research looked at the aftermath of the mergers and acquisitions of 2011, which included a majority of the companies traded on the London Stock Exchange. Capital structure were compared, for example, before to a merger or acquisition, and after the merger or acquisition, to speak about a certain time period. Corporate mergers and acquisitions were utilized to evaluate the returns generated, while evaluating the performance of assets, equity, and earnings per share using dependent variables. Pairs of data were utilized to conduct a study using descriptive statistics (T-test). The study validated the theory that all favorable conditions tend to enhance merger and acquisition success. The study shown that M&A had a substantial impact on ROA, ROE, and net income (EPS). As a result, mergers and acquisitions did not greatly affect the net profit margin. A fundamental conceptual gap was shown in the research as a result.

Mergers and acquisitions have a considerable effect on organisational performance in East Africa, and Juma, Musimenta, and Gu (2017) set out to prove that. Cumulative abnormal returns and shareholder value were measured using an event study in this research. To determine a company's return on equity, the researchers used the Return on

Equity ratio. The dataset included 330 cases of 234 M&A transactions that happened between 2005 and 2015, drawn from secondary sources of stock market data on East African countries' exchanges. In this research, mergers and acquisitions were shown to be strongly correlated with the success of the business. The latest research discovered that acquisition announcements produce significant anomalous returns for shareholders and that the magnitude of M&A announcements is correlated with company success. The research also discovered that there is a favourable correlation between cross-border M&A transactions and firm performance. This research failed to use the full extent of its knowledge and understanding of the banking industry, resulting in a theoretical gap.

The impacts of M&A on East African Breweries Limited's performance were examined (Nyaga, 2018). The study used a descriptive research approach and examined over 835 upper management positions. This number was found via randomly stratified sampling. The study made use of both descriptive and inferential statistics to reveal the facts. The research results showed that M&A leads to new client bases of potential customers. Additionally, research found that M&A preceded the creation of new regional markets. Companies will increase their profits and sales by expanding into new markets, while exploring financial and marketing factors for both their targets and the acquiring businesses. Transferring productive assets across entities also was mentioned in this release. In addition to establishing that M&A companies' activities affect a firm's liquidity, leverage position, and return on announcement, the results of the research demonstrated that M&A firms boost stock prices. M&A decisions were shown to be associated with profitability. Because of this, a contextual gap occurred in the research performed.

The researchers' goal was to uncover the merger and acquisition (M&A) impacts on the financial and operational performance of the different petroleum sector companies in Kenya (Ogoti & Gekara, 2017). The target businesses' financial statements and publications were used as secondary data in the research, while the NSE, CMA, and the companies' own publications were used as primary data. Descriptive and inferential statistics were combined in data analysis. This study was divided into two separate periods: before the merger (pre-merger) and after the merger (post-merger). M&A transactions had a significant positive effect on the profitability achievement of the oil companies, according to the study findings. Research study does not suggest that M&A has an effect on company value.

In 2020, Mwatsuma, Banafa, and Ibua conducted an investigation of the impact of M&As on listed commercial banks' financial performance at the NSE Kenya. The research population consisted of all 13 amalgamated commercial banks in Kenya throughout the course of their history from 2010 to 2017. Data collected from administered surveys was complemented by data found on CBK's website and the NSE Handbook. The statistics used in this research were descriptive and inferential. Regression and correlation analyses were required for the inferential statistics. The research results showed that commercial banks merger results in improved financial performance. In the study, the researchers discovered that the listed commercial banks' financial performance increased after merger, and that a liquidity management policy, asset quality, and merger capital sufficiency were also improved. However, no connection was found between M&A and business valuation, thus this study has opened a gap in people's minds.

The aim of Gwaya and Mungai (2015)'s research was to assess if M&A activity had any influence on the productivity of Kenya's banks. A census of all 14 financial organizations formed from 2000 to 2014 by combining or acquiring others was conducted, looking for correlations. A questionnaire that contained both open and closed-ended questions was utilized to collect primary data. One school of thought is that it is considered that MBAs were the main drivers of the higher revenue of the merger and acquisition firms in Kenya. M&A is done mostly with the aim of improving profitability. Notwithstanding the main data utilized in this study, this caused a research gap.

2.5 Conceptual Framework

A conceptual framework serves as the foundation for developing study questions and goals of a study, as stated by authors Rocco and Plakhotnik (2009). Clearly illustrated, the structure gives the researcher the ability to deduce information. Figure 2.1 below exhibit the conceptual framework developed for this study.

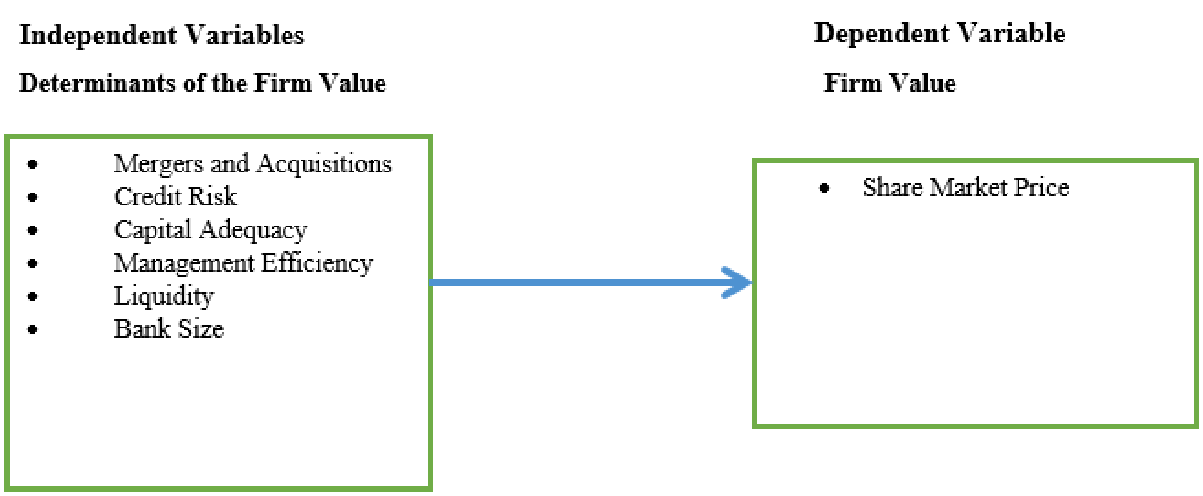


Figure 2.1: Conceptual Model

2.6 Summary of Research Gaps

Some studies utilized primary data or did not use the event analysis as the study analysis method, this resulted in a methodological knowledge gap which the current study addressed by utilizing secondary data and also by utilizing the event study methodology.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is the blueprint of the research study where it lays out the methodology of the study. The chapter contains several subsections which include research design expounding on the design applicable to the study, target population detailing the population of interest and sampling method applicable if any. Data collection is also looked into where data required is specified and how it was collected. Finally, the chapter show the data analysis technique that was applied by the researcher.

3.2 Research Design

This study embraced an event study research design. This method was appropriate because it enabled comparison of the stock market reaction to an event by making an observation on performance before or after the event. Nagm and Kautz (2007) explains that an event study involves defining the event and estimating whether the stock price changes beyond normal or expected changes in response to the announcement of the stock-split.

3.3 Target Population

Zikmund, Babin, Carr, and Griffin (2010) refers population to the total number of individuals or people in a study. The population normally have characteristics that are alike. Grabich (2012) opines that a grouping of elements, events or people which are being examined with the goal being provision of answer to research question denotes a study population. All financial institutions that appear in Appendix I of the Bank Regulations was included in the research. As at 31st April 2021, there were 43 banking institutions and just one single mortgage financing business operating in Kenya. In order to gather information on the 11 banking institutions that have either merged with or purchased another financial institution, the investigator used purposive sampling.

3.4 Data Collection

The current study utilized secondary data. Data obtained from the NSE was quantitative in character, and therefore, quantitative data was used. The data was mainly relating to stock prices of listed commercial banks who had either merged with or acquired another financial entity. The study was an event analysis of the market value of the listed banks in the NSE which had either merged with or acquired another financial entity prior and subsequent to the merger approval by CBK. The study analysed the reaction of the market capitalization of the stocks of 11 listed commercial banks that had either merged with or acquired another financial entity, 30 days before the merger/acquisition announcement and 30 days after.

3.5 Data Analysis

Event research technique was utilized for data analysis, and the analysis focused on quantitative aspects. This merger/acquisition signified the beginning of something and the event day was the day the merger/acquisition was approved. In order to ensure that events was announced no less than 30 days before their occurrence, they were scheduled for a duration of 30 days (they were 30 days long). The research analysed the data using Microsoft's Excel (2017) where line graphs depicting the trend of the movement of the market capitalization were generated. It also aided in generating market returns and abnormal returns. Although strategies applied to deal with dependences could be effective in standard operation modes, these could be unprepared to deal with the hyper nature of M&A's that are typically time-sensitive hence a call for test to be executed. To discover if the mergers and acquisitions announcement affected the market value, the T-tests were performed. With excellent coverage capacity for most typical statistical analysis, and highly methodical, SPSS version 26 was used for analysis. SPSS also helped in calculating the significance of the data for statistical testing.

3.5.1 Analytical Model

The AR is used to assess the merger/effect on the company acquisitions. In bank products, the average return, excluding any variable that results in an expected result, is regarded to be a normal value. In order to find out the anticipated return on the stock, they utilized the Market Model. Taking systematic risk, the investor could get more return. R was the calculation that showed how real stock returns were computed:

$$\mathbf{R = \frac{(MP_t - MP_{t-1})}{MP_{t-1}}}$$

Where;

MP = Market Price of the shares time at t

The dividends were disregarded in this research, thus returns solely represent movements in the share price. The accompanying budget plan was used to determine the expected/normal values;

$$ER_{xt} = \alpha_x + \beta_x R_{mt}$$

Where

ER_{xt} is expected returns on stock x at time period t.

R_{mt} is the returns in the market at time t.

α is a constant.

β (beta) which is the security's price volatility with respect to the total market

In order to compute the market model coefficients α and β, the market index's prices throughout the estimate period and the commodity's previous costs were utilized. Once Alpha and Beta had been determined, the ER was calculated by utilizing the equation.

$$ER_t = \alpha + \beta R_{mt}$$

The important information concerning the event was then measured through calculating the Abnormal Returns (AR) that is derived from the variance of the Actual and the expected or normal rate of return.

The model below was applied to estimate the Abnormal Returns;

$$AR_{xt} = R_{xt} - ER_{xt}$$

The below formula was used in calculating the cumulative abnormal returns;

$$CAR_{xT} = \sum_{i=1}^{N} AR_t$$

Where;

CAR_{xT} = Cumulative abnormal return on x share obtained in the event window T,

T – The event window

Standardized cumulative abnormal returns (SCAR) was computed as:

$$\mathbf{SCAR}_{iT} = \frac{(\mathbf{CAR\ it})}{\sigma\ (\mathbf{CARit})}$$

Where;

σ (CARit) - The standard deviation of CAR's adjusted for forecast error.

The T-test statistic was utilized to determine whether or not the previously mentioned devices were significantly above or below the accepted values, and whether or not the recorded SCARs are significant. A T-test statistic presupposes that the data is normally distributed.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

Chapter four gives a presentation of the outcomes of data analysis done on the volatility of stock returns of the commercial banks that undertook mergers and acquisitions and are listed on the Nairobi Stock Exchange. The scholar employed an event study research design and descriptive statistics to make comparison of the abnormal prices of shares before and after the M & A of the firms listed. The objective of the research was to examine the influence of the announcement of mergers and acquisitions on the stock return of the commercial banks that are listed on the NSE.

4.2 Descriptive Statistics

The researcher scrutinized the influence of M & A announcements on the value of commercial banks listed on the NSE. The researcher collected daily data on market prices and share prices of each firm for the period between 1999 and 2020. Afterward, the researcher utilized SPSS version 26 to perform the analysis for every listed corporation. Then the researcher applied a 5% significance level for testing for the existence of abnormal returns. The researcher applied descriptive statistics to evaluate the data, and the findings are as shown in table 4.1.

Table 4.1: Descriptive Statistics

	Minimum Price	Maximum Price	Mean	Std. Deviation
DTB 1999	10.89	14.15	12.8085	1.08583
COOP (&Jamii Bora)	10.30	12.00	11.3550	.59266
I & M	23.00	32.25	26.8542	2.40202
KCB 2010	19.16	22.27	20.3502	.83114
STNCHART	28.71	31.58	29.8407	.99108
DTB & Habib	146	190	175.25	12.953
KBC & NBK (KCB GROUP)	37.90	42.15	40.1067	1.06717
NCBA	25.27	35.86	28.0080	3.03464
Barclays	3.12	3.31	3.1987	.04394
NBK	3.51	4.12	3.9832	.16880
NSE 20	1004.70	6161.46	3510.7941	1191.87433

Source: (Researcher, 2022).

The NSE 20 Share index market price had a minimum of 1004.70 and a maximum price of 6161.46 during the research period. The NSE 20 market price recorded a mean of 3510.7941 and 1191.87433 standard deviation. The majority of the banks recorded a standard deviation ranging from 0.04 to 3.03 excluding DTB had a relatively higher standard deviation of 12.25.

4.3 Paired T-Test Results

The below researcher performed a paired t-test to make comparison of the share prices during the period of study. The period involved 60 days which include 30 days prior the announcement and 30 post the announcement. The difference in the returns believed to be abnormal returns was tested at a 5% significance level and the findings are as shown in the following table.

Table 4.2: Paired T-Test Findings

Paired Samples Test									
		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	DTB Before – DTB After	-1.43700	.79694	.14550	-1.73458	-1.13942	-9.876	29	.000
Pair 2	COOP Before – COOP After	-.65333	.84598	.15445	-.96923	-.33744	-4.230	29	.000
Pair 3	I &M before – I &M after	-1.40833	4.35716	.79550	-3.03532	.21866	-1.770	29	.087
Pair 4	KCB2010 Before – KCB 2010 After	-.06367	.79866	.14581	-.36189	.23456	-.437	29	.666

Pair 5	STNCHART Before – STNCHART After	.76667	.98202	.17929	.39997	1.13336	4.276	29	.000
Pair 6	DTB & Habib Before – DTB & Habib After	-19.167	10.603	1.936	-23.126	-15.208	-9.901	29	.000
Pair 7	KCB GROUP Before – KBC & NBK (KCB GROUP) After	-.44667	1.60908	.29378	-1.04751	.15417	-1.520	29	.139
Pair 8	NCBA Before – NCBA After	-4.39200	3.19839	.58394	-5.58630	-3.19770	-7.521	29	.000
Pair 9	Barclays Before – Barclays After	-.01867	.07001	.01278	-.04481	.00748	-1.460	29	.155

Pair 10	NBK Before -NBK After	-.27367	.13868	.02532	-.32545	-.22188	-10.809	29	.000

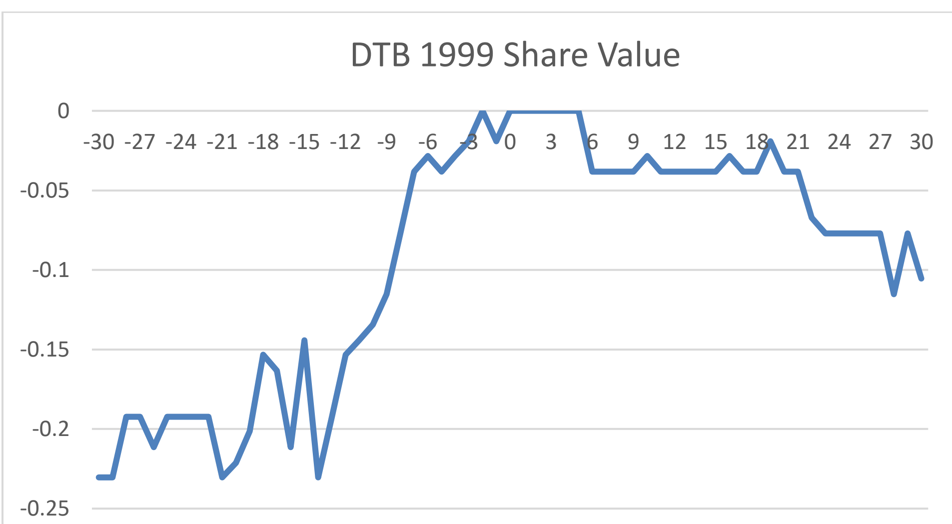
Source: (Researcher, 2022)

4.3.1 DTB (merger between DTB and Premier Savings & Finance Ltd)

The scholarly findings depict that the difference in mean of the two returns of DTB shares in 1999 was shares was -1.4370 while the standard deviation was 0.79694. Besides, the study outcomes demonstrate that the difference in the mean fell between -1.73458 and -1.13942 at a 95% confidence level. The t statistic is -9.876, and the p-value is 0.000 ≤ 0.05 meaning that the mean difference is statistically significant at 95% confidence. Therefore, a difference existed in value before and after the merger between DTB and Premier Savings & Finance Ltd in 1999.

Figure 4.1: DTB 1999 Share Value

The value of the shares before and after the merger was represented in the following graph:



Source: (Researcher, 2022).

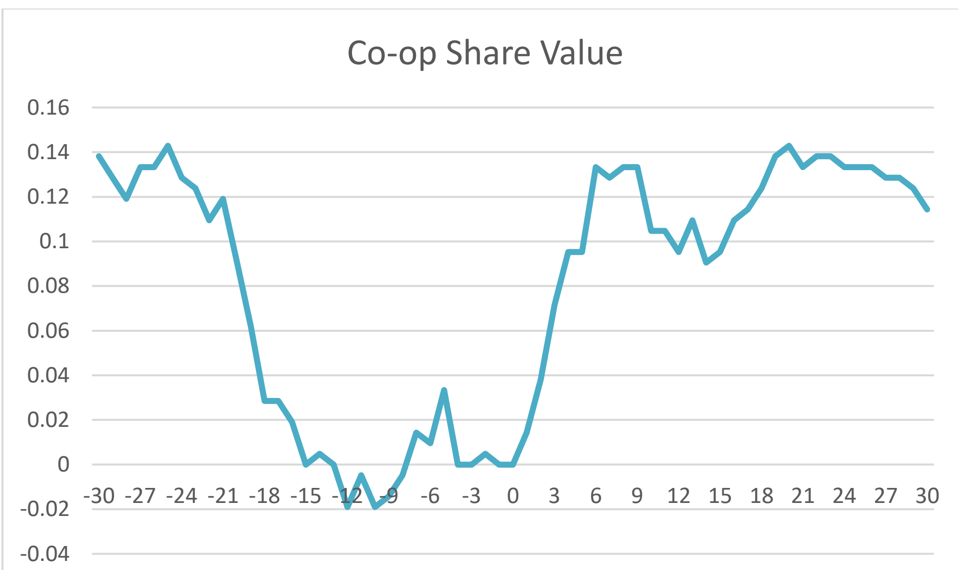
From the figure above, the share value was in an upward trend 12 days before the merger announcement, then it was constant for six days before it started deteriorating.

4.3.2 The Announcement of Acquisition of Jamii Bora by Coop Bank

The results show that the mean difference of the shares of Co-op Bank 30 days prior and 30 days post the announcement of the acquisition was -0.65333 and 0.84598 standard deviation. The difference in the mean fall between -0.96923 and -0.33744. The t-statistic is -4.230 and has a p-value of 0.000 which is less than 0.005 confidence level. Hence, the difference in the mean of the values before and after the announcement is statistically significant at a 95% confidence level.

Figure 4.2: Co-op Bank Share Value Trend

The trend in the share values were presented in the graph below.



Source: (Researcher, 2021)

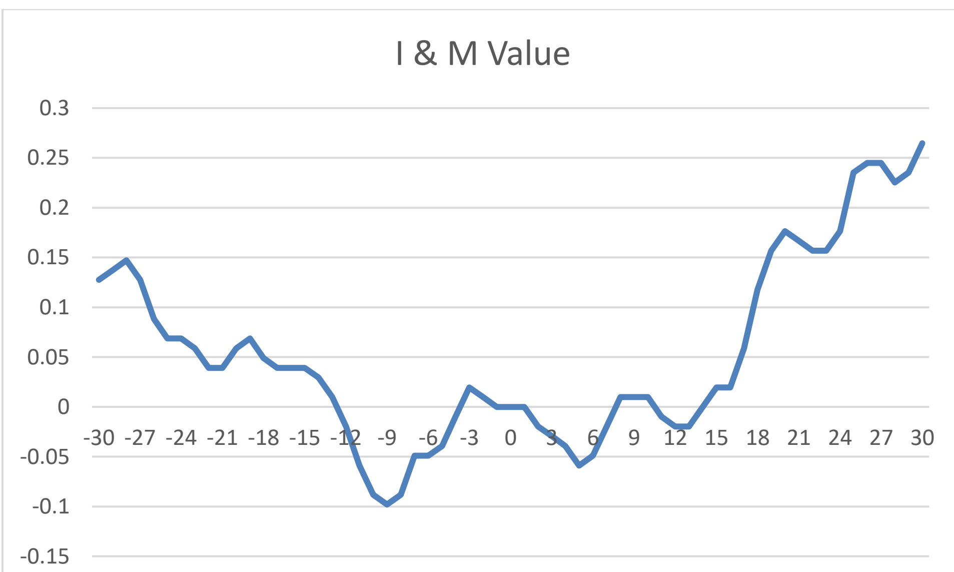
From figure 4.2 above, the share value of Co-op bank 30 days before the announcement was on a downward trend, but it started increasing in value after the announcement with slight variations between 6 days and 15 days after the announcement. Afterward, it increased for 23 days after the announcement before it started decreasing again.

4.3.3 The Announcement of Acquisition of Giro Bank by I & M Bank

From the findings, the mean difference between the share prices of I & M bank 30 days prior and 30 days post the announcement of the acquisition of Giro Commercial bank in 2017 was -1.40833 and 4.35716 standard deviation. The difference in mean lies between -3.03532 and 0.21866 with a t-statistic of -1.770. The p-value is 0.087 which is greater than 0.05, thus the difference in the mean is not statistically significant.

Figure 4.3: I & M Bank Share Value Trend

The trend in the share value before and after the announcement is as represented in the below diagram.



Source: (Researcher, 2022)

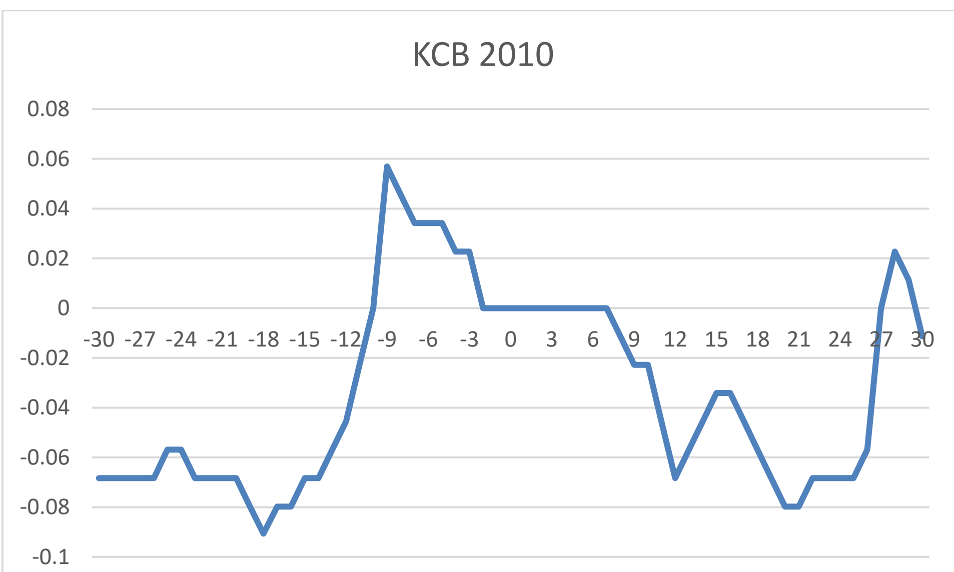
The figure shows that there was a downward trend in the share values before the announcement which then decreased the first 5 days after announcement then increased till 8th day before stagnating then increasing again. In between the days, there were fluctuations in the value.

4.3.4 The Announcement of Merger between Savings and Loan Ltd and KCB in 2010

The results indicate that the mean difference between the share prices of KCB before and after the announcement of the merger in 2010 was -0.06367 with 0.79866 standard deviation. The difference lies between -0.36189 and 0.23456 whereby the t-statistic is -0.437 and has a p-value of 0.666 which is greater than 0.05 confidence level. Therefore, the difference in the sample mean is not statistically significant at a 95% confidence level.

Figure 4.4: Trend on KCB Share Value in 2010

The share values before and after the merger were presented in the following line graph:



Source: (Researcher, 2022).

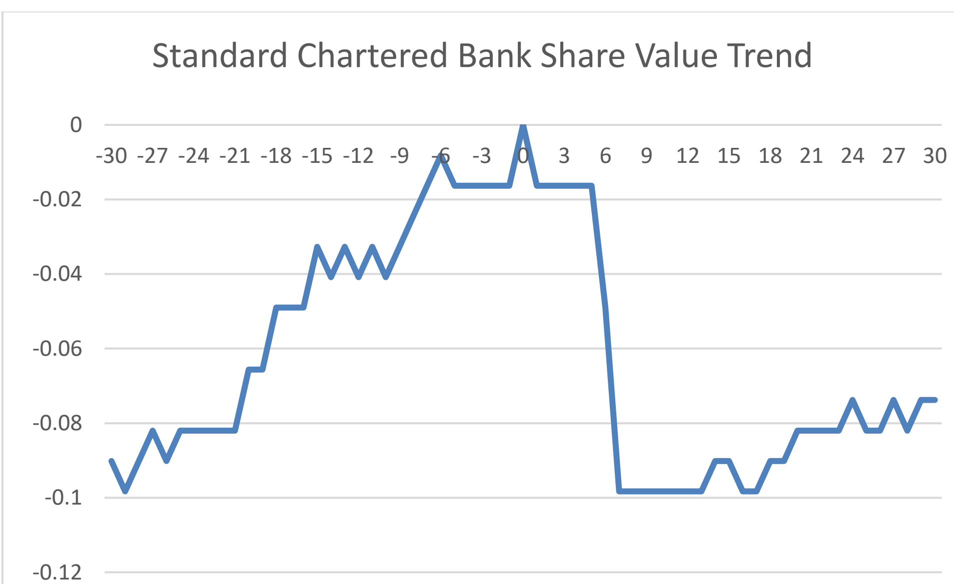
The results from figure 4.4 show that the 30 days before the merger, there was a fluctuation in the value, whereby it was on a downward trend nine days before the merger. After the merger, the share value remained constant for eight days before it started decreasing then fluctuated afterward.

4.3.5 The Announcement of Acquisition between Standard Chartered Bank and Standard Chartered Financial Service

From the results, the difference in means prior and post the merger announcement was 0.76667 with 0.98202 standard deviation. The difference in mean lies between the limit of 0.39997 and 1.13336. The t-statistic is 4.276 with 0.000 p-value indicating that the difference in the sample means is statistically significant. Since the t-value is larger, it means that there is a large difference between the two sample sets. Therefore, the groups are different meaning that values before and after the merger greatly changed. changed.

Figure 4.5: Standard Chartered Bank Share Value Trend

The changes in the share values are as presented in the following graph.



Source: (Researcher, 2022)

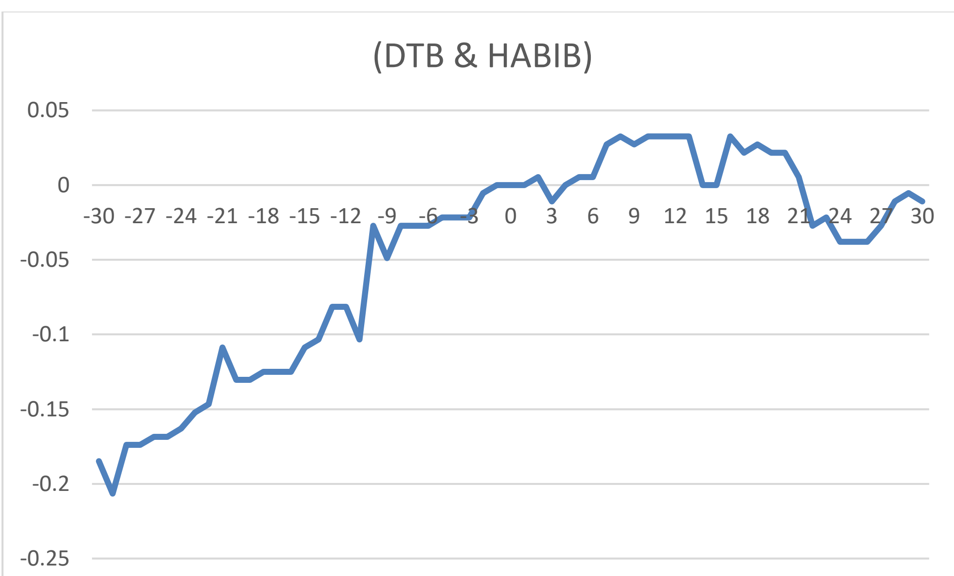
From graph 4.5, there was an upward trend in share values before the merger though it had ups and downs. However, after the merger, there was a change to downward trend till 15 days when there was an increasing movement in the value.

4.3.6 The Announcement of Acquisition of Habib Bank by DTB Bank

The findings demonstrate that the mean difference between the share prices before and after DTB acquired Habib bank was -19.167 with 10.603 standard deviation. The difference in mean of the two sample sets fell between -23.126 and -15.208 whereby the t-statistic was -9.901 with 0.000 p-value. Since the p-value is less than 0.05 confidence; the difference in the means of the share prices before and after the acquisition is statistically significant at a 95% confidence level. This depicts that there was a significant change in share values before and after the acquisition.

Figure 4.6: Trends in DTB Share Value (Acquisition of Habib Bank)

The result of the change in the values is demonstrated by the graph below.



Source: (Researcher, 2022)

Figure 4.6 shows an upward trend in the movement of share value before the merger and the trend continued even after the acquisition though with variations in between.

4.3.7 The Announcement of The Acquisition of National Bank of Kenya by KCB bank (KCB Results)

The findings designate that the mean difference of the sample sets of KCB share prices prior and post the acquisition of the NBK was -0.44667 with 1.60908 standard deviation. The lower limit for the mean difference was -1.04751 while the upper limit was 0.15417. The t-value was -1.520 with 0.139 p-value which is larger than 0.05 confidence level indicating that the difference in mean of the sample was not statistically significant. Therefore, at a 95% confidence level, the difference in share value of KCB before and after the acquisition was not statistically significant.

Figure 4.7: KCB Group Share Value Trend

The difference in share values of KCB after the acquisition is represented by the following graph.

Source: (Researcher, 2022).

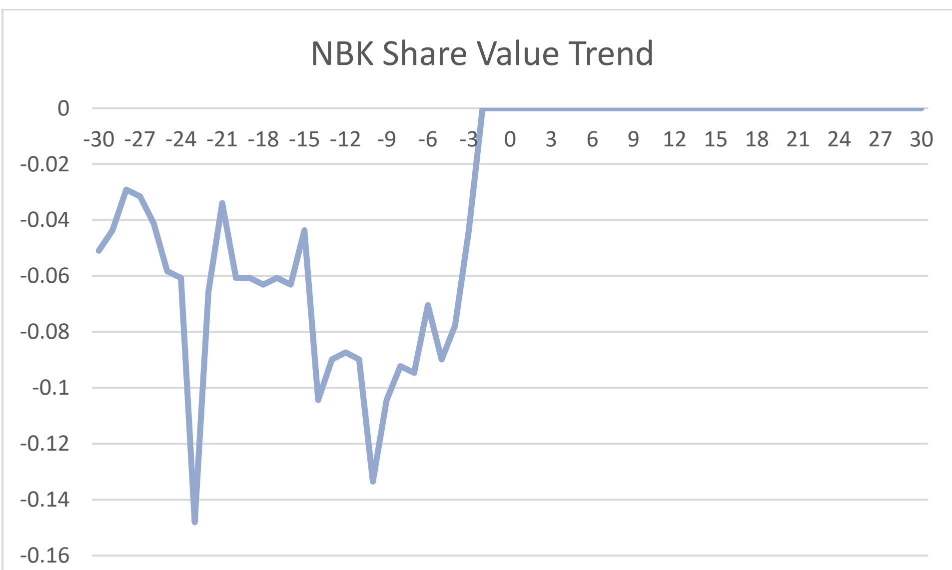
From figure 4.7 above, the were variations in the share value 30 days before the merger and 30 days after the merger. The share value first decreased after the merger before showing an upward trend with fluctuations shown.

4.3.8 The Announcement of National Bank of Kenya by KCB bank (NBK Results)

The study results portray that the mean difference of the sample sets for the National Bank of Kenya before and after acquisition by KCB was -0.27367 with 0.13868 standard deviation. The lower limit for the mean difference was -0.32545 whereas the upper limit was -0.22188. The t-value was -10.809 with 0.000 p-value which is less than 0.05 signifying that the difference in mean of the sample was statistically significant. Thus, at a 95% confidence level, the difference in share value of NBK before and after its acquisition by KCB was statistically significant. significant.

Figure 4.8: NBK Share Value Trend

The trend in share values before and after the acquisition is as shown in the graph below:



Source: (Researcher, 2022).

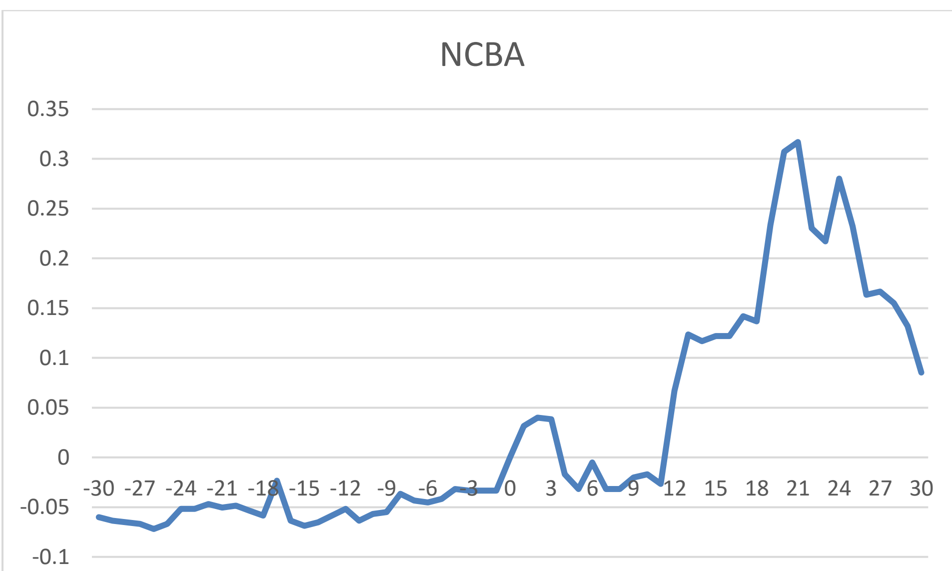
From figure 4.8 shown above, the share value of the National Bank of Kenya was fluctuating before the acquisition. However, the price value started increasing three days to the acquisition then stabilized 30 days post-acquisition by the KCB bank.

4.3.9 The Announcement of the Merger between Commercial Bank of Africa and NIC Group PLC (NCBA)

The research outcome specifies that the mean difference in the samples was -0.4392 with 3.19839 standard deviation. The upper limit of the mean difference was -3.1977 while the lower limit was -5.58630. The t-statistic was -7.521 with 0.000 p-value which is less than 0.05, hence the difference in means is statistically significant at 95% confidence level. For that reason, at a 95% confidence level, there was a significant difference in the share value of NCBA bank prior and post the merger.

4.9: NCBA Share Value Trend

The movement in share values before and after the merger is shown in following graph:



Source: (Researcher, 2022).

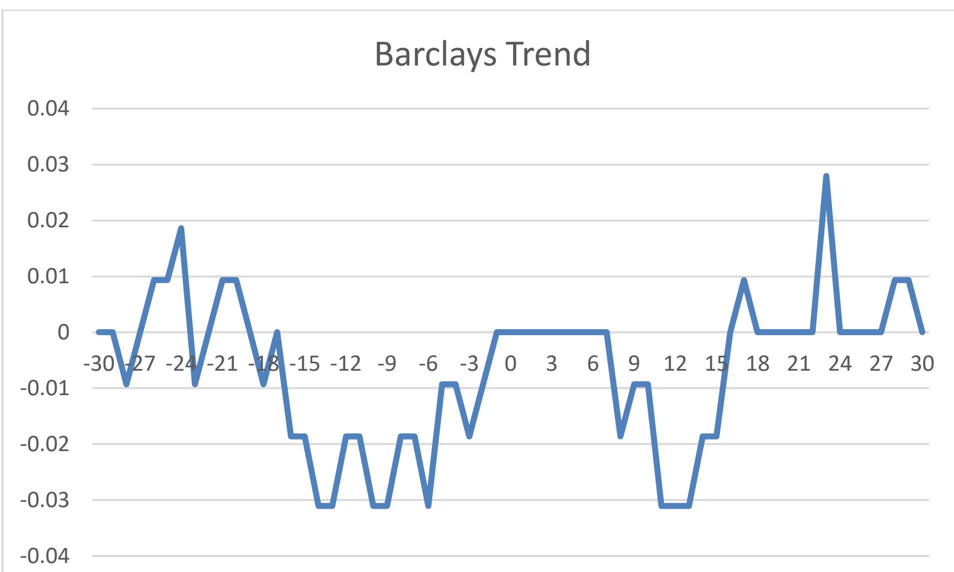
Graph 4.9 above shows that there was a fluctuating upward trend in the share value before and after the merger. However, there was a bigger increase in the share values 30 days after the merger than 30 days before the merger.

4.3.10 The Announcement of the Merger between Barclays Bank Kenya Ltd and Barclays Merchant Finance Ltd

The study results show that the mean difference between the share prices before and after the merger was -0.01867 with 0.07001 standard deviation. The upper limit of the mean difference was 0.00748 whereas the lower limit was -0.04481. The t-value was -1.460 with a p-value of 0.155 which is larger than the confidence level of 0.05. Therefore, the difference in the shared values of Barclays bank before and after the merger was not statistically significant at a 95% confidence level.

Figure 4.10: Trend in Barclays Share Value

The following figure shows the trend in share value 30 days before and 30 days after the merger.



Source: (Researcher, 2022).

From the graph above, it’s evident that there was a fluctuating movement in share values both before and after the merger. There was no particular trend because the values rose and fell frequently, though the values were constant between 1 day before the merger and eight days post-merger.

4.6 Discussion of Research Findings

The current study aimed to scrutinize the effect of M&A announcements on the value (market share price) of commercial banks in Kenya. The examination results demonstrated that changes occurred in the share prices after the formation of the mergers and acquisitions of the banks. For some banks, their findings showed an increase in stock values, whereas some had no significant changes in their share prices after the mergers and acquisitions. The research showed abnormal returns in some of the commercial banks listed, like the acquisition of Jamii Bora by Co-op Bank, Standard Chartered Bank merger, DTB, NCBA merger, and National Bank of Kenya acquisition. DTB was investigated in two instances: its acquisition of Habib Bank in 2017 and its merger with Premier Savings and Finance Ltd in 1999, whereby both the merger and acquisition affected the bank positively. Conversely, the merger and acquisition announcement involving Barclays Bank, KCB, and I & M banks led to no abnormal returns for them. The first was the 2001 merger of KCB and Kenya Commercial Finance Company, and the second was the 2019 acquisition of National Bank of Kenya. Both the merger and acquisition involving KCB led to no abnormal returns in the shares of KCB bank. The study results for DTB, NBK, Co-op, NCBA, and Standard Chattered were statistically significant at a 95% confidence level. However, the findings for I & M bank, KCB bank, and Barclays bank were not statistically significant at the 95% confidence level. This insinuates that even though all the banks under study established changes in their share values within the 60 days post M & A, some of the changes were not statistically significant.

Moreover, the findings imply that for some of the banks, the acquisitions and mergers helped increase their share values, thereby maximizing the shareholders' wealth. The results of this investigation conform to the verdict of some previous studies done on the influence of mergers and acquisitions on the performance of firms. For instance, Igecha (2018) established that there is a significant positive correlation between M & A and firm performance. Also, Mailanyi (2014) determined that there was a positive, significant correlation between M&A and the financial performance of oil firms in Kenya. Moreover, Gathecha (2014) established that merger and acquisition announcements positively influenced the shareholders' wealth of corporations listed on the NSE since they earned abnormal returns post mergers and acquisitions declarations.

The researcher concludes that M&A positively affect the value of commercial banks in Kenya. This is because it leads to a significant positive influence on the value of most firms, whereas some banks experience positive yet insignificant changes in their values. This study's conclusion is in line with other scholars who established that M & A possess a positive effect and enhance the financial performance of banks (Mutembei, 2020; Mwatsuma, Banafa, & Ibua, 2020).

Besides, the scholar noticed that M & A had a massive influence on the value of the weaker performing firm involved compared to the parent and stable company. For instance, in the acquisition of NBK by KCB, the effect on share value was positive and significant for NBK, while the change in share value for KCB was positive though insignificant. The same scenario was witnessed in I & M and Barclays Bank post-M&A. This means that the parent firms realized no noticeable increase in value in the short term after the M & A. The findings concur with Kamau (2016), who established that some banks had abnormal returns after the announcement of M&A, whereas some banks did not display any returns. Again, her findings indicated that the parent banks shareholders made no returns on their investments immediately after the M & A. Also, Popovici (2014) found that M&A did not enhance the share market value of the purchaser bank.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter five gives a presentation of the research outcomes. Besides, it discourses the conclusion and recommendations from the investigation and suggests areas that require further investigation. Also, the chapter notes the study limitations.

5.2 Summary of Key Findings

This research project aimed to inspect the effect of M&A announcements on the value of commercial banks in Kenya listed on the NSE. This study utilized secondary data that was retrieved from the websites of respective banks, the Nairobi Stock Exchange, CBK, and CMA. The academic steered an event study to realize the objective of the investigation, whereby the event was considered the day of the M&A announcement. The changes in stock prices were thus studied 30 days before and 30 days after mergers and acquisitions. The research population was all mergers and acquisitions between 1999 and 2020 involving commercial banks listed on the NSE. There were 11 mergers and acquisitions in that study period, but the researcher dropped one firm due to incomplete historical share data. The researcher employed SPSS version 26 and Microsoft Excel for data analysis of the data collected.

The scholar established that all the commercial banks in the study experienced changes in their share values immediately after the announcement of M&A. Following the M&A announcements, the majority of commercial banks saw significant effects on their stock prices, with only a few showing constant or insignificant effects on their share values. The findings showed that some commercial banks documented abnormal returns, with some having no abnormal returns. Those banks that had abnormal returns were the NBK, NCBA, Co-operative Bank, DTB, and Standard Chartered. Alternatively, the banks that did not realize abnormal returns following the M & A announcements were KCB, Barclays, and I & M Bank. The effect of mergers and acquisition announcements on share values was statistically significant for the National Bank of Kenya, Co-operative, NCBA, DTB, and Standard Chartered bank. However, the results were statistically insignificant for KCB, Barclays, and I & M Banks. Hence, the study established and concluded that mergers and acquisitions positively affect the value of commercial banks in Kenya. However, the effects on some banks are statistically significant while they are insignificant on the values of other banks.

5.3 Conclusions

The investigation concludes that the announcement of M&A positively affects the value of commercial banks listed on the NSE. Therefore, in most instances, the announcements of M&A lead to a rise in the share prices, whereas at certain times it leads to no significant change in share prices. Most of the corporations under study realized increases in their values following the announcement, with most of them recording abnormal returns shortly after the M&A. Thus, the M&A optimized shareholders' value. However, the M&A announcement had an insignificant effect on a few banks under study, whereby changes that occurred immediately following the M&A did not have a substantial impact on their returns. Essentially, this suggests that the shareholders of these banks did not realize any returns immediately after these mergers and acquisitions. However, this verdict does not infer that the mergers and acquisitions were not gainful undertakings, but only that they didn't benefit them in the short run. Therefore, a longer period of study after the M&A could give a true picture of the profits earned after the ventures.

Besides, the study found that the announcement of M&A significantly and positively influenced the share returns of commercial banks listed on the NSE. Therefore, they were able to maximize wealth for the stockholders in the short run. The few banks that had insignificant changes in their values show that companies should be given some time after mergers and acquisitions to profit from their undertakings.

Moreover, it's vital to note that the M & A immensely impacted the value of banks that had low performance before the announcement compared to those that performed better before the M & A. These were observed in the acquisition of NBK by the KCB whereby the announcement significantly influenced the share value of NBK while insignificantly affected the share value of KCB bank. A similar observation occurred at Barclays Bank and I & M Bank. Hence, this reinforces the view that mergers and acquisitions improve the value of commercial banks, but the effect may only be limited by time. Therefore, it is believed that these firms that registered insignificant changes in values after the consolidations can only give more time to reap the benefits from them.

5.4 Recommendations

The investigator recommends that the executives of commercial banks properly evaluate any likelihood of mergers and acquisitions between them and other banks to fortify their market position and enhance their value. A further recommendation is that the central bank needs to set regulations that will support consolidated commercial banks' asset quality. Non-performing loans are a risk to the bank and might be the reason some banks don't realize profits immediately after consolidations. Hence, there is a need for the regulator to establish strict policies that could protect commercial banks when clients default on their loan repayments.

Besides, the CBK should encourage but maintain regulations on the requirements for mergers and acquisitions. By doing this, it will ensure the banks involved in the conglomeration all gain value from their ventures. Additionally, the scholar recommends future studies linked to this topic to include all the commercial banking firms that have undertaken M&A and use a longer period of study to investigate the results. Future studies can also use different methods to assess the firm values, not necessarily the shares. Also, regulators should organize tools that firms can utilize to assess the possible synergies that the companies expect to achieve post-merger and acquisitions. Thus, they can make informed decisions.

5.6 Areas for Further Studies

The researcher proposes that future intellectuals can do a similar study but in different industries. This will provide a true scenario of the effect of M&A on firm value. Also, future researchers using even studies should take a longer duration, perhaps one year before and one year after the merger and acquisitions. This can offer a clearer depiction of the impact such actions have on the value and performance of the firms.

Furthermore, further research can employ distinct research methodologies in performing the investigation. Again, they can employ different tools in measuring the value of the firms under study. Also, further research should concentrate on other players within the banking industry or the whole financial sector. This will help shed light on what the scenario is like in SACCOs, microfinance institutions, insurance firms, and others.

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APPENDICES

Appendix 1: List of Commercial Banks in Kenya as at 31st December 2020

1. Absa Bank Limited
2. African Banking Corp. Ltd
3. Bank of Africa Kenya Ltd
4. Bank of India
5. Bank of Baroda (K) Ltd
6. Stanbic Bank Ltd
7. Chase Bank (K) Ltd (In Receivership)
8. Citibank N.A.
9. Consolidated Bank of Kenya Ltd
10. Co-operative Bank of Kenya Ltd
11. Credit Bank Ltd
12. Development Bank (K) Ltd
13. Diamond Trust Bank (K) Ltd
14. Dubai Bank Ltd (In Receivership)
15. Dubai Islamic Bank (Kenya) Ltd
16. Ecobank Limited
17. Spire Bank
18. Equity Bank Ltd
19. Family Bank Ltd
20. Guaranty Trust Bank
21. First Community Bank Ltd
22. Guardian Bank Ltd

22\. Gulf African Bank Ltd

24. Habib Bank A.G. Zurich
25. HFC Ltd
26. Imperial Bank Ltd (In Receivership)
27. I & M Bank Ltd
28. Jamii Bora Bank Ltd
29. KCB Bank Kenya Ltd
30. Mayfair Bank Ltd
31. Middle East Bank (K) Ltd
32. M Oriental Bank Ltd
33. National Bank of Kenya Ltd
34. NCBA Bank Kenya
35. Paramount Universal Bank Ltd
36. Prime Bank Ltd
37. Sidian Bank
38. Standard Chartered Bank (K) Ltd
39. SBM Bank (Kenya) Ltd
40. Transnational Bank Ltd
41. UBA Kenya Bank Ltd
42. Victoria Commercial Bank Ltd

Source: Kenya Bankers Association Website (2020)

Appendix II: Listed Banks Mergers and Acquisitions

Institution	**Merged with**	**Current Name**	**Date approved**	**Type of Consolidation**
Diamond Trust Bank (K) Ltd	Premier Savings & Finance Ltd	Diamond Trust Bank (K) Ltd	12.02.1999	Merger
Standard Chartered Bank (K) Ltd	Standard Chartered Financial Service	Standard Chartered Bank (K) Ltd	17.11.1999	Merger
Barclays Bank of Kenya Ltd	Barclays Merchant Finance Ltd	Barclays Bank of Kenya Ltd	22.11.1999	Merger
Kenya Commercial Bank	Kenya Commercial Finance Co	Kenya Commercial Bank Ltd	21.03.2001	Merger
Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002	Merger
CFC Bank Ltd	Stanbic Bank Ltd	CFC Stanbic Bank Ltd	01.06.2008	Merger
Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010	Merger
Giro Commercial Bank Ltd	I&M Bank Ltd	I&M Bank Ltd	13.02.2017	Acquisition
Habib Bank Kenya Ltd	Diamond Trust Bank Kenya Ltd	Diamond Trust Bank Kenya Ltd	01.08.2017	Acquisition
National Bank of Kenya Limited (NBK)	KCB Group PLC	Operations continued under respective brand names.	02.09.2019	Acquisition
NIC Group PLC	Commercial Bank of Africa Ltd	NCBA Bank Kenya PLC	30.09.2019	Merger
Jamii Bora Bank	Co-operative Bank of Kenya	Co-operative Bank and Kingdom Bank	21.08.2020	Acquisition