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EFFECT OF MERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE OF SELECTED NON-FINANCIAL FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE, KENYA

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Abstract: The present paper studied the effect of mergers and acquisitions on financial performance of selected non-financial firms listed at the Nairobi Securities Exchange in Kenya. This research utilized a descriptive study design in establishing the association between M & A and financial performance. The researcher based the analysis on listed non-financial organizations in Kenya that underwent the process of M & A within the period from 2000 to 2013. The researcher's target population comprised of 11 companies listed at the NSE that had undertaken M&A within the study period. A sample of 5 organizations were selected through the judgmental sampling method. This was founded on the size of the organization and accessibility of data for the pre-M & A and post-M&A period. The sampled companies included Nation Media Ltd, Total Kenya Ltd, Access Kenya, Crown Berger and East African Breweries. Data obtained for analysis was limited to 3 years pre and 3 years post mergers and acquisition from the financial statements of the companies. Independent sample t tests and regression analysis was used. The results established that efficiency, market power and capital base of merged companies improved after mergers and significantly improved financial performance of the companies. However, liquidity had no significant effect on the financial performance of the organizations. The study recommends that non-financial firms at the NSE should engage in M & A since they stand to profit due to an improvement in efficiency, market power and capital base derived from creation of economies of scale in relation to operational costs alongside improved operational revenues obtained from increased market share.

Key Words: *Efficiency, Liquidity, Capital Base, Market Power, Mergers and Acquisitions*

Introduction

The market has become very dynamic influenced by a myriad of factors such as wars, immigration, economic booms, recessions, globalization and technological advancement. It is because of this global trend that nations and organizations are continuously adopting new ways of doing business to counter threats as well as exploit new opportunities. Mergers and acquisitions are among those corporate strategic approaches taken by firms. The logic behind any corporate merger is the synergy effect; two is better than one (Sharma, 2009).Firms believe that by either merging or acquiring another firm, the performance would be better than a single entity. This is attributed by the fact that shareholder's wealth would effectively be maximized.

Several studies done globally on financial performance of non-financial firms that have undergone the process of M&A remain scanty. Some of these studies previously conducted conclude that indeed M&A have a positive effect (Pazarskis et al., 2006) while others report no effect(Mishra & Chandra, 2010). This has brought about mixed reactions. The consolidation of the European economies in Europe and currency unification led to mergers and acquisitions in the banking sector. The total value of the intra-European M&A activity in 1999 was at its peak at a record level of USD 1.4 trillion (Thomson Financial Security Data) and for the very first time became as large as that of the US market for corporate control. An argument by Brealey (2006) indicated that corporations within the United Sates registered a cost of more than 1.7 trillion dollars on M&A in 2000. The key reason of undertaking M&A is to improve the shareholders' value (Sudarsanam, 2003). A number of organizations engage in M&A so as to be the leaders in their industry or in providing their services or products. Much has taken place on M&A activities as a result of a number of factors. A number of both organizations and financial purchasers have been able to attain improved performance (Copeland, 2005).

M&A are on the increase globally since they give room to improved competition through gaining enhanced market share and reduced business risk (Kemal, 2011). An assertion by Sharma (2009) also argued that the performance of two organizations that have merged improves. On the other hand, Berger (1999) in his research on the role of capital in financial institutions indicated that mergers have turned out to be a common phenomenon as a result of enhanced performance. Generally, the driving force towards M&A entail; revenue improvement, tax reduction and economies of scale. Both the developing and developed countries are continuously adopting M&A strategy. According to Juma et al., (2012) mergers significantly influenced shareholders value especially with those of the banks that have taken mergers ending up creating more value. Owing to the recent upcoming M&A deals in Kenya, there is need to examine the post M&A cases.

In the contemporary world, mergers and acquisitions have been widely embraced as it has increasingly acquired societal importance and benefits. Corporations are undertaking various measures in efforts to improve financial performance. Financial performance is Key to success of any organization as it reflects the financial health of companies in the market and the performance as compared to other players in the industry. Mergers and Acquisitions have therefore 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 merger and acquisition to reduce costs and expenses and maximize shareholder value. Internationally, non-financial companies faced many challenges which could be resolved through merging.

Statement Problem

Continued globalization and the upcoming technological changes have given rise to stiff competition among firms. Companies are therefore highly demanded upon to operate in an efficient and effective manner so as to have a competitive edge over their rivals and improve on their financial performance (Fluck & Lynch, 1999).Other reasons include revitalize the company by bringing in new knowledge to foster long-term survival (Vermeulen and Barkerma, 2001) and to achieve synergy effects (Vaara,2002). However most of the organisations have had to shut down for not being able to keep up with the market demands. As a result, M&A is therefore the most sort strategy for this competitive advantage and business survival (Lole, 2011). It's within the projections of all the stakeholders undertaking M&A that the firms expected to emerge from the combination engages in a more effective way than how the two companies did separately. The assumption is as a result of the synergies obtained from the combination that reduces operating costs and/ or capital investments, therefore enhancing cash flow in the organization. According to Hitt et al. (2007), the key corporate goals are to attain a greater market power, find access to innovative abilities, therefore minimizing the risks linked with the introduction of a new product or service, maximize effectiveness through taking advantage of economies of scale and scope besides some cases, reshape a firm's competitive ability. Several organizations have not recorded the projected benefits therefore the process of M&A has resulted to a mixed result (NSE, 2012).

On the other hand, confirmatory research linking merger and acquisition to firm's performance has been little developed. Hence, how mergers influence firms' performance lacks empirical backing as the few studies that have been conducted on the same provide mixed results (Bansal & Kumar, 2008). For instance, the study conducted by Kithitu *et al*. (2012), on the role of mergers and acquisitions on the performance of commercial banks in Kenya recommends that institutions having weak capital base consolidate to create synergies. This will enable them to enjoy economies of scale as it will improve their profitability instead of going public by listing on the Nairobi Stock Exchange as this may be an expensive venture as it requires much funds for listing. On the contrary, Kwoka (2002), alludes that mergers have often failed to add significantly to the value of the acquiring firm's shares. This was also echoed by Muya (2006) who from his survey of experiences of mergers found out that mergers do not add significant value to the merging firms. Surveys done on firms that have undergone an M&A process, reveal that there is little indication of the improvement on operations post-merger or acquisition (Ghosh, 2001). Njenga (2006) also conducted a survey on the investigation as to whether the demerger of coffee marketing societies have created or eroded owner's wealth in parts of Central Kenya. He found mixed results on whether demergers led to wealth creation or erosion of coffee firms as depicted by both positive and negative returns on post-merger firms. These findings however differed from a survey conducted on 41 large banks that had completed a merger process in the United States of America. This survey reported an average improvement of 13% on cost savings rather than an improvement or increase in income (Houston, James &Ryngaert, 2001).

From the reviewed studies, it is evident that little is still know on the effect of mergers and acquisitions on financial performance of non-financial organizations listed at the NSE. This is mostly due to the fact that most studies have been undertaken target the banking sector or organizations outside the country hence the findings may not be applicable to the current study. Besides, the prior studies have recorded mixed results hence it is important to carry out the current study. The researcher will therefore seek to fill the current knowledge gap by answering the research; do mergers and acquisitions affect financial performance of non-financial firms listed at the NSE?

Research objectives

This section consists of the general objective and the specific objectives.

i. To examine the effect of efficiency in mergers and acquisitions on the financial performance of non-financial firms listed at NSE in Kenya.
ii. To establish the effect of liquidity in mergers and acquisitions on the financial performance of non-financial firms listed at NSE in Kenya.
iii. To analyze the effect of capital base in mergers and acquisitions on the financial performance of non-financial firms listed at NSE in Kenya.
iv. To determine the effect of market power in mergers and acquisitions on the financial performance of non-financial firms listed at NSE in Kenya.

Theoretical Literature Review

The Efficiency Theory

Of all the other theories, the efficient theory stands out to be the most prominent. Efficiency theory is cited as the primary motive of mergers and acquisitions. According to the theory, mergers and acquisitions occur broadly because they (M&A) generate synergies between the acquirer and the target. It is this synergy that intern increases the value of a firm (Hitt *et al*., 2001). Efficiency theory therefore expects value creation and profitability to both the acquirer and the target. Banarjee and Eckard (1998) and Wein (2001) have conquered with this suggestion. Value creation is the extent to which the returns or an investment over a period of time exceeds the cost of capital for that investment (Bruner, 2004).The important reason behind consolidation has been maximization of shareholder's wealth.

The theory perceives mergers as being well coordinated and undertaken to attain net gains through synergies (Hellgren, 2010). These synergies can generally be distinguished into three types; financial, operational and managerial. Financial synergies result into lower costs of capital (Porter, 1985). Porter (1985) indicates that operational synergies arise from combining operations of separate units such as R&D or from knowledge transfers, resulting to lower cost of the involved business. Another form of synergy is the managerial synergies. This synergy is realized when the bidder's managers bear better planning and monitoring nature and trait that profits the target's performance. A number of authors (Kitching, 1967; Porter, 1987) have criticized the managerial and operational synergies as unattainable concepts which are mostly accredited for mergers.

Resource Based View Theory

Resource Based theory is also known as the resource advantage theory. It became an important paradigm in the 1990s with a number of scholars pointing out that it was an evident from the 1930s. Firms that are in possession of mixed resources or rare resources among their competitors, are said to have a comparative advantage (Hunt & Morgan, 1995).This comparative advantage hence enables firms to produce marketing offerings that can either be produced at lower costs or perceived as to having superior value .Comparative advantage in resources can therefore lead to a competitive advantage in market position hence better performance.

Barney (1991) presented a concrete and comprehensive framework to identify the needed characteristics of firm resources in order to generate sustainable competitive advantage. Barney identifies these resources as the specific assets, organizational processes, firm attributes, capabilities, knowledge and information which enable organizations to create strategies for superior performance and hence need to have four specific attributes- rarity, imperfect limitability, value and in substitutability. The firms go for whole acquisition as it is very difficult to get

these resources in parts. The extent of integration required can directly affect the time taken and cost savings for the integration activity.

Synergistic Mergers Theory

Synergistic mergers theory holds that firm managers achieve efficiency gains by combining an efficient target with their business and then improving the target's performance. There are three types of synergies which are operational, financial and managerial. Buyers recognize specific complementarities between their business and that of the target. Hence even though the target is already performing well, it should be in a position of even performing better when it is combined with its complementary counterpart, the buyer firm (Economic Research Service, 2010).

Tax saving is a consideration of financial synergy. When the two firms merge, their combined debt capacity may be greater than the sum of their individual capacities before the merger (Manage mentor, 2015). Another example of a financial synergy is that one that occurs as a result of lower costs of internal financing versus external financing. A combination of firms with different cash flow positions and investment opportunities may produce a financial synergy effect and achieve lower cost of capital. Mergers and acquisitions are expected to raise future cash flow and increase firm value (Cherie, 2014). This is achieved by synergy in operating and financing either due to increase in economics of scale by enlarging the firm size, or due to increase in economics of scope as a result of specific combination advantage between the merged firms.

Size and Return to Scale Theory

The term returns to scale arises in the context of a firm's production function. It explains the behavior of the rate of increase in output (production) relative to the associated increase in the inputs (the factors of production) in the long run (Basu, 2008). Returns to scale refers to how much additional output can be obtained when we change all inputs proportionately. Fan *et al*. (2006) found that when industrial structure is by firm size, the number of firms and their shares in the market, Increasing Return to Scale (IRS) is a crucial factor that determines the structure. The benefits of size are usually source of synergies. This refers to the positive incremental net gain associated with the combination of two firms through a M&A.

Conceptual Framework

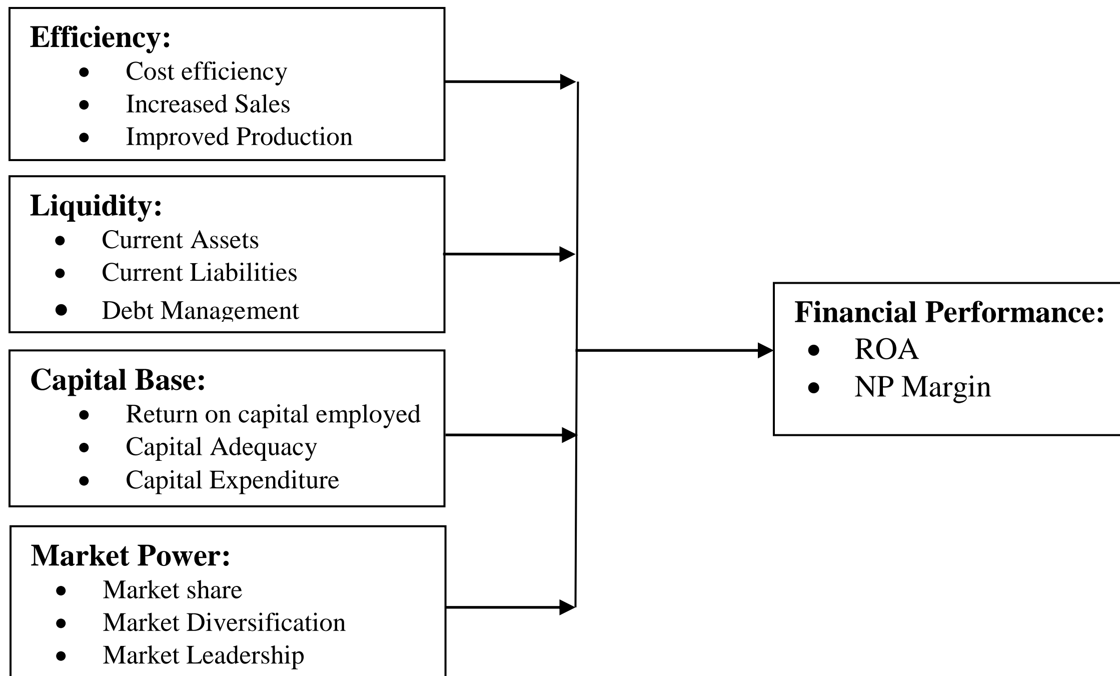

Figure 1: Conceptual Framework

Independent variables **Dependent variable**

Empirical Review

Studies by Zander and Kogut (1996) conducted in Pennsylvania, USA, where qualitative analysis of manager's attitude towards mergers and acquisitions indicate that the fundamental aim of M&A is the generation of synergies that lead to foster corporate growth, increased market power, improve shareholder's wealth and boosts profitability. Hence M&A should constitute positive net present value projects. On their part, Sharma and Thistle (1996) carried out a test on the validity of market power theory of mergers in USA. The study tried to find out the motives of horizontal mergers by utilizing a sample of acquiring firms based on same SIC codes. The aim of the study was to examine the role of the market power in influencing the mergers and acquisitions. In this study a three factor Arbitrage pricing model was utilized, with Tobin s q ratio as a measure of market power, to study the performance of the firms involved in the mergers. The end results indicated that market power acquisition is not a significant motive for mergers.

Using accounting, financial and confidential questionnaire response data, Pazarskis *et al.* (2006) empirically examined the impact of mergers and acquisitions on the operating performance of Mergers &Acquisitions of firms in Greece. The post-acquisition performance of fifty Greek companies listed on the Athens Stock Exchange that executed at least one merger or acquisition in the period from 1998 to 2002 was evaluated on the basis of certain financial (a set of seven selected financial sectors) and non-financial characteristics. The study showed a strong evidence that the profitability of a firm that involved in M&As is decreased. From the period 2000 to 2007, Mishra and Chandra (2010) assessed the impact of M&A on the financial performance of Indian pharmaceutical companies. By applying panel data estimation techniques, they found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products.

M & A do not have any significant impact on a firm's profitability in the long run possibly due to the resultant X-inefficiency and entry of new firms into the market according to their empirical findings. Locally, a study by Angela and Maina (2007) investigated the effects of merger restructuring on the financial performance of commercial banks in Kenya. They examined the effects of merger restructuring on the financial performance of twenty (20) Kenyan banks that had merged between 1993 and 2000. The research compared the pre-merger and post-merger financial performance of twenty Kenyan banks that had merged between 1993 and 2000. The results indicate that there is an improvement of financial performance ratios that have legal implications (capital adequacy and solvency ratios) after the merger. However, profitability ratios indicate that the majority of the merged banks reported a decline in financial performance. Kinyua (2011) conducted a research on the information content of mergers and acquisitions on financial performance of oil companies in Kenya. This study took on a causal research design. The target population was the oil companies in Kenya in this study with specific interest on those that have undergone mergers and acquisitions. The process of data collection involved self-administered drop and pick questionnaires distributed to management and employees of the oil industries involved. Data received from the 27 respondents was enhanced by the use of audited accounts. The findings were that there was a clear indication of the firms performing better financially after the resulting merger and acquisition.

Research Methodology

The research utilized a descriptive study design. This study was based on listed non-financial firms in Kenya that have undertaken the process of M&A in the period from 2000 to 2013. The target population for the study constituted the 11 non-financial firms listed at the NSE that have undergone M&A during the period under study. A sample of five companies was selected using judgmental sampling; this was determined based on the extent of operation the firms and availability of data during pre-M&A and post-M&A period. Secondary data was collected and the data analysis was divided into pre-merger/acquisition period and post-merger/acquisition period. This helped in comparison of financial performance before and after merger/acquisition. Comparison was on 3 years before M&A and 3 years after M&A. Ratio analysis on financial data collected was undertaken in order to compare and ascertain the financial performance over the two periods. Mean was then calculated for each recorded ratio to obtain pre-acquisition and post-acquisition means. The researcher then performed a two sample t-test to determine whether post-acquisition cross-sectional sample means are larger than the pre-acquisition cross sectional sample means. The study then tested the hypothesis by running a regression model and comparing the significance of the beta coefficients against the 0.05 level of significance. A significance value greater than 0.05 indicates no significant relation exists (Not rejecting the null hypothesis) while a value below 0.05 indicates that a significant relation exists (Rejecting the null hypothesis). The following multiple regression model was used to test the hypothesis:

The regression model was:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ where Y = Financial Performance, $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$= Coefficients of determination, β_0= Constant, X_1= Efficiency, X_2= Liquidity, X_3= Capital Base

X_4= Market Power and ε = Error term

Findings

Descriptive Analysis

Efficiency

From the results summarized in table 1 below, all the companies registered a decrease in the 3-year average post-M&A ratio of cost efficiency as compared to the 3-year average pre-M&A. The decrease was greatest at Total Kenya (-35.39%), followed by Nation Media Ltd (-28.33%) then Crown Berger (-24.20%) and then Access Kenya (-22.16%). The least change was recorded at East African Breweries which registered at 8.42% reduction. The average three-year pre-M&A CE ratios for the 5 companies were 0.243, 0.233, 0.167, 0.343 and 0.273 for Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries respectively while the average three-year post-M&A CE ratios for the same companies were 0.157, 0.167, 0.130, 0.260 and 0.250 respectively.

Table 1: Cost Efficiency

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.31	0.24	0.18	0.243	0.22	0.14	0.11	0.157	-35.39
Nation Media Ltd	0.21	0.24	0.25	0.233	0.20	0.17	0.13	0.167	-28.33
Access Kenya	0.17	0.17	0.16	0.167	0.17	0.11	0.11	0.130	-22.16
Crown Berger	0.33	0.43	0.27	0.343	0.29	0.24	0.25	0.260	-24.20
East African Breweries	0.24	0.31	0.27	0.273	0.29	0.27	0.19	0.250	-8.42

The study further used independent sample t-test to establish whether there was a significant difference in cost efficiency before and after the merger. The t-test findings as presented in Table 2 indicated that there was no statistical difference in cost efficiency before and after the merger of sampled non-financial firms listed at the NSE (Sig = 0.334).

Table 2: Independent Sample t-test on Cost Efficiency

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	**Sig.**	**T**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**95% Confidence Interval of the Difference**	
									Lower	Upper
Cost efficiency	Equal variances assumed	1.042	0.334	0.293	9	0.776	0.017033	0.058117	-0.11444	0.148503
	Equal variances not assumed			0.311	7.572	0.764	0.017033	0.054694	-0.11034	0.14441

Liquidity

According to the results in Table 3 below, all the companies had a 3-year average Current Ratio greater than 0.01 before the merger and acquisition. The highest value of the ratio was recorded at East African Breweries (0.027) while the lowest was recorded at Access Kenya Ltd and Crown Berger Ltd. The Post-Merger Current Ratio average values for the three years dropped at East African Breweries by 37.04% while Total Kenya registered the highest percentage increase of 30.77% in the three years after M&A.

Table 3 : Current Ratio

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.01	0.02	0.01	0.013	0.01	0.02	0.02	0.017	30.77
Nation Media Ltd	0.01	0.02	0.02	0.017	0.02	0.02	0.02	0.020	17.65
Access Kenya	0.01	0.01	0.01	0.010	-	0.01	0.01	0.010	0.00
Crown Berger	0.01	0.01	0.01	0.010	0.01	0.01	0.02	0.013	30.00
East African Breweries	0.03	0.03	0.02	0.027	0.01	0.02	0.02	0.017	-37.04

The study further used independent sample t-test to establish whether there was a significant difference in current ratio before and after the merger. The t-test findings as presented in Table 4 indicated that there was no statistical difference in current ratio before and after the merger of sampled nonfinancial firms listed at the NSE (Sig = 0.294).

Table 4: Independent Sample t-test on Current Ratio

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Current Ratio	Equal variances assumed	1.244	0.294	-0.593	9	0.568	-0.00257	0.004329	-0.01236	0.007227
	Equal variances not assumed			-0.635	7.097	0.546	-0.00257	0.004044	-0.0121	0.00697

Capital Base

The study sought to establish the impact of M&A on the financial performance of the listed non-financial companies at the NSE through assessing the Return on Capital Employed Ratio. From the results indicated in table 5 below, the findings depict that Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries recorded a 3-year average on ROCE ratio before the M&A of 0.243, 0.140, 0.183, 0.127 and 0.363 respectively. Within the first year of M&A Total Kenya, Access Kenya and Crown Berger all recorded a decrease in the ratio, from 0.243 to 0.193; 0.183 to 0.157 and from 0.127 to 0.117 respectively. Nation Media Ltd also recorded a decrease in the ratio from 0.140 to 0.137.On the contrary, East African Breweries had the ratio increase from 0.363 to 0.520 in the same period. The average 3-year post merger ROCE Ratio for Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries were 0.193, 0.137, 0.157, 0.117 and 0.520 respectively. These values implied a decrease of 20.58%, 2.14%, 14.21% and 7.87% in the 3-year average post-merger ROCE ratio for Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd and Crown Berger compared to the 3-year average pre-merger ROCE ratio. However, East African Breweries recorded an increase of 43.25% in the ratio for the same period.

Table 5 : Return on Capital Employed Ratio

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.21	0.24	0.28	0.243	0.19	0.17	0.22	0.193	-20.58
Nation Media Ltd	0.17	0.13	0.12	0.140	0.16	0.12	0.13	0.137	-2.14
Access Kenya	0.19	0.16	0.20	0.183	0.17	0.15	0.15	0.157	-14.21
Crown Berger	0.11	0.13	0.14	0.127	0.12	0.13	0.10	0.117	-7.87
East African Breweries	0.31	0.37	0.41	0.363	0.48	0.53	0.55	0.520	43.25

The study also established whether there was a significant difference in return on capital employed ratio before and after the merger using an independent sample t-test. The t-test findings as presented in Table 6 indicated that there was no statistical difference in the return on capital employed ratio before and after the merger of sampled nonfinancial firms listed at the NSE (Sig = 0.578).

Table 6: Independent Sample t-test on Return on Capital Employed Ratio

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	**Sig.**	**T**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**95% Confidence Interval of the Difference**	
									Lower	Upper
ROCE	Equal variances assumed	0.333	0.578	-0.56	9	0.589	-0.0488	0.087111	-0.24586	0.14826
	Equal variances not assumed			-0.543	7.189	0.604	-0.0488	0.08987	-0.26018	0.162583

Market Power

The results in table 7 below reveal that Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries had a 3-year average pre-merger and acquisition Market Share ratio of 0.243, 0.233, 0.167, 0.343 and 0.273 respectively. After the merger and acquisition, the companies registered an average of 3-year Market Share ratio of 0.297, 0.260, 0.200, 0.360 and 0.290 respectively. This depicted an 22.22% increase in the Market Share ratio at Total Kenya after the M&A and an increase of the ratio of 11.59%, 19.76%, 4.96% and 6.23% at Nation Media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries respectively.

Table 7: Market Share

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.31	0.24	0.18	0.243	0.31	0.29	0.29	0.297	22.22
Nation Media Ltd	0.21	0.24	0.25	0.233	0.25	0.26	0.27	0.260	11.59
Access Kenya	0.17	0.17	0.16	0.167	0.20	0.19	0.21	0.200	19.76
Crown Berger	0.33	0.43	0.27	0.343	0.34	0.37	0.37	0.360	4.96
East African Breweries	0.24	0.31	0.27	0.273	0.29	0.27	0.31	0.290	6.23

The study also established whether there was a significant difference in market share before and after the merger using an independent sample t-test. The t-test findings as presented in Table 8 indicated that there was no statistical difference in market share before and after the merger of sampled non-financial firms listed at the NSE (Sig = 0.262).

Table 8: Independent Sample t-test on Market Share

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Market share	Equal variances assumed	1.434	0.262	-1.232	9	0.249	-0.07157	0.058082	-0.20296	0.059824
	Equal variances not assumed			-1.31	7.557	0.229	-0.07157	0.054648	-0.19888	0.055749

Return on Asset

The study sought to establish the ROE for the institution before and after M&A. All the companies had a positive ROA before and after the merger and acquisition. The 3 year ROA average values were 0.043, 0.140, 0.107, 0.147 and 0.18 for Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries respectively. After the merger and acquisition, the 3 year ROA average values for the companies were respectively 0.040, 0.167, 0.140, 0.160 and 0.200. This indicated a negative change of 6.98% in the average ROA

value for the 3 years before the M&A in Total Kenya. However, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries respectively recorded a 19.29%, 30.84%, 8.84% and 6.95% increase in the 3 year ROA average values after the M&A.

Table 9: Return on Asset

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.05	0.04	0.04	0.043	0.03	0.05	0.04	0.040	-6.98
Nation Media Ltd	0.13	0.14	0.15	0.140	0.14	0.17	0.19	0.167	19.29
Access Kenya	0.10	0.09	0.13	0.107	0.13	0.14	0.15	0.140	30.84
Crown Berger	0.14	0.14	0.16	0.147	0.16	0.14	0.18	0.160	8.84
East African Breweries	0.17	0.20	0.19	0.187	0.19	0.21	0.20	0.200	6.95

The study also established whether there was a significant difference in ROA before and after the merger using an independent sample t-test. The t-test findings as presented in Table 10 indicated that there was no statistical difference in ROA before and after the merger of sampled non-financial firms listed at the NSE (Sig = 0.557).

Table 10: Independent Sample t-test on ROA

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ROA	Equal variances assumed	0.372	0.557	-0.935	9	0.374	-0.0374	0.040013	-0.12792	0.053117
	Equal variances not assumed			-0.948	8.97	0.368	-0.0374	0.039437	-0.12666	0.051859

Net Profit Margin

The results in table 11 below reveal that Total Kenya Ltd, Nation media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries had a 3-year average pre-merger and acquisition net profit margin of 0.017, 0.147, 0.087, 0.063 and 0.157 respectively. After the merger and acquisition, the companies registered an average of 3-year net profit margin of 0.013, 0.187, 0.113, 0.083 and 0.180respectively. This depicted a 23.53% decrease in the NP margin ratio in Total Kenya after the M&A and an increase of the ratio of 27.21%, 29.89%, 31.75% and 14.65% in Nation Media Ltd, Access Kenya Ltd, Crown Berger Ltd and East African Breweries respectively.

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Table 11: Net Profit Margin

Company	Pre-M&A				Post-M&A				% change
	Yr. 1	Yr. 2	Yr. 3	Average	Yr. 1	Yr. 2	Yr. 3	Average	
Total Kenya Ltd	0.02	0.02	0.01	0.017	0.01	0.02	0.01	0.013	-23.53
Nation Media Ltd	0.11	0.17	0.16	0.147	0.17	0.18	0.21	0.187	27.21
Access Kenya	0.11	0.07	0.08	0.087	0.08	0.13	0.13	0.113	29.89
Crown Berger	0.07	0.06	0.06	0.063	0.09	0.09	0.07	0.083	31.75
East African Breweries	0.13	0.17	0.17	0.157	0.17	0.18	0.19	0.180	14.65

The study also established whether there was a significant difference in net profits before and after the merger using an independent sample t-test. The t-test findings as presented in Table 12 indicated that there was no statistical difference in net profits before and after the merger of sampled nonfinancial firms listed at the NSE (Sig = 0.872).

Table 12: Independent Sample t-test on Net on Profits

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Net profit	Equal variances assumed	0.028	0.872	-0.804	9	0.442	-0.034	0.042301	-0.12969	0.06169
	Equal variances not assumed			-0.794	8.164	0.45	-0.034	0.04281	-0.13238	0.064376

Regression Analysis

To determine the effect of merger and acquisition on financial performance of non-financial firms listed at the NSE, the overall effect of efficiency, liquidity, capital base and market power on financial performance of these firms was assessed through a post-merger multiple regression analysis. The results for the model summary are presented in Table 13.

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.521	0.271	0.156	0.327

Predictors: (Constant), efficiency, liquidity, capital base and market power

Findings in table 14 depict that the coefficient-of-determination that describes the percentage variation in financial performance of the non-financial firms listed at the NSE that is explained by the changes in the independent variables (R^2) is 0.271. This implies that efficiency, liquidity, capital base and market powerexplain up to 27.1% of financial performance of the firms leaving only 72.9% unexplained. The ANOVA findings are presented in Table 14.

Table 14: ANOVA

Model		Sum of Squares	Df	Mean Square	Sig.
	Regression	0.784	3	4.098	.004
	Residual	12.251	23	.700	
	Total	13.035	26		

The findings indicates that the regression model linking efficiency, liquidity, capital base and market power to financial performance of the non-financial firms listed at the NSE was statistically significant (Sig = 0.04). The model was fit on the data available and hence good enough to make conclusions. The regression coefficients table used to test the hypothesis is established in Table 15.

Table 15: Regression Coefficients

	B	Std. Error	t	Sig.
(Constant)	0.007	0.051	0.137255	0.899
Efficiency	1.090	0.407	2.678133	0.020
Liquidity	0.060	3.969	0.015117	0.514
Capital Base	2.770	0.177	15.64972	0.000
Market Power	1.247	0.393	3.173028	0.030

Dependent Variable: Financial Performance

The study findings indicated that the effect of efficiency on financial performance of non-financial firms listed at NSE was positive and significant (Beta = 1.090, Sig < 0.05). This implies that after mergers, there is an

improvement in efficiency which significantly improves financial performance. The following null hypothesis was therefore rejected since the Sig < 0.05.

H_0: Efficiency in M&A does not affect the financial performance of non-financial firms listed at NSE, Kenya.

The study findings indicated that the effect of liquidity on financial performance of non-financial firms listed at NSE was positive but not significant (Beta = 0.060, Sig > 0.05). This implies that after mergers, an improvement in liquidity does not necessarily improve financial performance significantly. The following null hypothesis was therefore not rejected since the Sig > 0.05.

H_0: Liquidity in M&A does not affect financial performance of non-financial firms listed at NSE, Kenya.

It was also established that capital base has a positive and significant effect on financial performance of non-financial firms listed at NSE (Beta = 2.770, Sig < 0.05). This implies that after mergers, there is an improvement in capital base which significantly improves financial performance. The following null hypothesis was therefore rejected since the Sig < 0.05. The findings are consistent with Angela and Maina (2007) who indicated that mergers improve capital adequacy and financial performance.

H_0: Capital base in M&A does not affect financial performance of non-financial firms listed at NSE, Kenya.

It was also established that market power has a positive and significant effect on financial performance of non-financial firms listed at NSE (Beta = 1.247, Sig < 0.05). This implies that after mergers, there is an improvement in market power which significantly improves financial performance. The following null hypothesis was therefore rejected since the Sig < 0.05. The findings are consistent with Zander and Kogut (1996) who argued that mergers increased market power, improve shareholder’s wealth and boosts profitability.

H_0: Market power in M&A does not affect financial performance of non-financial firms listed at NSE, Kenya

Conclusion

From the results of this study, the researcher made a number of conclusions. In relation to efficiency assessed by the CE ratio, the research rejected the null hypothesis and concluded that merger and acquisition has a significant impact on the financial performance of the listed non-financial companies at the NSE. Besides, with reference to liquidity of the companies that was evaluated by the current ratio, the study failed to reject the null hypothesis and concluded that merger and acquisition has no significant impact on the financial performance of the listed non-financial companies at the NSE. The study also evaluated the influence of capital base on financial performance of the targeted organizations. The study employed the ROCE ratio to assess capital base. From the results of the study, the researcher rejected the null hypothesis and concluded that capital base has significant impact on the financial performance of the listed non-financial organizations. On the other hand, the researcher assessed the effect of market power on the financial performance of the targeted firms. The researcher employed the market share ratio as the proxy of measure and from the results, the study rejected the null hypothesis and concluded that market power significantly relate to financial performance of the listed non-financial companies at the NSE.

Recommendations

From the results of the study, the researcher recommends that non-financial firms listed at the NSE need to take into consideration M&A as a strategy of expansion and enhancement of financial performance. This is pegged on the fact that these firms involved in M&A benefit as from enhanced efficiency through creation of economies of scale in relation to operational costs and improved operational revenues and through enhanced market share. These synergies may also give rise to improved financial performance thus overall organizational performance.

The research also recommends that the non-financial firms listed at the NSE should not undertake merger and acquisition with a presumption of possible positive impact on the organization's liquidity through improved current

assets or capital base. Merging and acquisition may result to increased current liability and/or capital employed thus hampering the firm's liquidity and return on capital. Since mergers and acquisition improves the market power and capital base, it can be encouraged whenever two firms need to improve the two factors hence, non-financial firms can consider entering into a merger to build up their market power and capital base thereby improving their performance in the long run.

Conflict of Interest

No potential conflict of interest was reported by the authors

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