Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.7, No.22, 2016

Stock Market Reaction to Mergers and Acquisitions Announcements in Emerging Markets. Evidence from Mergers and Acquisitions Firms Listed in Eastern Africa Securities Markets

Beth Kariuki[1*] Willy Muturi[2] David Kiragu[3]
1.School of Business- Jomo Kenyatta University of Agriculture and Technology P.O Box 62000-00200, Nairobi, Kenya
2.Willy Muturi – Jomo Kenyatta University of Agriculture and Technology P.O Box 62000-00200, Nairobi, Kenya
3.David Kiragu- School of Business, Management and *Economics* - Dedan Kimathi University of Technology P. O Box 657-10100 Nyeri, Kenya

Acknowledgements: We acknowledge Capital Market Authority of Kenya Librarians for the assistance they accorded us by offering resourceful materials and ensuring a hospitable learning environment while collecting secondary data. Many thanks go to Nairobi Securities Exchange Limited for their assistance.

Abstract
Stock market reaction to mergers and acquisitions announcements is a topical issue in corporate finance. Consequently, the topic has received attention in equal measure; however, the bulk of these studies are skewed towards the developed financial markets. The foregoing evidence raises a fundamental question; is the empirical evidence exhibited in developed financial markets applicable in the emerging markets? Using data from listed firms in Eastern Africa securities market involved in mergers and acquisitions for the period 1996- 2015, we computed cumulative abnormal returns for different holding period. Parametric t test was used to test the significance of the abnormal returns. Our findings revealed that acquirer firm shareholders earned a significant positive cumulative abnormal return during the entire event window that is [-20, +20]. On the other hand, cumulative average abnormal return findings revealed that acquiring firms earned positive return immediately after the acquisition announcement. However, the positive performance was short lived, four days after M&A announcement returns declined sharply.
Keywords: Mergers and acquisition, cumulative abnormal return and Cumulative average abnormal return.

1.0 Introduction

Mergers and Acquisitions (M&A) activities continue to be popular as a means of corporate restructuring and growth around the world. Moreover, these activities are considered a changing agent. This is perhaps best illustrated by the ever changing composition of the 500 largest U.S firms. Of the original 500 corporations that composed the so called Fortune 500 at its inception in 1955, only 70 firms can be found on the list today (Depamphilis, 2011; Yena & Andre, 2007). This is a condition that is replicated in many securities markets worldwide with most corporations being eliminated either through a merger or an acquisition. Conversely, as the jungle law takes control, new corporations are formed.

A vast number of papers have documented that globally; M&A's have been analyzed and classified into six global M&A waves over the last 120 years. However, the focus has been on developed economies (Gaughan, 2011; Betrand & Betschinger, 2012; Berk DeMarzo & Harford 2012). Scientific literature offers two hypothesis for the occurrence of M&A waves; neoclassical and behavioral hypothesis. Neoclassical theory argues that M&A waves occur when firms in the industries react to technological, regulatory or economic shock in their operating environments (Martynova & Renneboog, 2008; Harford, 2005; Brealy, Myers & Allen, 2011). On the other hand, behavioral theory postulates that long term fluctuations in market valuation are positively correlated with the number of takeovers (Ang & Chen, 2006).

In Africa, literature provides little history on M&A activities. However, it is has been documented that over the last decade, M&A activities in Africa have increased immensely. In 2010, Africa recorded a high M&A value of US$44 billion. Since then M&A activities have increased at compound interest of 14% during the four years between (2010- 2014) (UNCTAD, 2014). This could be largely attributed to weak confidence in the international market.

In a pivotal paper, using a sample of U.S acquirers in Africa, Triki & Chun (2011) report that over the last two decades, there has been a dramatic increase in the number of acquisition of African businesses by foreign companies. In this paper, it is reported that over the last one decade, often, intra African mergers precede acquisition by foreign companies. Noted also is that in most cases, foreign corporations are much eager to establish a foot print in Africa. However, due to lack of the necessary local knowledge, quite often they wait for an African company to reach a certain scale before they make a move. For example, significant proportion of

about 53% of one hundred and fifty two (152) M&A deals completed in Africa in year 2011 were between African nations (Tyre & Lindsay, 2012).

Contrary to the past evidence that indicated low levels of M&A activities in Eastern Africa region, recent statistics shows that M&A deal volume have increased at a compound interest of 18% since 2010 (KPMG, 2014; Bloomberg & Reuters, 2014). The region has become an attractive target for M&A activities as investors flock in, in anticipation of the long term growth prospects (Marembo, 2011). Notably, the financial service sector has witnessed significant increase in M&A transactions. Going forward the sector is expected to experience increased significant deals due to the revised regulatory capital requirement. Secondly, the wide ranges of macroeconomic, structural and institutional reforms undertaken by countries in Eastern Africa have improved the investment climate in the region and as a consequence M&A activities have increased in all sectors (Opolot, Mutenyo & Kalio, 2009).

KPMG's Deal Space Report of 2014 showed that in Eastern Africa, Kenya has been leading in M&A activities. The country has experienced substantial increase in M&A activities with over 134 transactions closed from the year 2010. The establishment of Competition Authority of Kenya (CAK) under the Competition Act Cap 504 laws of Kenya is associated with impressive growth in M&A activities in the country (RoK, 2014; Inoti, Onyuma & Muiru, 2014). In addition, the thriving information, communication and technology (ICT) sector has also contributed to increase in M&A activities significantly. Going forward, M&A activities are set to heighten due to increased business confidence, consumer demand and improving economic conditions.

Amidst the positive trend in Eastern Africa M&A activities, studies examining market reaction to M&A announcements in the region are very few (Kariri, 2013). This is largely a function of limited availability of reliable data concerning M&A transactions (Triki & Chun, 2011). Given the widely documented evidence in the developed financial markets that M&A activities are value destroying to the bidder firm shareholders, there is a felt need to conduct an elaborate study in Eastern Africa region to substantiate whether the empirical evidence exhibited in developed financial markets is different from the evidence from emerging markets. Our research is an attempt to fill this important gap in M&A literature. Specifically, we examine whether M&A activities create significant wealth to the shareholders of the acquiring company.

The remainder of the paper is organized as follows; section 1.1 reviews the empirical literature, section 2 describes the methodology, section 3 describes our data, section 4 present the findings while section 5 concludes the paper.

1.1 Empirical Literature

Theoretical motivations for M&As' are quite many but most importantly mergers and acquisition activities are initiated to generate operating and financial synergies that can, in turn, foster corporate growth, boost profitability, and improve shareholders' wealth. (Depamphilis, 2011). Synergies are considered important determinants of shareholders wealth creation (Houston, James & Ryngaert, 2001; Delong, 2003). Equally, M&A constitute investment activities and-; accordingly the net additional cash flow present value generated from these investment decisions should be positive. Nonetheless, a survey of empirical studies mostly concentrated in U.S and U.K markets reveals that on aggregate acquiring firm shareholders experience insignificant positive abnormal returns or significant negative abnormal returns around M&A announcement dates (Alexandridis, Petmezas & Travlos, 2010). On the other hand, researchers seem to agree on the debate around target firm shareholders' return to M&A announcements. The empirical findings appear consistent over time since the first review of takeover literature by Jensen & Ruback (1983). On average, target firms shareholders experience significant positive returns (Uygur, Meric & Meric, 2014).

A greater percentage of Mergers and acquisitions studies have been done in U.S markets among them those of Andrade, Mitchell & Stafford (2001), Moeller, Schlingermann & Stulz (2005), Harrison, oler & Allen (2005). Andrade et al. (2001) noted that evidence on value creation for acquiring firm shareholders remains a puzzle. In their study, the 3 days abnormal return for acquirer was 0.7% while in the longer event the return was -3.8% both of which were statistically insignificant making it difficult to conclude that acquiring firms were losers in an acquisition transaction. Similarly, Oler et al. (2008) used a sample of 2500 U.S horizontal acquisitions to determine the effect of an acquisition announcement. Their findings showed that the initial market response to an acquisition announcement is positive; however, this was contradicted by negative returns in the long run, perhaps suggesting that short-window event studies alone should not be used to capture economic impact of a strategic action.

In a different study, Moeller et al. (2005) examined a total of 4,136 U.S acquiring firm returns from year 1998 to 2001. The trio observed that acquiring firm shareholder lost 12% cents per dollar spent during the acquisition announcements of 1998 through 2001, whereas in the 1980s they lost 1.6% cents per dollar. Martynova and Renneboog (2006) did a comprehensive study of European takeover market; investigating the shareholder wealth effect of two thousand four hundred and nineteen (2,419) mergers and acquisitions. They found that the announcement effect to the bidder firm was statistically significant at only 0.5 %. Similarly,

Dilshad (2013) conducted a study on profitability analysis of European mergers and acquisition, using a sample of eighteen (18) firms involved in M&A in the banking sector from 2001 to 2010. Evidence from this study illustrated a significant cumulative abnormal return for the acquirer banks in the short run.

Although most of the extant M&A studies have been done in developed financial markets, some studies have examined M&A announcement effects on the shareholders wealth in emerging markets. Sehgal, Banerjee & Deisting (2012) examined the impact of M&A announcements using a sample of 214 companies from BRICK market for a period between 2005 through 2009. Post event abnormal returns for India, South Korea and China firms were significantly negative while strong positive returns were reported for South Africa. No significant cumulative average abnormal returns were reported in Brazil and Russia. Overall, on average, significant negative post event abnormal return were reported for BRICK market. In a different paper, Shah & Arora (2014) examined a sample of thirty seven (37) merger and acquisitions announcement in the Asia Pacific region in year 2013 alone, while target firm cumulative Average Abnormal Return (CAAR) was positive and significant as hypothesized, but on the contrary, bidder firm CAAR was insignificant.

In Africa, the few country specific studies done appear to report negative returns or no effect in the short run. South Africa's research work on Market reaction to M&A announcements is quite appealing having produced mixed findings on this important subject (Bruner, 2002; Viljoen, 2013; Ndadza & Mokoaleli-Makoteli, 2014). On one hand, Mushdzhi & Ward (2004) report that South African acquiring firms' shareholders lost approximately 0.55% which was significant around the announcement dates. Contrary, Smit and Ward (2007) using a sample of 27 firms find that acquiring firms in the same country neither earns significant positive abnormal return nor negative abnormal return in the short run. In Nigeria, Barde and Salisu (2015) observes that M&A announcements have no effect on shareholder wealth in the short run while a study by Kariri (2013) using a sample of six (6) firms drawn from commercial banks in Kenya failed to exhibit significant changes in the 11 days event window. The empirical evidence shows clearly that there is a void that needs to be filled. We also note that nearly all studies in Eastern Africa have used the accounting based approach with prevalence to financial ratios (Chesang, 2002; Gwaya & Mungai, 2015). Further, these studies dominate the effect of M&A announcements in the banking sector.

2.0 Methodology

Event study approach

Standard event methodology was used to examine the market reaction to M&A announcement. The first step in measuring the effect of an announcement of a merger or an acquisition on stock value entailed defining the event period. The event is centered on the announcement date usually designated as date zero in the event time. Before the announcement date the estimation period is for 20 days, from day T_{-51} to T_{-31} relative to the announcement day (day 0) and T_1 to T_{+20} that is 20 days after the announcement of a merger or an acquisition. Date zero represented the date the announcement was made for a particular firm and it denoted different calendar dates for different firms in the sample. The estimation period after the announcement period was 20 days before and 20 days after the announcement day (day 0).

Secondly, daily actual returns were calculated for all the firms included in the sample. Third, predicted returns for each day t in the event period for each firm were estimated using the market model (Golubov, Petmezas & Travos, 2012; Harford, Humphery-Jenner & Powel, 2012). The approach begins with the estimation of the model parameters; that is, alpha and the beta of the prices for firm i on day t. Ordinary least squares (OLS) method was used to estimate the parameters which were used in the computations of daily predicted returns using the market model presented in equation (1).

$$\bar{R}_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (1)$$

Where; $R_{m,t}$ represent the return on a market index (the NSE 20 weighted Index for day t), α_i is a measure of the mean return over the period β_i is coefficient that measures sensitivity of firm i to the market and it is a measure of risk. Additionally, $\varepsilon_{i,t}$ is statistical error term with mean zero and constant variance. The method is widely used because it takes explicit account of both the risk associated with the market and the mean return (Weston & Weaver, 2002). The fourth step involved calculation of the abnormal returns which were determined by subtracting predicted returns from the actual returns as shown in Equation (2).

$$AR_{i,t} = R_{i,t} - \bar{R}_{i,t} \quad (2)$$

Where $AR_{i,t}$ represent the abnormal return for firm in time t, $R_{i,t}$ represent the actual return for stock i on time t. In this equation, $\bar{R}_{i,t}$ represent the predicted returns calculated from the market model. To determine the Cumulative Abnormal Returns (CAR) for each firm, abnormal return for each firm were cumulated over the window period (-20, +20). This is presented in Equation (3).

$$CAR_{i,t} = \sum_{t=-20}^{20} AR_{i,t} \quad (3)$$

To determine the average total effect of the event across all the firms over the event period abnormal returns are averaged across the firms to obtain the Average Abnormal Returns (AAR) for that day as presented in Equation (4).

$$AAR_t = \frac{\sum_i AR_{i,t}}{n} \quad (4)$$

In Equation 4, n represent the number of firms in the sample. The idea behind averaging across the firms is to minimize noise effect. Average Abnormal Returns (AAR) for each day over the entire event period (-20, +20) were then cumulated over the entire event period to obtain the Cumulative Average Abnormal Returns (CAAR) as presented in Equation (5).

$$CAAR_t = \sum_{t=-20}^{20} AAR_t \quad (5)$$

Finally we tested for the significance of the abnormal returns. In line with most event studies parametric t test was employed (Kothari & Warner, 2007). The following two hypotheses were tested;

H0: M&A announcements do not create wealth to the acquiring firm shareholders; that is, CAR =0

HA: M&A announcements create wealth to the acquiring firm shareholders, that is, CAR≠0

The hypothesis was tested for different event window periods including CAR -1+1, CAR -5 +5, CAR -10 +10 and CAR -20+20 using t values at *α of* 1%, 5% and 10%.

3.0 Data

This study examined stock market reaction to M&A announcement in the short run using firms listed in the securities markets in three Eastern Africa countries involved in mergers and acquisition. The sampling method was purposive and included only acquisitions made by acquiring firms listed in the security markets in the three Eastern Africa countries including Kenya, Uganda and Tanzania which acquired either a public or a private target in the same countries data for the period 1998 through 2015. In addition, for the firm to be included in the sample, we ensured that there were no confounding effects (McWilliams & Siegel, 1997). After thorough scrutiny, a total of 30 (thirty) listed bidder firms constituted our sample. Year 1998 is important because it coincided with the liberalization of financial service sector in many Eastern Africa countries (Kodongo, Makoteli & Maina, 2014). Meanwhile, year 2015 ensured current data availability. The study employed secondary data that was collected from audited annual company reports and central bank reports and publications, Capital Market Authority and Nairobi Securities Exchange.

4.0 Study Findings and Discussions

4.1 Stylized Fact on Mergers and Acquisition Activities in Eastern Africa

Table 4.1 presents the country distribution of completed listed M&A activities made by firms listed in the securities markets in the three Eastern Africa Countries under study. The study focused on public quoted companies making private or public acquisition in the three Eastern Africa Countries. The findings show that Kenya is leading in M&A activities, during the period under study, the country recorded 80% of the total deals while Tanzania and Uganda took a share of 10% each. Our findings maps well into the recent Deal Drivers Report published by Merger markets, that ranked Kenya as Africa's fourth most sought country for M&A (Zerdin, 2014).

Table 4.1: Country Distribution of Completed M&A Made by Listed Firms in Eastern Africa

Countries	Frequency	Percentage
Kenya	24	80
Uganda	3	10
Tanzania	3	10
Total	30	100

Figure 4.1 presents sector distribution of listed and completed M&A's in the three Eastern African countries. Notably, the financial service sector attracted the highest number of M&A transactions recording 53.33% of total completed public M&A transaction. This is due to the revised regulatory capital requirement in the banking sector within the three countries. Manufacturing sector came in second attracting 13.33% of the total public M&As' while both energy & petroleum and commercial & services sectors took third position with each sector attracting 10% each of the total M&A. Finally, technology and investment sectors took fourth position with each sector attracting 6.67% of the total completed public M&A transaction. These results could be pointed to the macroeconomic, structural and institutional reforms undertaken by these countries which have improved the investment climate in the region thereby raising business confidence.

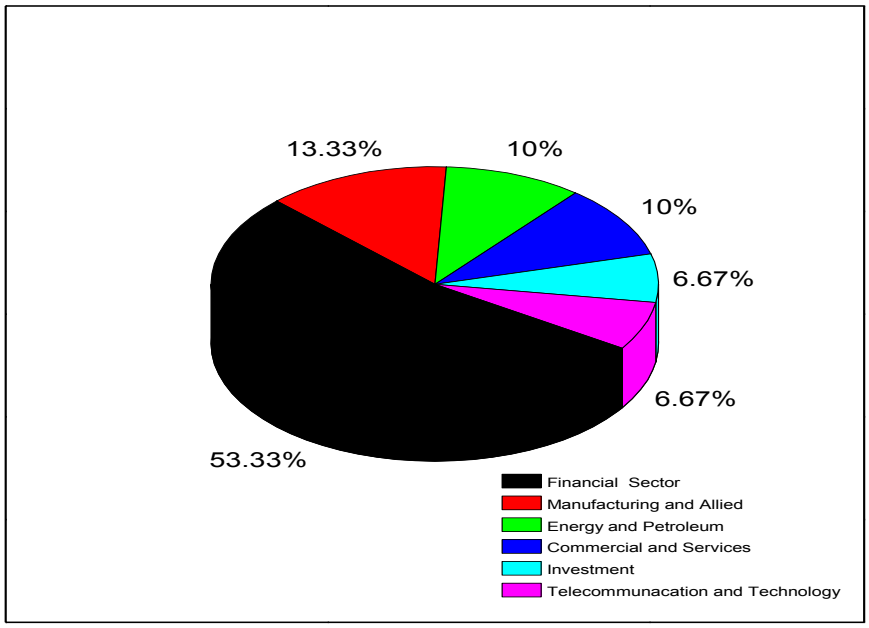

Figure 4.1: Sector Distribution of Completed Public M&A in Eastern Africa

4.2 Event Study Results

Figure 4.2 represents beta values for the firms under study. The beta coefficient for each company was categorized as either defensive if the beta coefficient was less than 1 and aggressive if it was greater than 1. We observed that M&A announcements had no effect on the risk factor measured by beta in most of the firms. This is supported by the fact that about sixteen (16) firms which were defensive before M&A announcement remained so after the event. In addition, five companies reported as being aggressive securities before the event failed to change after the event. However, on the minority some companies changed from being aggressive to being defensive after the event announcement and include C04, C11, C15, C19, C23, C24 and C29. In contrast two companies that is, C12 and C26 changed from being defensive to being aggressive securities after the announcement of the event.

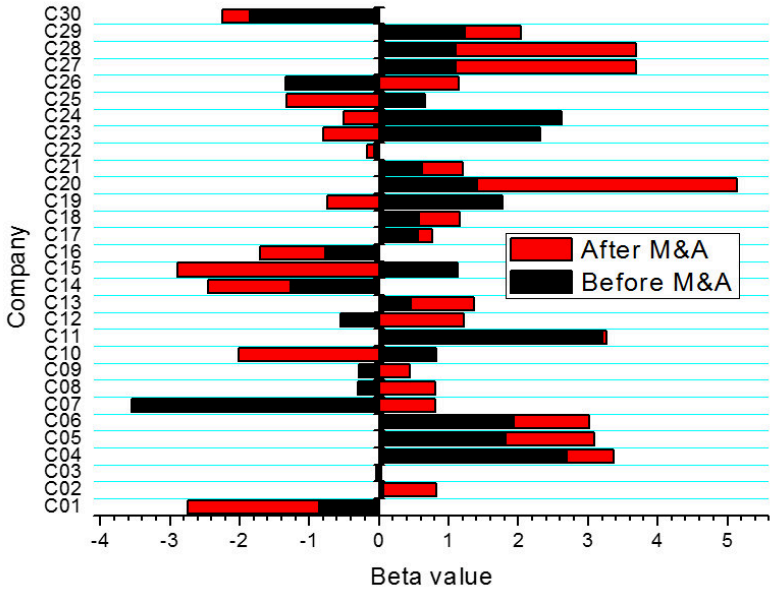

Figure 4.2: Summary of Beta Values Analysis before and after the M&A for all the Firms

Table 4.2 present results of a one-sample t test at 95% level of confidence and an analysis of cumulative abnormal returns around the announcement day to the M&A firms. The table shows the cumulative abnormal

returns (CAR) and the respective t-statistics for various sub–windows within the event window. The various holding periods include CAR $[-20+20]$, CAR $[-10+10]$, CAR $[-5+5]$, CAR $[-2+2]$ and CAR $[-1+1]$. The study hypothesized that M&A's announcements do not create wealth to the firms shareholders that is CAR=0 while the alternative stated that M&A's announcement create wealth to the firm that is CAR≠0. Cumulative abnormal return [-10, +10] had a t-statistic of 2.115 with a P value of value of 0.043, this was significant at 5%. We therefore rejected the null hypothesis and conclude that M&A's announcements generate significant returns to the firms' shareholders during the event period $[-10+10]$. Considering CAR $[-1+1]$ and CAR $[-20+20]$ there was enough to warrant rejection of the null since their P values were 0.089 and 0.066 both of which were significant at 10%. Finally, cumulative abnormal returns for the event window $[-5+5]$ and $[-2+2]$ were insignificant 10% since their p-values were 0.461 and 0.243 and thus we failed to reject the null hypothesis. It was therefore concluded that for the event period $[-5+5]$ and $[-2+2]$, M&A's announcements do not create wealth to the firms' shareholders.

Table 4.2: Showing Cumulative Abnormal Returns for Different Holding Periods

					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
CAR $[-1+1]$	1.762	29	.089*	.01631	-.0026	.0352
CAR $[-20+20]$	1.908	29	.066*	.05982	-.0043	.1239
CAR $[-10+10]$	2.115	29	.043**	.02042	.0007	.0402
CAR $[-5+5]$	0.747	29	.461	.02261	-.0393	.0845
CAR $[-2+2]$	1.193	29	.243	.01242	-.0089	.0337

Our results for event window period for CAR $[-1+1]$, $[-10+10]$ and CAR $[-20+20]$ suggest positive returns; this is consistent with the findings of Oler, Harrison &Allen (2008), Sehgal, Banerjee & Deisting (2012) and Dilshad (2013) who reported significant positive returns in the short run for the U.S BRICK and Europe markets respectively. On the other hand, cumulative abnormal return for the event period $[-5+5]$ and $[-2+2]$ are insignificant implying that M&A do not generate returns. These findings are in agreement with research findings of Jensen & Ruback (1983), Smit & Ward (2007), Martynova & Renneboog (2008) and Barde & Salisu (2015) who reported no returns to shareholders mergers and acquisition firms in the short run. On average, the research findings are in agreement with the existing evidence which show mixed performance of firm following M&A. Overall, the event study results shows that abnormal return to merger and acquisitions announcements are dependent on the event window period under consideration, this is evidenced by the variation of the significance of cumulative abnormal returns in different holding event periods.

Figure 4.3 present average abnormal returns (AAR) and cumulate average abnormal returns (CAAR) for the entire event window that is $[-20,+20]$ days. The results shows on average pre – M&A announcement returns are very volatile; this trend however does not seem to disappear post M&A. The findings also revealed that announcements return increases from day zero, the positive performance is however short lived, six (6) days after the event announcement cumulative average abnormal returns starts decreasing sharply from after which firms experience negative returns all through. We therefore conclude that on average post M&A announcements returns are negative.

These results are consistent with research findings of Mushdzhi & Ward (2004) and Moeller et al. (2004, 2005) who reported negative returns for South African firms and U.S firm respectively. Bharath & Guojun (2006) argue that there are several determinants of volatility in M&A announcement returns. The first reason is that there could be shock in the industry and firms may react by engaging in M&A activities, following a successful M&A volatility in returns may stabilize or decline. Second, the element of post merger integration risk and based on this argument if the process is completed successfully the volatility should decrease – at least in the short run. The third reason is borrowed from portfolio diversification principle which state that volatility should decline following any merger, for inter industries M&A volatility should decline more. Our result shows on average CAAR are negative therefore post merger integration risk outweighs any diversification benefits in the immediate aftermath of M&A.

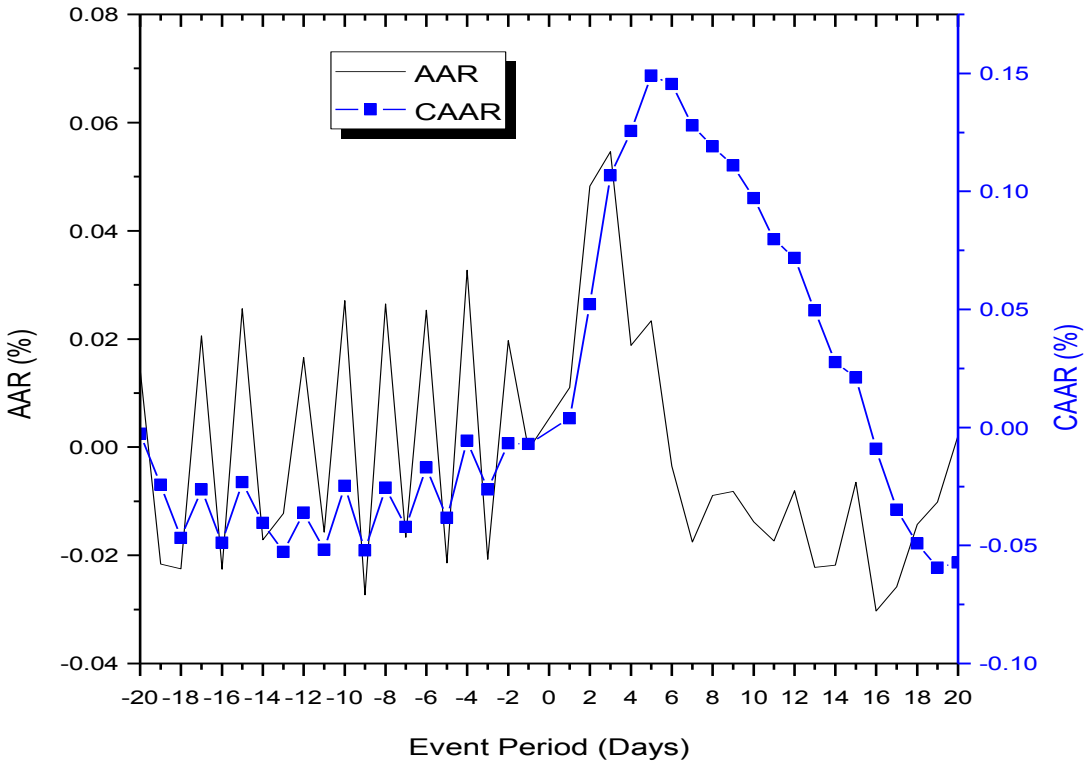

Figure 4.3: Average Abnormal Return and Cumulative Average Abnormal Return for Listed Firms in Eastern Africa Securities Markets Involved in Mergers and Acquisition for the Window Period $[-20\ +20]$ Days

5.0 Conclusion

This study sought to provide empirical understanding of market reaction to M&A announcements in the short run using listed bidder firms in Eastern Africa securities markets. M Market model was employed to estimate return following M&A announcement. Significance test on return was carried out for different holding period. Cumulative abnormal returns for the holding periods $[-1,+1]$, [-10, +10] and $[-20,+20]$ were significant at 5% and 10%. We therefore concluded that M&A generate significant returns to the shareholders of the bidder firms during the three mentioned holding periods. Cumulative abnormal returns for the event window $[-5+5]$ and $[-2+2]$ were insignificant. It was therefore concluded that for the event period $[-5+5]$ and$[-2+2]$, M&A do not create wealth to the shareholders of firm. Finally, cumulative average abnormal return (CAAR) post M&A was negative and therefore conclusion was made that on average M&A activities do not generate wealth to the acquiring firm shareholders.

We highlight that caution should be exercised when interpreting short run event studies. Event studies assumes that market are effecient and the events are unanticipated, however, in practice the assumptions may not hold especially in emerging markets. Therefore, to conclusively evaluate the impact of M&A announcement event studies should be supplemented with long run market based measures. We acknowlegde that long run evaluation of market return to M&A announcement can be a problematic undertaking and may be susceptible to confounding effect. The study suggest use of large sample and adequate control in computation of long run return to reduce noise effects.

In total, listed thirty (30) M&A firms were studied. These, could be considered few and hence less representative in wider jurisdiction. The choice of this geographical scope was informed by budgetary constraints facing the researcher. Therefore, the applicability of the study findings should be restrictive given the small size of the sample. An extended study could therefore be carried out within a larger jurisdiction such as Sub Saharan Africa or Africa as whole to reduce potential sampling bias that may have impacted this study. Finally, this study resticted itself to market reaction to M&A announcements, similar studies should be

undertaken to find out the effect of M&A announcement on volatility of announcement returns and risk. It would be interesting to find out how firm risk and volatility behaves following M&A annoucements in M&A firms in Eastern Africa Securities markets and beyond.

References

Alexandridis, G., Petimezas, D., & Travos, G. (2010). Gains from mergers and acquisitions around the world: New evidence. *Financial Management Journal,* 39 (4), 1671-169.

Ang, J. S., & Chen, Y. (2006). Direct evidence on the market driven acquisition theory. *Journal of Financial Research,* 29(2), 199-216.

Andrade, G., Mitchell, M. & Stafford E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15 (2).

Andrade, G., & Stafford, E. (2004). Investigating the economic role of mergers. *Journal of Corporate Finance,* 10(1), 1-36.

Barde, M., & Salisu, M. (2015). Short-term effects of mergers and acquisitions in the Nigerian banking industry. Paper Presented during the *11th International Business and Social Science Research Conference, Dubai.*

Brealey, R., Myers, S. & Allen, F. (2011). *Principles of Corporate Finance.* 10th ed. New York: McGraw-Hill.

Berk, J., DeMarzo, P., & Harford, J. (2012). *Fundamentals of Corporate Finance.* 2nd ed. Essex: Pearson Education Limited.

Bertrand, O., & Betschinger, M. (2011). Performance of domestic and cross-border acquisitions: Empirical evidence from Russian acquirers. *Journal of Comparative Economics,* 40, 413 – 437.

Bloomberg (2014). Global M&A Market Review. Retrieved from http://www.sorainen.com/UserFiles/bloomberg%201h%202014%20ma%20legal%20rank ings.pdf Accessed on 15th March 2016.

Bharath, S.J., & Guojon, Wu. (2005). Long run volatility and risk around mergers and acquisitions. Working paper, University of Michigan.

Bruner, R. F. (2002). Does M&A pay? A survey of evidence for the decision maker. *Journal of Applied Finance*, 12 (1), 48-68.

Chesang, C. J. (2002). Merger restructuring and financial performance of commercial banks in Kenya. Unpublished dissertation, School of Business, University of Nairobi.

DeLong, G. (2003). Does long term performance of mergers match market expectations? *Business & Economics Strategic Management Journal*, 20, 711-727.

DePamphilis, D. M. (2011). *Mergers and Acquisitions Basics: All you Need to Know*. Burlington, Academic Press.

Dilshad, M. (2013). Profitability analysis of mergers and acquisitions: An event study approach. *Business and Economic Research*, 3(1), 89-121.

Gaughan, P. A. (2011). *Mergers Acquisition and Corporate Restructuring*. (5 th ed.). New York: John Wiley & Sons.

Golubov, A., Petmezas, D., & Travlos, N. G. (2012). When it pays to pay your investment banker: new evidence on the role of financial advisors in M&As. Journal of Finance 67,271–312.

Gwaya O. J., & Mungai, J. N., (2015). The effect of mergers and acquisitions on financial performance of banks: A survey of commercial banks in Kenya. *International Journal of Innovative Research and Development*, 4(8), 107-113.

Harford, J. (2005). What drives merger waves? *Journal of Financial Economics,* 77, 529 -560.

Harford, J., Humphery-Jenner, M., & Powell, R.. (2012).The sources of value destruction in acquisitions by entrenched managers. *Journal of Financial Economics,* 106,247–261.

Harrison, J. S., Oler, D., & Allen, M. R. (2005). Event studies and the importance of longer- term measures in assessing the performance of outcomes of complex events. Working Paper Indiana University.

Houston, J., James, C., & Ryngaert, M. (2001). Where do mergers gains come from? *Journal of Financial Economics*, 285-331.

Inoti, G. G., Onyuma, S. O., & Muiru, M.W. (2014). Impact of acquisitions on the financial performance of the acquiring companies in Kenya: A case study of listed acquiring firms at the Nairobi Securities Exchange. *Journal of Finance and Accounting*, 2(5), 108- 115.

Jensen, M., & Ruback, R.S. (1983). The market for corporate control. The Scientific Evidence. *Journal of Financial Economics*, 11, 5-53.

Kariri, J. (2013). Effect of Mergers and Acquisitions on shareholders wealth of commercial banks in Kenya. Unpublished MBA Research Project. University of Nairobi.

Kodongo, O. Mokoteli, T., & Maina, L. (2014). Capital structure, profitability and firm value: panel evidence of listed firms in Kenya. *(April 1, 2014)*. Electronic copy available at: http://ssrn.com/abstract=2465422.

Accessed on 21st May 2016.
KPMG. (2014). M&A statistics in east africa report. deal space. //www.kpmg.com/NZ/en/Issues /And Insights. Accessed on 22 April, 2015.
Kothari, S.P. & Warner, J.B. (2007). *Econometrics of Event Studies*: *Handbook of Corporate Finance*, eds. B. Espen Eckbo, Elsevier-North-Holland, Amsterdam.
Marembo, J. O. (2011). The impact of mergers and acquisition on the financial performance of commercial banks in Kenya. (Unpublished MSC Project Report). School of Business, University of Nairobi.
Martynova, M., & Renneboog, L. (2008). A century of corporate Takeovers: What have we learned and where do we stand? *Journal of Banking and Finance*, 32(10), 2148–2177.
McWilliams, A., & Siegel, D. (1997). Event studies in management research: Theoretical and empirical issues. The academy of management journal, 40 (3) 626-657.
Moeller, S. B., Schingemann, F. P., & Stulz, R. M. (2004). Firm size and gains from the acquisitions. *Journal of Financial Economics*, 73, 201-228.
Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2005). Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. *Journal of Finance*, 60, 757-782.
Mushidzhi, T. B., & Ward, M.D. (2004). Abnormal returns for cash vs share funded acquisitions. *Investment Analysts Journal*, 60: 17-31.
Ndadza, E. T., & Mokoaleli-Mokoteli, T. (2014). Beneficiaries of mergers & acquisitions in South Africa. Master of Finance and Investment Research Project, Faculty of Commerce, Law and Management, University of the Witwatersrand.
Oler, D., Harrison, J. & Allen, M. (2008). The danger of misinterpreting short-window event study findings in strategic management research: An empirical illustration using horizontal acquisitions. *Strategic Organization Journal*, 6(2), 151–184.
Opolot, J., Mutenyo, J., & Kalio, A. (2009). Determinants of foreign direct investment: new evidence from Sub-Saharan Africa. *The Bank of Uganda Staff Papers*, 3(2), 23-43.
Republic of Kenya. (2012). *Kenya National Bureau of Statistics*. Economic Survey. Nairobi: Government of Kenya. Retrieved from https://www.knbs.or.ke/index.php?option=com-content&view=article&Id=309:2012 economic-survey-report-highlights & cahd=82:news&itemid=593 Accessed on 10th August 2015.
Robinson, S., & Zerdin, M. (2013). *The Mergers and Acquisitions Review* (7 th ed.). London, UK, Law Business Research Ltd.
Sehgal, S., Barnerjee, S., & Deisting, F. (2012). The impact of m&a announcement and financing strategy on stock returns: evidence from bricks markets. *International Journal of Economics and Finance*, 4(11), 76-90.
Smit, C.J., & Ward, M. J. (2007). The impact of large acquisition on the share price and operating performance of acquiring companies listed on the JSE. *Investment Analyst Journal,* 65, 5-14.
Shah, P. &Arora, P. (2014). M&A Announcements and Their Effect on Return to Shareholders: An Event Study, *Accounting and Finance Research*, 3(2), 170- 189.
Triki, T., & Chun, O. (2011). Does good governance create value for international acquirers Africa? Evidence from US acquisitions. *Working Paper No. 143. D*evelopment research department, African Development Bank Group. http:/www.afdb.org/. Accessed on 27th May 2015.
UNCTAD. (2014*).* World Investment Report. Geneva: United Nations Conference on Trade and Development. Retrieved from www.unctad.org.fdistatistics. Accessed on 14th May 2015.
Uygur, O., Meric, G. & Meric, I. (2014). Market reaction to acquisition announcements after the 2008 stock market crash. *The International Journal of Business and Finance Research*, 8(4), 75-82.
Viljoen, G. (2014). The impact of cross border mergers and acquisition on the operating financial and short term share price performance of acquiring companies listed on the Johannesburg Stock Exchange. MBA Research Project, Gordon Institute of Business Science, University of Pretoria.
Weston, J. F., & Weaver, S. (2002). *Mergers and Acquisitions: Executive MBA Series*. United State of America: McGraw-Hill.
Yena, T. Y., & Andre, P. (2007). Ownership structure and operating performance of acquiring firms: The case of English Origin Countries. *Journal of Economics and Business,* 59 (5), 380- 405.
Zerdin, M. (2014). *The Mergers and Acquisition Review*. (8th ed.). London, UK, Law Business Research Ltd.

APPENDICES

Appendix III: Summary of Beta Values Analysis Before and After the M&A in the Short run.

S/N	Company	Beta Factor Before (CAR –1,+1)	Details	After (CAR –1,+1	Details
1	C01	-0.859	D	-1.888	D
2	C02	0.061	D	0.768	D
3	C03	-0.044	D	0.040	D
4	C04	2.699	A	0.666	D
5	C05	1.815	A	1.270	A
6	C06	1.941	A	1.074	A
7	C07	-3.555	D	0.809	D
8	C08	-0.299	D	0.813	D
9	C09	-0.289	D	0.450	D
10	C10	0.816	D	-2.019	D
11	C11	3.203	A	0.069	D
12	C12	-0.551	D	1.22	A
13	C13	0.461	D	0.904	D
14	C14	-1.271	D	-1.181	D
15	C15	1.134	A	-2.890	D
16	C16	-0.776	D	-0.927	D
17	C17	0.558	D	0.212	D
18	C18	0.568	D	0.594	D
19	C19	1.776	A	-0.735	D
20	C20	1.408	A	3.732	A
21	C21	0.628	D	0.577	D
22	C22	-0.076	D	-0.101	D
23	C23	2.316	A	-0.797	D
24	C24	2.621	A	-0.514	D
25	C25	0.670	D	-1.326	D
26	C26	-1.342	D	1.1490	A
27	C27	1.098	A	2.592	A
28	C28	1.098	A	2.592	A
29	C29	1.232	A	0.807	D
30	C30	-1.853	D	-0.396	D

D = defensive security, A= aggressive security.

Appendix 1V: Cumulative Abnormal Returns for Different Holding Periods in the Short run

S/N	Company Code	CAR -20, +20	CAR -10, +10	CAR -5, +5	CAR -2,+2	CAR -1, +1
1	C01	0.074	0.071	0.047	0.078	0.023
2	C02	0.018	-0.010	0.024	0.031	-0.004
3	C03	0.020	0.017	0.010	0.047	-0.001
4	C04	0.853	0.395	0.169	0.036	0.111
5	C05	0.009	0.029	0.076	0.019	0.083
6	C06	0.045	0.076	0.049	0.043	0.043
7	C07	0.208	0.325	0.158	0.104	0.081
8	C08	0.130	0.010	0.016	-0.091	-0.058
9	C09	-0.049	-0.914	-0.475	-0.872	-0.482
10	C10	-0.027	0.102	-0.059	0.045	0.077
11	C11	-0.050	-0.020	-0.091	-0.022	-0.024
12	C12	0.039	0.071	-0.079	-0.032	-0.015
13	C13	0.025	-0.028	0.009	0.065	0.0618
14	C14	0.045	0.076	0.077	0.028	0.028
15	C15	-0.116	-0.109	-0.155	-0.012	0.090
16	C16	0.024	-0.042	0.035	-0.043	-0.060
17	C17	0.021	0.007	0.044	0.134	-0.057
18	C18	-0.038	0.006	-0.023	-0.107	-0.057
19	C19	-0.010	-0.016	-0.017	0.021	0.017
20	C20	0.010	0.021	0.0158	0.017	-0.013
21	C21	0.034	-0.051	-0.030	0.027	0.017
22	C22	0.011	-0.028	0.037	0.0041	0.001
23	C23	0.050	-0.008	-0.042	0.003	0.038
24	C24	0.016	-0.004	-0.081	-0.089	0.068
25	C25	-0.053	0.132	0.152	-0.020	0.054
26	C26	0.013	0.070	0.060	-0.002	0.007
27	C27	-0.062	0.028	-0.028	0.008	-0.001
28	C28	0.270	-0.558	0.048	0.057	0.042
29	C29	0.233	2.116	0.650	1.605	-0.032
30	C30	0.050	0.051	0.087	0.054	0.051

Appendix V: Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) for the holding period -20, +20.

Event Period	Average Abnormal Return (AAR)	Cumulative Average Abnormal Return (CAAR)
-20	0.01	0.00
-19	-0.02	-0.02
-18	-0.02	-0.05
-17	0.02	-0.03
-16	-0.02	-0.05
-15	0.03	-0.02
-14	-0.02	-0.04
-13	-0.01	-0.05
-12	0.02	-0.04
-11	-0.02	-0.05
-10	0.03	-0.02
-9	-0.03	-0.05
-8	0.03	-0.03
-7	-0.02	-0.04
-6	0.03	-0.02
-5	-0.02	-0.04
-4	0.03	-0.01
-3	-0.02	-0.03
-2	0.02	-0.01
-1	0.00	-0.01
1	0.01	0.00
2	0.05	0.05
3	0.05	0.11
4	0.02	0.13
5	0.02	0.15
6	0.00	0.15
7	-0.02	0.13
8	-0.01	0.12
9	-0.01	0.11
10	-0.01	0.10
11	-0.02	0.08
12	-0.01	0.07
13	-0.02	0.05
14	-0.02	0.03
15	-0.01	0.02
16	-0.03	-0.01
17	-0.03	-0.03
18	-0.01	-0.05
19	-0.01	-0.06
20	0.00	-0.06