

**MERGERS AND FINANCIAL PERFORMANCE OF NON-FINANCIAL
INSTITUTIONS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA**

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DECLARATION

The project is composed of work originally from the author and its work contained in the project was not used for any award or certificate in any institution of higher learning. It is warned that neither the part of the project should be used for any purpose without consultation of the author or the University.

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It is with my confirmation that I have been supervising all the work contained in this project as the assigned supervisor.

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DEDICATION

Dedication of this study is to my mother Hellen Chepkaitany by fully supporting me morally and financially, my siblings Alfred Kandie and Christopher Keitany, because of the great assistance and being patient all through the study process and my lovely daughter Caroline Boswony for her patience, encouragement and the relentless effort in praying for me for God to lead me successfully in all the processes involved in the study

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TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABBREVIATIONS AND ACRONYMS	x
OPERATIONAL DEFINITION OF TERMS	xi
ABSTRACT	xiii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background to the Study.....	1
1.1.1 Mergers.....	3
1.1.2 Financial Performance.....	5
1.1.3 Non-Financial Firms Listed at Nairobi Securities Exchange.....	6
1.2 Statement of the Problem.....	7
1.3 Objectives of the Study.....	8
1.3.1 General Objective.....	8
1.3.2 Specific Objectives.....	8
1.4 Research Questions.....	9
1.5 Significance of the Study.....	9
1.6 Scope of the Study.....	9
1.7 Limitations of the Study.....	10
1.8 Organization of the Study	10
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Theoretical Review	11
2.2.1 Financial Synergy Theory	11
2.2.2 Information and Signalling Theory	12
2.2.3 Synergy Gain Theory.....	13
2.3 Empirical Review.....	14
2.3.1 Liquidity and Financial Performance of Non-Financial Institutions.....	14

2.3.2	Market Prospect and Financial Performance of Non-Financial Institutions	15
2.3.3	Leverage and Financial Performance of Non-Financial Institutions.....	16
2.4	Summary of Literature Reviewed and Research Gaps	17
2.5	Conceptual Framework.....	21
CHAPTER THREE		22
RESEARCH METHODOLOGY		22
3.1	Introduction.....	22
3.2	Research Design.....	22
3.3	Target Population.....	22
3.4	Data Collection Instrument	22
3.5	Data Analysis and Presentation	23
3.6	Diagnostics Tests	23
3.6.1	Autocorrelation Tests	23
3.6.2	Homoscedasticity.....	24
3.6.3	Multi-collinearity.....	24
3.6.4	Normality Tests	25
3.7	Operatioanalization and Measurement of Variables.....	25
3.8	Ethical Considerations	26
CHAPTER FOUR.....		27
RESEARCH FINDINGS AND DISCUSSIONS		27
4.1	Introduction.....	27
4.2	Results of Descriptive Statistics.....	27
4.3	Results of Inferential Statistics	29
4.3.1	Correlation Analysis	29
4.3.2	Regression Analysis	30
4.4	Results of Diagnostic Tests.....	33
4.4.1	Multicollinearity Test Results	33
4.4.2	Normality Test.....	33
4.4.3	Homoscedasticity Test Results.....	34
4.4.4	Autocorrelation Test Results	35
CHAPTER FIVE		37
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		37
5.1	Introduction.....	37
5.2	Summary	37

5.3	Conclusions.....	38
5.4	Recommendations.....	39
5.5	Suggestions for Further Studies.....	40
	REFERENCES.....	41
	APPENDICES.....	31
	Appendix I: Data Collection Sheet.....	31
	Appendix II: University Approval Letter.....	32
	Appendix III: Research Permit.....	33

LIST OF TABLES

Table 2.1: Summary of the Literature Reviewed and Research Gaps	17
Table 3.1: Operationalization of Variables	25
Table 4.1: Descriptive Statistics	27
Table 4.2: Correlation Analysis	29
Table 4.3: Regression Analysis.....	30
Table 4.4: Analysis of Variance.....	31
Table 4.5: Coefficients.....	31
Table 4.6: Multicollinearity Test Results.....	33
Table 4.7: Homoscedasticity Test Results	35
Table 4.8: Autocorrelation Test Results	35

LIST OF FIGURES

Figure 2.1: Conceptual Framework	21
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ABBREVIATIONS AND ACRONYMS

C&G	Car and General
FEM	Fixed Effects Model
LTDR	Long-Term Debt Ratio
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
TDER	Total-Debt Equity Ratio
VIF	Variance Inflation Factor

OPERATIONAL DEFINITION OF TERMS

Book value per share	The ratio of equity available to common shareholders divided by the number of outstanding shares
Cash ratio	It is a measurement of a company's liquidity, specifically the ratio of a company's total cash and cash equivalents to its current liabilities.
Earnings per share	It is a figure describing a public company's profit per outstanding share of stock, calculated on a quarterly or annual basis.
Financial Performance	Refer to a subjective measurement of the way an organization utilizes its assets based on its operation and revenue generation
Leverage	Refer to firm's debt level in financing its assets.
Liquidity	Refers to conversion of firm's properties or its securities into cash without altering its price in the market
Market prospect	A non financial institution potential future performance in a competitive marketplace
Merger	An agreement that unites two existing companies into one new company
Non financial institution	Institute of finance that do not offer fully banking license and do not obtain deposit from the members of the public
Operating cash flow	It is a measure of the amount of cash generated by a company's normal business operations.

Price-earning-ratio	It is the relationship between a company's stock price and earnings per share
Quick ratio	A calculation that measures a company's ability to meet its short-term obligations with its most liquid assets.
Return on asset	Refer to a profitability ratio that provides how much profit a company is able to generate from its assets.
Shareholder equity	Refer to the remaining amount of assets available to shareholders after paying liabilities
Total company debt	Refer to the sum of all short- and long-term debt

ABSTRACT

Merger has been undergoing in organizations in Kenya with the main focus on financial performance improvement. However, most of these organizations have never realized their financial targets. The 2019 Central Bank of Kenya report shows that 25% of the non financial institutions reported losses in the 2018/2019 financial year. This was an increase over the preceding five years where not more than 20% of the non financial institutions had reported losses. Therefore, this study sought to establish how non-financial institutions financial performance in listed at the Nairobi Securities Exchange in Kenya is affected by mergers. The specific focus of the study was to examine the effect of liquidity, market prospect and leverage on financial performance. The study was anchored by financial synergy theory, information and signalling theory and synergy gain theory. An exploratory research was used. Three non-financial institutions namely: Car and General (C&G) and Cummins, Unga group Holdings and Kenolkobil were targeted. The study used secondary data collection sheet which involved the documentary reviews of data available in the released financial statements, and annual reports for the last 10 years, that is, 2011 to 2020. Analysis of quantitative data was through the use of descriptive statistics that included mean and standard deviation. In addition, determination of how variables relate to each other was done using inferential statistics specifically using analysis of multiple regressions. The study established that liquidity, leverage and market prospect had a positive significant effect on financial performance. The study concludes that due to insufficient market depth or market interruptions, non-financial institutions were unable to efficiently liquidate or offset a particular position at or near the last traded market price, leading them to participate in bank lending to satisfy their daily transactions. A smaller number of the non-financial institutions are at risk of losses due to changes in book value per share, price-earning-ratio and earnings per share and maybe other indicators whose values are set in the market. Leverage is likely caused by the total company debt and shareholder equity. Leverage enables organizations to magnify their shareholders' profits because if an organization is solely financed by shareholder equity, then its profitability to the shareholders will change in proportion to its own change in profitability. The study recommends that the non-financial institutions listed at NSE should aim at maximizing their overhead expenses that consume much of their cash flow. The non-financial institutions listed at NSE should aim at gaining forecasted ability to compete in a marketplace by comparing publicly traded companies' stock prices with other financial measures such as earnings and dividend rates. The non-financial institutions listed at NSE should increase financial leverage by borrowing capital through issuing fixed-income securities or by borrowing money directly from a lender.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Companies are becoming more aggressive in developing strategies to survive and grow in this globalization era. Every organization chooses the best strategy to win the competition and survive in the future (Bansal & Kumara, 2016). Mahmood, Aamir, Hussain and Sohail (2017) observe that with the global financial crises and the rapid advancement in technology has led to the increase on merger which has in turn made the organizations gain a large share of market, become competitive, increase their revenue earning and minimize risk and have a wide range of diversified products. Therefore, it can be argued that organization enters into a merger by gaining access to unique assets that could take long in developing within the organization.

Sharma (2013) observe that the aim of carrying out mergers is mainly for an organization to diversify. For instance, an organization may merge with the aim of diversifying its operations through gaining access to new market of providing unique services or products to that market. Moreover, managers of an organization are commonly found in proposing for a merger so that the risk that an organization may encounter in relation to its day to day activities may be diversified. In addition, Sharma (2013) observe that organizations merge on the basis of resource utilization of the already existing firm so as to improve its growth through increase in sales, reaching new markets and achievement of economies of scale. Therefore, it can be argued that the merger is based on the assumption that the consolidation will result to improving efficiency and gain high profits from having high market power, economies of scale, reduction of unpredictability, diversifying and gaining synergy from other financial firms.

In the current market, financial performance improvement is paramount in the sustenance firm's

capability, enthusiasm and worth. This is due the fact that the firm gains advantage in attracting managers with different talents and also able to increase their retention rate (Jovanovic & Peter, 2015). Appah and John (2016) observe that combining businesses using merger is now an international practice in achieving the economies of scale and high productivity. The demand for both financial as well as the non-financial institutions to undergo a merger is even very important in dealing with the global competition.

Business combinations are always related to external business expansions, the reasons for business expansions include; obtaining acquiring new ways of facilities that are productive, productions knowledge, firms dealing with marketing, obtaining competent management, achievement of economies of scale and tax advantage (Zaneta & Lina, 2013). Additionally, Chatarjee and Banerjee (2013) observe that all the organizations encounters full financial obligations in financing their operations either in settling debt or market equity. Lack of capability in having enough finance may force an organization to merge. Finally the organization will gain a higher financial power that will enable it to enlarge its developmental processes.

Abbas, Hunjra, Azam, Ijaz and Zahid (2014) observe that ratios on banks' liquidity, profits and investments have a significant influence on performance of banks in their finances in Pakistan after engaging into merger. In addition, the author show that bank's profits, length of existence and its shareholders are the most critical factors in considering and motivating them to opt for a merger as it is possible to converge resources, improve in technology and skills with the aim of increasing it financial performance and the wealth of its stakeholders. Therefore, it is of great importance to the sector of Pakistan's finance that a strategy meant for merger should be founded on consolidating resources and competency that result to a better financial performance.

Saboo, Sharma, Chakravarty and Kumar (2017) indicate that the financial performance of Banks

in Ghana might not necessarily improve due to merger. This is because net margin of these banks was found to be negatively but significantly associated with merger. Boloupremo and Ogege (2019) observe that the highest number of mergers in Ghana perhaps can be found in the banking industry which is driven largely on account of recapitalization where the Bank of Ghana requested commercial banks to increase their capital to a certain threshold. The biggest drivers of mergers and acquisition is the motivation to eliminate or reduce competition, help to increase the size and operations of firms in order to facilitate enjoyment in economies of scale, which could increase their performance in terms of profitability.

Ogada, Njuguna and Achoki (2016) observe that performance, synergy in operation positively relate to the financial synergy and that performance achieved by the financial institutions in Kenya after merger had significantly improved and suggest that these institutions ought to have a critical evaluation of the organization as a whole and how compatible their operations are after merging and focus much in gaining financial synergy in the long run because this positively affects the financial performance. Pandey (2015) observe that merger leads to asset and liability amalgamation together with the interests of stakeholders and the business of the firms merging resulting to financial performance improvement.

1.1.1 Mergers

Merger is a situation whereby assets and resources of both companies are combined and the control is under one company in which a joint ownership is from the stakeholders of the main company and all the stakeholders from the two companies come together and form one unit for the success of the main company (Botis, 2013). Mohammed (2017) observes that when organizations merge they increase their revenue due to increase in size, scope and market size of the firm. Mohammed (2017) further observe that merger enable firm's to acquire chances in

enhancing their revenue either gaining efficiency or increasing power in markets. In this study, merger will be evaluated in terms of liquidity, market prospect and leverage.

Liquidity is amongst essential working capital management goals and a major activity in optimizing revenue and the financial performance of the firm. Managing working capital effectively results to the improvement in firm's operational performance and assists in meeting liquidity in the short run (Maness & Zietlow, 2015). Arnold (2018) observe that net working capital at a lower level also leads to increase in profits and also increases firm's risk in solvency through reduction of funds in the long run transferable to assets that have less profits. In this case reaching the level of optimum liquidity ought to lead to better firm's decision making process aiming at reaching a higher financial performance.

Market prospect is a tool strategically meant for the identification of opportunities in markets and investing resources in areas they will gain greater returns in future and assist the targeted market which has a higher future potential of growth (Kraemer & Dedrick, 2014). According to Williamson (2016) horizontal mergers potentially improves the power of markets and efficiency through increasing the economies of scale. Reaching a higher profits and reduction in sales is as result of increasing a market power and that the tradeoff market power in reducing the cost is depended on the net effect. In this case, it becomes possible in testing whether a merger influenced increase in market power or efficiency or through examination of whether there is expansion in sales or less as expected before the merger of the two firms.

Leverage means borrowing funds which are used by organization to finance. Financially, leverage oftenly results in a situation where employment of leverage by investors and firms is done to generate greater assets returns, to make the best financing and investment decisions and set a threshold for the expansion of business operations (Aivazian & Callen, 2015). Nadeem and

Wang (2013) observe that much on leverage may lead into influence on lenders and could prevent the ability of the manager in managing effectively in operations, thereby affect firm performance negatively. Therefore, the borrower must have the capacity to make payments to avoid repossession and the leverage should depend on the value of the underlying asset.

1.1.2 Financial Performance

Financial performance is a measure generally for the whole firm's financial ability for a stated period of time in relation to other firms (Ricci & Vito, 2016). According to Naser and Mokhtar (2018) utilization of resources and sales growth of a firm effectively and efficiently is reflected in its financial performance as measured by profitability and stock prices. Profitability, for example, entails measurement of amount in which an organization's revenues surpasses the matching expenditure. The measures recommended for financial performance included profit, liquidity and the wealth of the shareholders.

Financial performance is an indicator of a company's effective usage of its properties from the key market mode to produce sales. Investment and asset returns, value of the market and accounting profits mirror the financial performance of the firm (Ngugi, Amanja & Maana, 2014). Njanja and Pellisier (2018) observe that the reflection of better financial performance is on how the management is efficient and effective in utilizing the resources of their firm which is presented in terms of growth in sales, profits and stock pricing. Well-organized control of numerous tool in economy directly impacts the financial performance of businesses.

Financial performance requires various ways of evaluating how effectively a company manages its capital in profit generation. The most common indicators of financial results by corporations include net asset value, taxable profits and profit between taxation and interest (Adeniyi, Omisakin, Egwaikhide & Oyinlola, 2012). Alfaro and Charlton (2016) indicate that choosing a

certain measure of performance in finance relies on the way it adequately meets the target set. Therefore, an organization's financial performance is its capability in utilizing available resources with the aim of increasing the wealth of its stakeholders and sustain its profits by increasing their strength on capital base by retaining their earnings.

1.1.3 Non-Financial Firms Listed at Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) is the sole Kenyan market stock founded in the years 1954. The categorization by NSE in listing companies is done in 12 industries including the automobile and accessories businesses, the agricultural sector, the banking sector, the insurance business, the construction industry, Commercial and service sectors, manufacturing and related sectors, energy and petroleum, investment sectors, investment services, the telecommunications and technology industries. Companies listed at the NSE should be financially healthy to end the business failures (Ngugi, Amanja & Maana, 2014). Despite the fact that around 61 corporations are classified in the NSE, some of them are not in a sound financial condition. Companies must meet stringent listing requirements at the point of listing. Over time, though, the position in finance and the organizational processed may be adjusted for either better or worse.

Maina and Sakwa (2012) argue that this is due to strategy shift, administration, the level of risk or aspiring financially. According to yearly report by companies that appear in the list of NSE (2015) is that part of the firms do no regularly payout dividends and the amount of payment when they do is very low compared to shareholders' expectations. The major issues facing the non-financial institutions include: Implementation of new regulations that were passed after adopting the new constitution. The year 2019 report of the Kenya National Bureau of Statistics (KNBS) is that the 2019 Banking Act amendment on capping the rate of lending to 4% maximum more than the Central Bank Rate (CBR) led to considerable interest rate decline in the

month of September 2020 from a percentage of 16.75% to 13.84% in the same month. The banking industry in Kenya has also been affected by globally crisis together with mobilizing deposits and reduction on trade. Declining margins on interest also has had a greater effect on the industry of banking in Kenya.

1.2 Statement of the Problem

Firm's performance in finance can be influenced by factors from outside the firm or with that firm. Whereas there are varieties of particular models, the main determining factor of financial performance of a firm constitute the industry features where the firm is competing. The position of the firm in comparison to its rivals and firm's resources quality and quantity (Lewellen, 2015). The 2019 NSE report shows that 25% of the non-financial institutions reported losses in the 2018/2019 financial year. This was an increase over the preceding five years where not more than 20% of the non-financial institutions had reported losses.

The motive of the non-financial to merger is the need to enlarging their capability on management and marketing together with acquiring new products. Mergers regularly occur in firms forming alliances but not necessary operating in the same field. Njoroge (2017) observe that due to lack of adequate financial capacity most of non-financial institutions in Kenya opt for merger with another. Cases concerning financial distress on firms have been increasing both in developing and developed countries mostly caused by high debt to equity ratio. In recent times, the Kenyan economy has witnessed numerous cases of failure among globally reputed firms (Atosh, 2017). These non-financial firms were regarded as icons of corporate financial stability and their collapse came with tremendous surprise to researchers and analysts alike. A number of non-listed firms at the NSE have gone through cycles of financial distress in the recent past arising from high financial leverage and other factors such as poor corporate governance (NSE,

2017).

A study by Muge (2018) examined the effects of financial leverage on financial performance of non-financial firms Listed at Nairobi Securities Exchange and leverage was found to have a positive and significant effect on the financial performance of listed non-financial firms' in Kenya. However, the results may not be conclusive as the respondents were purposively selected which could have led to a sample biasness. Kimotho (2018) study investigated the influence of mergers and acquisitions on financial performance of firms listed in Nairobi securities exchange and the findings also show that there was a statistically significant difference between financial performance of sectors listed in the NSE pre-merger and post-merger Mwatsuma, Ali and Mary (2020) study examined the effect of mergers on financial performance of listed nonfinancial companies in Kenya at Nairobi Securities Exchange and the study found that there was general increase in the financial performance of the listed nonfinancial firms after merger and also improvement on the Liquidity management policies, asset quality and merger capital adequacy. However, convenience method of sampling was used which could lead to biasness in sampling. Therefore, the current study examined how non-financial institutions' financial performance listed at NSE, Kenya is affected by merger.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to establish the effect of merger on financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange.

1.3.2 Specific Objectives

- i. To determine the effect of liquidity on the financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange.
- ii. To assess the effect of market prospect on the financial performance of non-financial

- institutions' financial performance listed at Nairobi Securities Exchange
- iii. To evaluate the effect of leverage on the financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange

1.4 Research Questions

- i. What is the effect of liquidity on the financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange?
- ii. What is the effect of market prospect on the financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange?
- iii. What is the effect of leverage on the financial performance of non-financial institutions' financial performance listed at Nairobi Securities Exchange?

1.5 Significance of the Study

The results from this study would be valuable to those investing with the non financial institutions as well as the non financial institutions listed at NSE through gaining information regarding how important mergers are towards financial performance improvement. Other firms from different sectors would benefit from the results of the study through understanding the effective ways in improving their financial performance through merger. The study would also be significant to the national government and policy makers in formulating policies that can guide organizations on the best way to adopt and manage mergers. In addition, a more insight would be provided on how merger relates to non financial institutions' financial performance which trigger the need for more related studies by other researchers.

1.6 Scope of the Study

Non-financial institutions listed at the NSE in Kenya was the focus of the study that underwent mergers which include; Car and General (C&G) and Cummins, Unga group Holdings and

Kenolkobil. Merger was evaluated in terms of liquidity, market prospect and leverage. The study used secondary data collection sheet which involved the documentary reviews of data available in the released financial statements, and annual reports from the previous 10 years (2011 to 2020) because it the period that these firms underwent merger.

1.7 Limitations of the Study

Secondary data was relied on which could limit the study since statistics officially produced may show biasness brought up by influential persons which can limit what is being sought and the documents obtained may not reflect true representation of the population as a whole. However, the researcher overcame this by determining the intended aim of collecting data and tried to confirm the credibility of where the data is being sought.

1.8 Organization of the Study

This project is organized as follows: Chapter One presents the background to the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, limitations of the study and organization of the study. Chapter Two presents theoretical review, empirical review, summary of the literature reviewed and research gaps and conceptual framework. Chapter Three include the research design, target population, sampling design and sample size, data collection instrument, data analysis and presentation and ethical consideration. Chapter four presents research findings and discussions and chapter five gives that summary, conclusions, recommendations and suggestions for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical review, empirical review, summary of the literature reviewed and research gaps and conceptual framework

2.2 Theoretical Review

This section covers theories that were used to guide the study. These theories include; financial Synergy Theory, information and Signalling Theory and synergy Gain Theory

2.2.1 Financial Synergy Theory

The basis of this study was on the theory of financial synergies by Fluck and Lynch (1999) who claim that a business with inadequate assets in liquid form or lack of finance are not able to maximize opportunities on investment that have value to them with asymmetrical information in markets of finance. In this scenario, if the asymmetric information linking the two firms is lower compared to the firm with inadequate finance together with creditors outside that company, the business will maximize its worth by combining with a slack-rich firm. Mergers can thus be an effective means of alleviating asymmetric knowledge and generating synergy in finance. It is predicted from this theory that companies that has more likelihood of merger operations to achieve their goals or acquirer in financial distress but with good investment incentives.

Lewellen (2011) argues synergy in finance can be achieved through merger through combination of imperfect correlation of streams of income or acquisition of other firms from the industry not related in practice. Basically, it is the diversification of the Markowitz portfolio at the corporate level. Bad outcomes in one company can be balanced by good results in another sector that carry lower volatility of earnings into the merger organization. Lower earnings uncertainty leads to lower default risk because both insurers (merger companies) collectively cover each combining

company's debt, which is called corporate debt co-insurance. Higher default risk contributes to lower expected default rates and thus improves the combined company's leverage potential or funding strength. The merger business will profit from growing its financial leverage to guarantee tax deductibility on behalf of its shareholders.

This theory was important to the research, because of the way synergy in financial merger is often measured. The synergy forms are associated with enhancement of the already merged measures of business finance in terms of its sales, efficiency in leverage, cost of capital and output. Therefore, financial synergies will lead to greater leverage efficiency, higher cash flows, lower capital expenses, tax benefits etc. The theory supports liquidity variable.

2.2.2 Information and Signalling Theory

Lintner developed Information and Signalling Theory in 1956. The theory suggests that behavior between two different investors differ in the case whereby they have information that is different. The merger announcement is a source of information and an indication to the participants of the market on likelihood effect of the agreement towards the value of the firm. Announcing the event of merger could be an indication that the target value can either increase by double or lead to the replacement of the management team to new ones. It is also an indication that cash flows would increase and future value. Thus, opting to merge or acquiring would show a future value increase of the bidding firm.

Weston (2010) observe an extended signal theory stating that due to asymmetry in information, target setting enhances the seller in gaining through reduction of prices the acquirer is offering. The proposition is because of the engagement of the target in inter-organizational relationships, there is gain to sellers, as it acts as a signal. According to Linder (2013) undervaluation in share target and assets is eminent for the reason that they are high value allowing another bidder who

may offer a higher value and better usage. Suppose someone from outside adds value, then value can be added by a new different owner. At a point whereby a potential in merger is learned by the managers, they may start a pre-empt ways so as they come up with the process by themselves.

The theory was important for the study because it shows that the way of merger may be utilized in gaining information regarding the bidders and targets. Use of common stock by the bidder instead of cash may show undervaluation of the bidders own stock or is not sure of the value of the target and desires shareholder target share risk from poor estimation of the target value. The theory supports market prospect variable.

2.2.3 Synergy Gain Theory

Synergy Gain theory was propounded by Gunther in 1955. Merger occurs largely due to synergy is generated by merger that links the acquirer and target which on the other hand leads to the increment of the value of the firm. Carrying out mergers and acquisitions are aimed at getting the advantages in synergy from the combination of firms that put together acquires and target. The value gained from the combination of the two firms has a more likelihood of being great compared to the one on separate acquirer and target. The gain arising from the financial and synergy in operation by using the economies of scale. This is an indication that in a case whereby two firms come together, their distribution of fixed cost of production in large scale leads to less fixed cost.

Houston and Ryngaert (2014) observe that instead of the economies of scale, economies of scope is seen as another alternative in which harmonization of resources of the acquirer and target organization are put together in gaining synergy. Merger has an intention of increasing the company's size. The occurrence of economies of scale is in many ways. It could happen due to

large operation in scale or could happen through inventory holding or by specializing. The economies of scope happen in a situation whereby companies produces goods that are related at low cost because of enjoying familiarity with tackling the already existing products.

Kathy (2015) show that synergy is efficiencies that could be attained only through merger because they are specific merger. Revenue enhancement is a form taken by synergy together with saving cost and also efficiency in operation. According to Gaughan (2017) achievement of synergy in finance in a situation whereby capital cost is or reduction through combining two companies or more.

The theory was important to the study because it asserts that the sum value of both individual firms before an merger is lower than that of the combined firm. This increase in value is due to the effect of the synergy potentials which could only be realized by combining operational and financial resources of both firms. These synergies present the extra value created by merger. Thus, creating value for shareholders that at least equates or exceeds the cost of the acquisition should be the primary objective of any merger. The theory supports leverage variable.

2.3 Empirical Review

This section addresses the review of empirical studies based on the study objectives. These are discussed as follows:

2.3.1 Liquidity and Financial Performance of Non-Financial Institutions

Kong, Musah and Agyemang (2019) study investigated how financial performance related to liquidity. It was a correlational study because it aimed at examining how liquidity related with the viability of the firm. The technique in correlation coefficient in Pearson Product-Moment led to the observation that the financial performance of the firm as significantly affected by the its liquidity based on the measurement of Return on Assets (ROA). However, based on the

measurement of ROE and ROCE it was insignificant. However, the study utilized design in cross-sectional research thus presenting a methodological gap.

Onyekwelu, Chukwuani and Onyeka (2018) study examined how deposit money banks in Nigeria financial performance was affected by liquidity. Population comprised of 5 banks. Data from secondary sources was obtained focusing on a 10 years period between 2007 to 2016. Analysis in multiple regressions was used in analyzing data. It was observed that the profitability of the bank was positively and significantly affected by liquidity and also liquidity affected return on capital employed positively and significantly. However, the aspect of how to sustain financial performance was not factored in the study thus presenting a theoretical gap.

Akenga (2017) study examined how firms' financial performance at NSE, Kenya was affected by liquidity. Adoption of casual design was followed. The technique of purposive sampling was utilized in selecting 30 firms. Analysis of data was done descriptively together with inferential analysis. It was observed that ROA was significantly affected by current ratio and cash reserves. It was also observed that ROA was significantly affected by debt ratio. However, the study used causal research design thus presenting a methodological gap.

2.3.2 Market Prospect and Financial Performance of Non-Financial Institutions

Farrington, Venter and Richardson (2018) study examined how family SME's financial performance was influenced by selected market prospects. The process of gathering data was done through use of structured questionnaires. All owners of family SMEs constituted the study population who operated from bordering areas in Eastern Cape province of South Africa. Sampling involved the criterion and convenience method and administration of questionnaires was carried to the field workers. It was observed that differentiation of products was the only factor that could be seen influencing family SMEs financial performance. However, the study

context was SME industry thus presenting a methodological gap.

Jovanov-Marjanova, Davcev and Boeva (2016) study examined how financial performance was related to marketing prospect: The Case of Chocolate Industry in Macedonia. Data was obtained from secondary sources including journals and published books together with online sources done empirical studies from related areas. It was observed that Chocolate Industry in Macedonia financial performance was positively influenced by market prospect. However, the study used primary data thus presenting a methodological gap.

An empirical analysis done by Baek, Kim and Rhee (2014) examined how financial performance if affected by market prospect. Analysis focused on factors in cost in marketing that affected the financial performance in consuming and producing goods being controlled by external factors. It was evidenced that expense in marketing effectiveness relies on industry on the basis of growth in total return and marketing cost, growth in total return and cost of the current market, growth of gross profit and growth of marketing cost. The study gives the baseline data that can be utilized by practitioners in differentiating strategies in marketing, minimize excessive competition in marketing and cost effectiveness enhancement. However, data was collected using primary data collection process thus presenting a methodological gap.

2.3.3 Leverage and Financial Performance of Non-Financial Institutions

Abubakar, Maishanu, Abubakar and Aliero (2018) study investigated how quoted conglomerates firms' financial performance in Nigeria was related to financial leverage. Use of descriptive statistics was followed in analyzing data while Fixed Effects Model (FEM) were used in evaluating how financial leverage variables was affected: Short-Term Debt Ratio (STDR), Long-Term Debt Ratio (LTDR) and Total-Debt Equity Ratio (TDER) on the financial performance which was based on return on asset (ROA). The regression results of the FEM reveal that STDR

influenced financial performance in terms of ROA significantly, while LTDR and TDER have negative and significant effect on the financial performance. However, the study focused on quoted conglomerate firms in Nigeria thus presenting a contextual gap.

A study by Aziidah (2017) investigated how firm's in the energy sector financial performance within NSE was influenced by financial leverage. Analysis involving correlation and regressions were employed in establishing how the performance in finance was influenced by leverage. It was observed that an association existed linking the firm's profits with leverage because firms that had put much emphasis on debt resulted to having lower profits and those that had more emphasis on equity the profits were higher. However, the study used primary data thus presenting a methodological gap.

Banafa, Muturi and Ngugi (2015) study examined how listed non-financial company's performance in finance in Kenya was impacted by leverage. Design of casual research was employed. The constitution of the study population was 42 firms that were listed at NSE under various categories. Utilisation of data in secondary panel from year report and statements of finance of these firms ranging from 2009 to 2013 was used. The statistical test showed that corporate financial performance in terms of ROA was negatively influenced by financial leverage. However, the study used causal research design thus presenting a methodological gap.

2.4 Summary of Literature Reviewed and Research Gaps

Table 2.1: Summary of the Literature Reviewed and Research Gaps

Name	Topic	Results	Gaps	Focus in the current study
Kong <i>et al.</i> (2019)	How Financial Performance was related to liquidity	Financial performance of the firm as significantly	Utilisation of design in cross-sectional research	Exploratory design was used

		affected by the its liquidity based on the measurement of Return on Assets (ROA)		
Onyekwelu <i>et al.</i> (2018)	How deposit money banks in Nigeria financial performance was affected by liquidity	The profitability of the bank was positively and significantly affected by liquidity and also liquidity affected return on capital employed positively and significantly.	The aspect of how to sustain financial performance was not factored in the study	The current study sought a holistic view of sustainable financial performance
Farrington <i>et al.</i> (2018)	How family SME's financial performance was influenced by selected market prospects	Product differentiation influences the financial performance of family SMEs	The study context was SME industry	The study context was non financial institutions
Abubakar <i>et al.</i> (2018)	How quoted conglomerates firms' financial performance in Nigeria was linked to leverage	The regression results of the FEM reveal that STDR influenced financial performance in terms of ROA significantly	The study focused on quoted conglomerate firms in Nigeria	The study focused on merged NFIs listed at the NSE, Kenya
Akenga	how firms'	Current ratio	The study	The study

(2017)	financial performance listed at the Nairobi Securities Exchange, Kenya was affected by liquidity	and cash reserves have a significant effect on ROA	used causal research design	used an exploratory research design
Aziidah (2017)	How firms' financial performance in the energy sectors was influenced by financial leverage	A relationship existed linking firm's profits with leverage because firm that had put much emphasis on debt resulted to having lower profits and those that had more emphasis on equity the profits were higher	The study used primary data	The study used secondary data
Jovanov-Marjanova <i>et al.</i> (2016)	Relationship between marketing prospect and financial performance:	Chocolate Industry in Macedonia financial performance was positively influenced by market prospect	The study used primary data	The study was used secondary data
Banafa <i>et al.</i> (2015)	How listed non-financial firm's financial performance in Kenya was	Corporate financial performance in terms of ROA was negatively	The study used causal research design	The study used exploratory research design

	impacted by leverage	influenced by financial leverage		
Baek <i>et al.</i> (2014)	How financial performance was affected by marketing prospect	Expense in marketing effectiveness relies on industry on the basis of growth in total return and marketing cost, growth in total return and cost of the current market, growth of gross profit and growth of marketing cost	The data was collected using primary data collection process	The study was used secondary data collection process

Source: Researcher (2021)

2.5 Conceptual Framework

Independent Variables

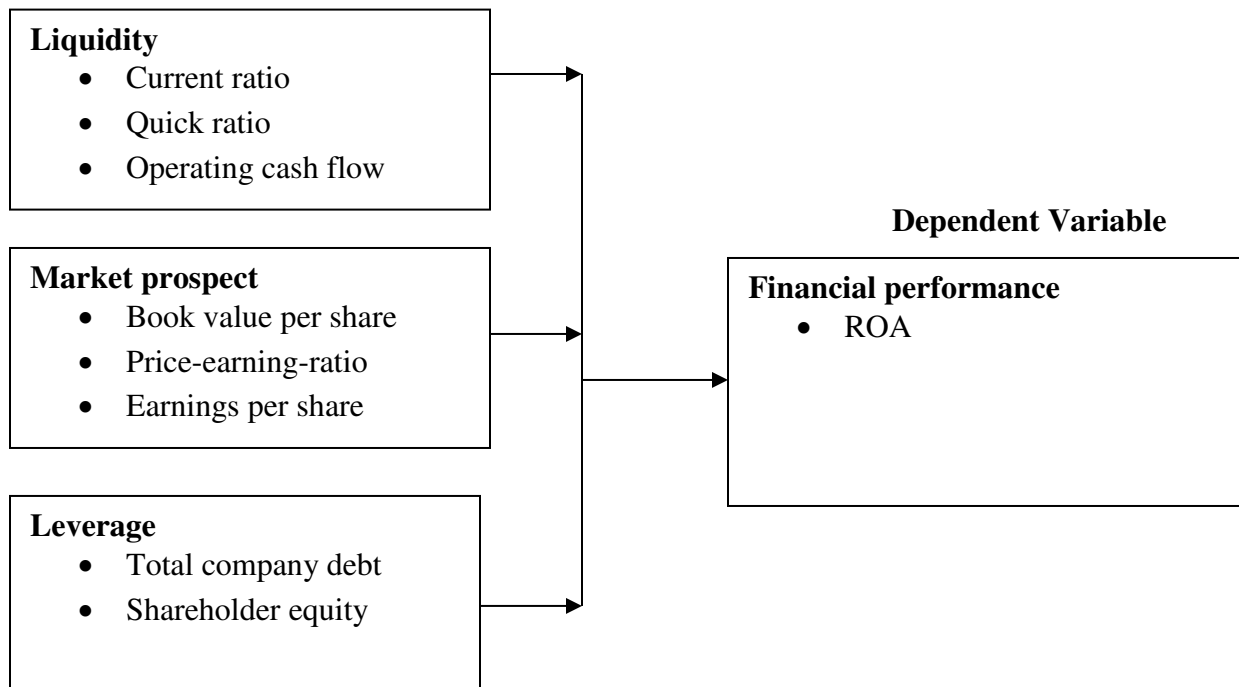


Figure 2.1: Conceptual Framework

Source: Researcher (2021)

Figure 2.1 indicated the way in which variables relate to each other in which the independent variables and dependent variable. The independent variables include; liquidity, market prospect and leverage. The non-financial institutions' financial performance listed in NSE is the dependent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers design of the research, population, sample design and size of the sample instruments to collect data, procedure in collecting data and analysis of data and presentation.

3.2 Research Design

In achieving the aim of this study, exploratory design was employed that guided in establishing how non financial institutions' financial performance listed at the NSE in Kenya is affected by merger. According to Ebimobwei and Sophia (2016) the exploratory design is suitable because the researcher is allowed in identifying how processes are affected together with the practices. In addition allows hypothesis testing in accordance with objectives of the study.

3.3 Target Population

Mugenda and Mugenda (2003) show that population is composed of a total number of individuals in a group whereby a represent able size of a sample can be obtained. Population for this study was three non-financial institutions that underwent mergers and listed at the Nairobi Securities Exchange, Kenya namely: Car and General (C&G) and Cummins, Unga group Holdings and Kenolkobil.

3.4 Data Collection Instrument

Utilisation of collection sheet of secondary data involving review of documents were used containing available data on statements of finance that have been made available covering a period of 10 years from 2011 to 2020. Nairobi securities exchange was the source of study's secondary data. Measurement of non financial institutions' financial performance focused mainly on return on assets (ROA).

3.5 Data Analysis and Presentation

Analysis of data in quantitative nature was descriptively analysed in terms of mean and standard deviation. This assisted in generating observed sample summary measurement and preparing quantitative data for more analysis of statistics. Presentation of the final results was through tables and figures. Version 20.0 of Statistical Package for Social Sciences (SPSS) was used in generating statistical data. Inferential analysis focused on use of analysis in correlation and multiple regressions as the study has more than two variables to be examined. The equation took the form as described below:

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

Whereby Y = Financial Performance (ROA)

X_1 = Liquidity

X_2 = Market Prospect

X_3 = Leverage

β_1 to β_3 = Beta coefficients

ε = error term

3.6 Diagnostics Tests

This section discusses the diagnostics tests that were used in the study. These tests include; Autocorrelation Tests, Homoscedasticity, Multi-collinearity and normality test. These are discussed as follows.

3.6.1 Autocorrelation Tests

Autocorrelation is the level of correlation through multiple observations in the data between the values of the same variables. Based on data in time series where occurrence of observations at

varying points in time, autocorrelation becomes commonly debated. In cross-sectional data, however, autocorrelation can also occur when the findings are related in some other way (White, 1992). Regressions residuals based on autocorrelation may happen in a regression analysis when the model poorly defined.

A popular method of autocorrelation testing is the Durbin-Watson test. The Durbin-Watson tests provide test statistics ranging from 0-4. Digits approaching 2 (mid-range) indicate that autocorrelation is less, while digits approaching to 0 or 4 show great autocorrelation in either positive or negative side.

3.6.2 Homoscedasticity

Homoscedasticity defines a condition in which, over all values of the independent variables, the error term. The presumption of equal variances, that is, the assumption of homoscedasticity, implies that different samples, even though they come from different populations, have the same variance (Jarque & Bera, 1980). Jarque and Bera (1980) also reveals that in linear regression, which assumes the data is homoscedastic, the hypothesis of equal variances is also used. Homoscedasticity will be evaluated in this analysis using the Levene test, which is a test to verify that variances for all samples are equal when your data comes from a non-normal distribution. If, however, Levene's test is non-significant ($p > .05$), then the variances are roughly equal and the assumption is tenable.

3.6.3 Multi-collinearity

Multicollinearity refers to a situation whereby a model in multiple regression two or more explanatory variables have a strong relationship. For example, if the correlation is equal to 1 or -1 between two independent variables (Alin, 2010), there is perfect multicollinearity. The Variance Inflation Factor (VIF) provides a description of correlation linking the independent variables to the correlation frequency. A VIF for the independent variable is calculated using

statistical software. VIFs starts at 1 and doesn't bear a limit on the upper side. A value of 1 indicates a none association linking the independent variable to any other according to Farrar and Glauber (2017). VIFs lying from 1 to 5 shows association are mild, but that corrective action is not necessary in warranting this. VIFs more than 5 symbolize the multicollinearity critical level where there is a wrong determination of coefficients and presence of uncertain p-values.

3.6.4 Normality Tests

Normality tests are utilized in measurements to decide if an informational collection is very much displayed by an ordinary dissemination and to process that it is so prone to be ordinarily circulated for an arbitrary variable basic the informational collection (Jarque & Bera, 2014). The square value of the Pearson sample correlation coefficient measured from the rank plot points is the Shapiro-Wilk normality test statistic $(E(Y_i), Z_i)$, $i = 1, 2, \dots, n$. The small values of the test statistics show that the normality principle does not hold. The null hypothesis is consistent with the high values of the test statistics. For calculating the p-value of the test, the R value may be used. If the p-value is small enough, the null hypothesis is dismissed.

3.7 Operatioanalization and Measurement of Variables

Table 3.1 shows how the type of the variable used in the study, how it was operationalized and measured.

Table 3.1: Operationalization and Measurement of Variables

Variable	Variable Type	Operationalisation	Measurement
Financial performance	Dependent	<ul style="list-style-type: none"> • ROA 	Interval scale
Liquidity	Independent	<ul style="list-style-type: none"> • Current ratio • Quick ratio • Operating cash flow 	Ratio Scale
Market prospect	Independent	<ul style="list-style-type: none"> • Forecast • Current earning • Dividend measurements 	Nominal Scale

Leverage	Independent	<ul style="list-style-type: none"> • Fixed costs • Cost structure • Net income 	Nominal Scale
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3.8 Ethical Considerations

To maintain ethical standards, an introductory letter from Kenyatta University together with a research permit from National Commission for Science and Technology (NACOSTI) was used to seek permission from the relevant authorities during data collection process. Data was collected from the secondary sources and the results of the study were not shared to any other party.

CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter entails the data analysis, relationship among the study variables as well as results of the analysis. The relation between variables is determined by performing inferential correlation between the variables and finally the results of the analysis are discussed. In addition, diagnostics tests were done. The data was collected from secondary sources and it was extracted from the Nairobi securities exchange reports.

4.2 Results of Descriptive Statistics

Table 4.1: Descriptive Statistics

Variables	Min	Max	Mean	Variance	Standard Deviation
ROA	-261.290	23.199	2.464	386.780	19.667
Liquidity	3.310	107.700	44.629	357.945	18.919
Market prospect	1.740	11.580	8.532	11.831	3.440
Leverage	0.010	76.760	9.531	113.80	10.669

Source: Researcher (2021)

According to 4.1, ROA has a minimum of -261.29 and a maximum of 23.199 of the extent to which the variable deviates from its main value. The difference between ROA and the mean value of 2.464 is 19.667. The finding implies that the financial performance of Kenyan non-financial institution listed at NSE is average. According to Naser and Mokhtar (2018) utilization of resources and sales growth of a firm effectively and efficiently is reflected in its financial performance as measured by profitability and stock prices.

The results in Table 4.1 show that liquidity had a highest standard deviation measure of

dispersion from its main value of 18.919 as compared to the market prospect and leverage. Also, liquidity had the highest maximum of 107.700 of the extent to which it deviates from its main value of 18.919. In addition, 18.919 is the extent to which liquidity deviates from the mean value of 44.629. Liquidity had a variance of 357.945 indicating the deviation from its value of 18.919. Due to insufficient market depth or market interruptions, non-financial institutions were unable to efficiently liquidate or offset a particular position at or near the last traded market price, leading them to participate in bank lending to satisfy their daily transactions. This is in line with Kong, Musah and Agyemang (2019) study that investigated how financial performance related to liquidity and observed that the financial performance of the firm as significantly affected by the its liquidity based on the measurement of Return on Assets (ROA).

Market prospect had the lowest standard deviation measure of dispersion from its main value of 3.440 as compared to the liquidity and leverage. The market prospect had a minimum of 1.740 and a maximum of 11.580 of the extent to which it deviates from its main value. 3.440 is the extent to which market prospect deviates from the mean value of 8.532. This shows that a smaller number of the non-financial institutions are at risk of losses due to changes in book value per share, price-earning-ratio and earnings per share and maybe other indicators whose values are set in the market. This finding is in line with Baek, Kim and Rhee (2014) study that examined how financial performance if affected by market prospect and revealed that expense in marketing effectiveness relies on industry on the basis of growth in total return and marketing cost, growth in total return and cost of the current market, growth of gross profit and growth of marketing cost.

The leverage had a minimum of 0.010 and a maximum of 76.76 of the extent to which it deviates from its main value. 10.669 is the extent to which credit risk deviates from the mean value of

9.351. This therefore, means that leverage is likely caused by the total company debt and shareholder equity. This is supported by the findings of the study by Aziidah (2017) that investigated how firm's in the energy sector financial performance within NSE was influenced by financial leverage and observed that an association existed linking the firm's profits with leverage because firms that had put much emphasis on debt resulted to having lower profits and those that had more emphasis on equity the profits were higher.

4.3 Results of Inferential Statistics

4.3.1 Correlation Analysis

In order to establish the relationship among the different variables in the study, Pearson correlation analysis was conducted on the liquidity, market prospect, leverage and financial performance indicators at 5% significance level.

Table 4.2: Correlation Analysis

	ROA	Liquidity	Market prospect	Leverage
ROA	1.00			
Liquidity	0.123	1.00		
Market prospect	-0.031	-0.123	1.00	
Leverage	-0.084	.945	-0.112	1.00

Source: Researcher (2021)

The results as presented in Table 4.2, were supposed to give spearman correlation coefficient which is to range from -1 to +1, where 1 is total positive correlation, 0 is no correlation, and -1 is total negative correlation. If the results are less than 0.5, it implies weak correlation. If the results are greater than 0.8, it implies a strong correlation. For variables to be correlated, one variable has to be dropped to avoid multicollinearity problem.

The findings show that liquidity had a positive correlation with ROA at 0.123. This findings is in

line with Kong, Musah and Agyemang (2019) study that investigated how financial performance related to liquidity and found that the financial performance of the firm as significantly affected by the its liquidity based on the measurement of Return on Assets (ROA).

The findings shows that market prospect had a positive correlation with ROA at 0.123. This finding concur with Farrington, Venter and Richardson (2018) study that examined how family SME's financial performance was influenced by selected market prospects and it was observed that differentiation of products was the only factor that could be seen influencing family SMEs financial performance

The results indicate leverage was highly correlated with a value of 0.945, hence the variable has to be dropped from the model. This agrees with Banafa, Muturi and Ngugi (2015) study that examined how listed non-financial company's performance in finance in Kenya was impacted by leverage and the statistical test showed that corporate financial performance in terms of ROA was negatively influenced by financial leverage.

4.3.2 Regression Analysis

The following is the output for the regression analysis, with significant importance on the R²

Table 4.3: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.636 ^a	.805	.772	.454

Source: Researcher (2021)

Table 4.3 shows that the coefficient of correlation was 0.805, indicating that the independent variables (liquidity, market prospect and leverage) have a strong link with the financial performance. The R square value at 0.805 also gives a goodness of fit measures. Table 4.3 further revealed that the adjusted R² was 0.772. This means that 77.2 percent of all differences in

the financial performance of non-financial institutions listed at NSE can be described by liquidity, market prospect and leverage, with the remaining 22.8 percent described by factors not included in the model.

The analysis of variance results is as shown in Table 4.4.

Table 4.4: Analysis of Variance

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	10.387	2.597	12.572	.000 ^a
	Residual	15.284	.207		
	Total	25.671			

Source: Researcher (2021)

As shown in Table 4.4 significance value is at 0.000 which is below 0.05. The results further indicate that the value of F was at 12.572 which was more than the value of mean square at 2.597. This implied that the model was significant in determining the financial performance of non-financial institutions listed at NSE.

Table 4.5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.539	.490		6.610	.000
	Liquidity	0.729	.046	0.066	2.781	.001
	Market prospect	0.692	.098	0.118	2.980	.001
	Leverage	0.712	.073	0.093	1.532	.001

Source: Researcher (2021)

The results as demonstrated in Table 4.5 is that 0.539 as the value of constant represents the value at which financial performance of non-financial institutional listed at NSE changes when liquidity, market prospect and leverage are kept at constant.

$$Y = 0.539 + 0.729X_1 + 0.692X_2 + 0.712X_3 + \varepsilon$$

Y = Financial Performance

X₁ = Liquidity

X₂ = Market prospect

X₃ = Leverage

The effect of one variable to the other is described as follows:

The study found that a 0.729 represented the amount by which financial performance of non-financial institutional listed at NSE changes when liquidity is changed by one unit keeping market prospect and leverage constant. The t-value ($t = 2.781$, $p < 0.05$) indicates a significant influence between liquidity and financial performance. This is in line with a study conducted by Kong, Musah and Agyemang (2019) that investigated how financial performance related to liquidity and found that the financial performance of the firm as significantly affected by the its liquidity based on the measurement of Return on Assets (ROA).

From the results in 4.4, the amount of 0.692 represented the amount by which financial performance of non-financial institutional listed at NSE changes when market prospect is changed by one unit keeping liquidity and leverage constant. The t-value ($t = 2.980$, $p = 0.05$) show a significant effect between market prospect and performance. This is in accordance with Jovanov-Marjanova, Davcev and Boeva (2016) study examined how financial performance was related to marketing prospect: The Case of Chocolate Industry in Macedonia and observed that Chocolate Industry in Macedonia financial performance was positively influenced by market prospect.

The study also found that a 0.712 represented the amount by which financial performance of non-financial institutional listed at NSE changes when leverage is changed by one unit keeping liquidity and market prospect constant. The t-value ($t = 1.532$, $p < 0.05$) indicates a significant

influence between leverage and financial performance. This is in concurrence with a study by Aziidah (2017) investigated how firm's in the energy sector financial performance within NSE was influenced by financial leverage and observed that an association existed linking the firm's profits with leverage because firms that had put much emphasis on debt resulted to having lower profits and those that had more emphasis on equity the profits were higher.

4.4 Results of Diagnostic Tests

4.4.1 Multicollinearity Test Results

To determine the degree of collinearity among the parameters of the regression models, a multicollinearity test was performed using Value Inflation Factor (VIF) and Tolerance values. According to Field (2013), a Value Inflation Factor (VIF) of less than 10 and a Tolerance of more than 0.1 in a regression model indicates the lack of multicollinearity. The test results are organized and presented Table 4.5.

Table 4.6: Multicollinearity Test Results

Variables	Collinearity Statistics	
	Tolerance	VIF
Liquidity	0.54	1.86
Market prospect	0.93	1.08
Leverage	0.60	1.66

Source: Research Data (2021)

The research variables Tolerance and VIFs have values larger than 0.10 and less than 10, respectively, as indicated in Table 4.6. Based on these findings, it was determined that the study variables of interest are free of biases that could impact the researcher's decision due to multicollinearity.

4.4.2 Normality Test

Normality test compares the scores in the sample to a normally distributed set of scores with the

same mean and the standard deviation (Ghasemi & Zahediasl, 2012). Normality test in this study was done using Shapiro-Wilk test. The results of the test for all the variables of the study are as indicated in Table 4.7. Shapiro- Wilk test ranges from 0 to 1. Values nearer to 1 indicate normally distributed data while those below 0.4 indicates existence of skewed data (Field, 2013).

Table 4.7: Normality Test

	Shapiro- Wilk test	
	Statistic	Significance
Liquidity	0.978	0.441
Market prospect	0.790	0.095
Leverage	0.764	0.063
Financial performance	0.735	0.059

Source: Research Data (2021)

The null hypothesis for normality tests stated that the data was not normally distributed. Test results in table 4.7 indicate that the p values for all the variables were greater than 0.05. Financial performance had the least significance of 0.059 liquidity had the largest significance of 0.441. Therefore, the residuals were not significant at 95% confidence level, leading to rejection of the null hypothesis and conclusion reached that the data in this study was normally distributed and thus the data could be relied upon to make conclusions about the population.

4.4.3 Homoscedasticity Test Results

Levene’s test of homogeneity of variances was used to test homoscedasticity. This test checks whether the variance between independent and dependent variables is the same. Where the null hypotheses of equal variance are not supported, it means that there is a difference between the variances in the population (Levene, 1960). If, however, Levene’s test is non- significant ($p > .05$), then the variances are roughly equal and the assumption is tenable. The results are

presented 4.8.

Table 4.8: Homoscedasticity Test Results

	Levene statistic	Significance
Liquidity	.685	0.702
Market prospect	3.458	0.420
Leverage	2.152	0.053
Financial performance	14.140	0.220

Source: Research Data (2021)

The significance for the four variables were greater than 0.05. Leverage had the least significance of 0.053 while liquidity had the highest significance of 0.702. Therefore, given the significance levels were greater than 0.05, the variances were significantly equal. From Table 4.8 above, it shows that Levene's statistic is not significant for all the variables and therefore the study fails to reject the null hypothesis. This therefore indicates that the variances are roughly equal and the assumption is tenable.

4.4.4 Autocorrelation Test Results

Autocorrelation implies that the error terms of the empirical models are not independent of each other. The Durbin-Watson test was used in this study to test whether the data suffer from autocorrelation problem or they are correlated across time. The results were as shown in Table 4.9 below.

Table 4.9: Autocorrelation Test Results

	Durbin Watson
Liquidity	1.922
Market prospect	1.828
Leverage	2.128
Financial performance	2.073

Source: Research Data (2021)

The results tabulated in Table 4.8 indicate that the Durbin Watson values ranged from 1.828 to 2.128. According to Garson (2012), Durbin Watson statistics range from zero to four where scores closer to 2, that is between 1.5 and 2.5 indicate independent observations, and values closer to 0 or 4 indicate greater positive or negative autocorrelation respectively. Therefore, using Garson (2012) recommendations, it was concluded that the residuals of the model are not autocorrelated hence inferential statistics can be conducted on the study data.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives findings in summary, conclusion, recommendation and suggestions for further studies.

5.2 Summary

The study sought to establish how non-financial institutions' financial performance listed at NSE, Kenya is affected by merger. The specific objectives of the study were to determine how selected non-financial institutions' financial performance listed at NSE, Kenya is affected by liquidity, market prospect and leverage. The data was collected from secondary sources and it was extracted from the Nairobi securities exchange financial records. The findings are presented as follows:

The first research objective sought to determine the effect of liquidity on the financial performance of non-financial institutions listed at NSE. The study established that liquidity had a significant effect on financial performance as indicated by t-value ($t= 2.781, p<0.05$). Liquidity had a highest standard deviation measure of dispersion from its main value of 18.919 as compared to the market prospect and leverage. Also, liquidity had the highest maximum of 107.700 of the extent to which it deviates from its main value of 18.919. In addition, 18.919 is the extent to which liquidity deviates from the mean value of 44.629. Liquidity had a variance of 357.945 indicating the deviation from its value of 18.919.

The second research objective sought to assess the effect of market prospect on the financial performance of non-financial institutions listed at NSE. The study revealed that market prospect had a significant effect on financial performance as indicated by t-value ($t= 2.980, p<0.05$). Market prospect had the lowest standard deviation measure of dispersion from its main value of

3.440 as compared to the liquidity and leverage. The market prospect had a minimum of 1.740 and a maximum of 11.580 of the extent to which it deviates from its main value. 3.440 is the extent to which market prospect deviates from the mean value of 8.532.

The third research objective sought to evaluate the effect of leverage on the financial performance of non-financial institutions listed at NSE. The study revealed that leverage had a significant effect on financial performance as indicated by t-value ($t= 1.532$, $p<0.05$). The leverage had a minimum of 0.010 and a maximum of 76.76 of the extent to which it deviates from its main value. 10.669 is the extent to which credit risk deviates from the mean value of 9.351.

5.3 Conclusions

The study concludes that due to insufficient market depth or market interruptions, non-financial institutions were unable to efficiently liquidate or offset a particular position at or near the last traded market price, leading them to participate in bank lending to satisfy their daily transactions. Liquidity helps organizations to get an idea on the liquidity position of the company, shows how a current asset-rich company is it, how much debt an organization can pay off only using the cash on hand, helps organization to understand the strength of the company and shows how quickly a company can pay off its debt.

The study concludes that a smaller number of the non-financial institutions are at risk of losses due to changes in book value per share, price-earning-ratio and earnings per share and maybe other indicators whose values are set in the market. Market Prospect ratios enables organizations to compare publicly traded companies' stock prices with other financial measures like earnings and dividend rates. Investors use market prospect ratios to analyze stock price trends and help figure out a stock's current and future market value.

The study concludes that leverage is likely caused by the total company debt and shareholder equity. Leverage enables organizations to magnify their shareholders' profits because if an organization is solely financed by shareholder equity, then its profitability to the shareholders will change in proportion to its own change in profitability. A firm that successfully uses leverage demonstrates by its success that it can handle the risks associated with carrying debt.

5.4 Recommendations

The study recommends that the non-financial institutions listed at NSE should aim at maximizing their overhead expenses that consume much of their cash flow. Keep a tight rein on accounts receivable by ensuring effectiveness in the collection of payments from their own customers. Maximize productivity and profits with process automation like immediate savings through automation of high-volume, repetitive tasks and elimination of human error, improved cycle times and accuracy for purchase order and invoice processing and improved overall vendor management.

The study recommended that the non-financial institutions listed at NSE should aim at gaining forecasted ability to compete in a marketplace by comparing publicly traded companies' stock prices with other financial measures such as earnings and dividend rates. Use marketing prospect ratios such as earnings per share, book value per share, and the price-earnings ratio to examine whether there is a downward trend in earnings per share and dividend yield point to profitability problems and could address the going concern issues.

The study recommended that the non-financial institutions listed at NSE should increase financial leverage by borrowing capital through issuing fixed-income securities or by borrowing money directly from a lender. The non-financial institutions listed at NSE can also use operating leverage to magnify cash flows and returns, and can be attained through increasing revenues or

profit margins.

5.5 Suggestions for Further Studies

The current study investigated the effect of merger on financial performance of selected non-financial institutions listed at NSE, Kenya. Merger was evaluated in terms of liquidity, market prospect and leverage. Therefore, the study suggests that further studies should be done that focus on different evaluation of merger on financial performance. The study also suggests that further studies should be done that focus on merger and financial performance of other institutions apart from non-financial institutions studied using different methodology apart from exploratory design.

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APPENDICES

Appendix I: Data Collection Sheet

Year	Cash Ratio		Market prospect		Leverage	
	Current ratio	Quick ratio	Book value per share	Price earning ratio	Total company debt	Shareholder equity
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						

Appendix II: University Approval Letter



KENYATTA UNIVERSITY
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P.O. Box 43844, 00100
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Internal Memo

FROM: Dean, Graduate School

DATE: 9th June, 2021

TO: Rebecca Jeruto Keitany
C/o Accounting and Finance Dept.

REF: D53/OL/NKU/38555/2016

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 2nd June, 2021 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Mergers and Financial Performance of Non-Financial Institutions Listed at the Nairobi Securities Exchange, Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

A handwritten signature in blue ink, appearing to read 'EM', is written over the printed name of the Dean.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL


c.c. Chairman, Accounting and Finance.


Supervisors:

1. Dr. Fredrick Warui
C/o Department of Accounting and Finance
Kenyatta University

EM/Inn

Appendix III: Research Permit


REPUBLIC OF KENYA


**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **745717** Date of Issue: **12/August/2021**


RESEARCH LICENSE




This is to Certify that Ms.. Rebecca Keitany JERUTO of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: MERGERS AND FINANCIAL PERFORMANCE OF NON-FINANCIAL INSTITUTIONS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA for the period ending : 12/August/2022.

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