

**EFFECTS OF MERGERS AND ACQUISITIONS INDICATORS ON
SHAREHOLDER VALUE; A CASE OF INSURANCE FIRMS IN KENYA**

BY

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REG: 14/00736

MASTER OF SCIENCE IN COMMERCE (FINANCE AND INVESTEMENT)

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE IN COMMERCE
(FINANCE AND INVESTEMENT) DEGREE IN THE SCHOOL OF BUSINESS AND
PUBLIC MANAGEMENT AT KCA UNIVERSITY**

SEPTEMBER 2017

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: _____

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Sign: _____

Date: _____

I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended
have been adequately addressed.

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Dissertation Supervisor

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DEDICATION

Dedicated to my Beautiful daughter Tamara A. Otieno, my Mum Jane Sylvester and to my
Late Dad Mr. Arieda John Nyokea

ABSTRACT

Mergers and Acquisitions are purposely intended to build internal capacity, increase the market share, attain cross boarder expansion, grow existing business when organic growth is becoming difficult and help in the diversification of risks. They are also poised to create synergies, diversification and build economies of scale which results to the rise in the values of both the predator and the targeted firms. In spite of the numerous successes of Mergers & Acquisitions within the global markets, Mergers & Acquisitions are affected by some factors which are both exogenous and endogenous. Although many issues concerning corporate mergers have been addressed in existing literatures, little concentration has been given to address the effects of Mergers & Acquisitions indicators on shareholder value of insurance firms in Kenya. This study therefore intends to bridge this knowledge gap by analyzing the Market share, Debt capacity and Cash Flows as the key indicators of Mergers & Acquisitions. The study made analysis of the effects of Mergers & Acquisition indicators on the shareholder value with the intention to specifically answer the most fundamental question; are Mergers & Acquisitions an appropriate strategy for creating or maximizing the shareholder's value. The study adopted the longitudinal research design, based on descriptive survey, and its target population was insurance firms in Kenya that had adopted Mergers & Acquisitions as a corporate reorganization strategy during the periods of 2010-2014. The sample size consisted of the 8 Kenyan insurance firms. It relied on secondary data which was obtained from the audited financial statements and journals from Association of Kenyan Insurance (AKI). The study used descriptive statistics as well as regression to estimate a model to explain shareholder value of the merged or acquired insurance firms in terms of market share, debt capacity, and free cash flows based on 5% level of significance (p -value = 0.05). The Stata statistical software version 12 was used to assists in data analysis. The study revealed that the shareholder value of the merged or acquired insurance firms in Kenya was reducing between 2011 and 2014. The study concludes that Market Share affects the Shareholder Value of the merged or acquired insurance firms in Kenya positively; debt capacity affects the shareholder value of merged insurance firms in Kenya negatively, and free cash flows also affects the shareholder value of the merged or acquired insurance firms in Kenya negatively. The study also revealed at 0.05 significance level, market share, debt capacity, and free cash flows significantly predicting a sustainable shareholder value of the merged or acquired insurance firms in Kenya. The study recommends that the merged or acquired insurance firms in Kenya should; aggressively in propagating their marketing to expand the market penetration for increasing the market share, evaluating their own debt capacity to avoid any unnecessary risk of default, and free cash flow from the operations should be paid out to shareholders in the form of dividends so as to maximize the stock price and ensure improved shareholder value.

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ACRONYMS AND ABBREVIATIONS

CAARs	Cumulative average abnormal returns
M & A	Mergers and Acquisitions
SV	Shareholder Value
MS	Market Share
FCF	Free Cash Flows
DC	Debt Capacity

OPERATIONAL TERMS AND DEFINITION

Debt capacity is defined as the assessment of the amount of money owed that a company or individual can pay back within a specified period. Basically, it reflects a company's ability to borrow.

Free Cash flows is a measure of a company's financial performance, calculated as operating **cash flow** minus capital expenditures. FCF represents the **cash** that a company is able to generate after spending the money required to maintain or expand its asset base.

Insurance firms Refers to those companies who helps in hedging against uncertainties or risks at a certain cost.

Market Share refers to the percentage of an industry or market's total sales that is earned by a particular company over a specified time period.

Mergers and Acquisitions: is defined as Mergers refer to the consolidation of two or more companies to form one company while Acquisition is the purchase of one company by another with no new company being formed

Shareholder value is defined as the returns received by equity owners from the profits made by a business at a particular time. Shareholder value can be in terms of dividends and profits from the sale of shares.

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Mergers refer to the consolidation of two or more companies to form one company while Acquisition is the purchase of one company by another with no new company being formed. (Chris, Scott et al, 2011). Several types of M&A take the following forms; Horizontal, Vertical and Conglomerate. Mergers and Acquisitions (M&A) is considered to play a vital role in corporate finance because it enables firms to achieve their financial and growth objectives as resulted from synergies, diversification and economies of scale(Jensen, 1984).

In spite of the numerous successes of M&A within the global markets, Lipton (2006) suggests that M&As are affected by some factors which are both exogenous and autogenous. The exogenous factors affecting mergers include; accounting, antitrust policy, arbitrage, currency fluctuations, deregulation, and hostile bids, amongst others. On the other hand, the autogenous factors that affect mergers include; obtaining the market power, sharing the benefits of an improved operating margin through reduction of operating costs, sharing the costs and benefits of eliminating excess capacity and the advantage or necessity of having a more complete product line in order to be competitive.

According to Lev (1993) and Larcker (1993), the M&A activity is reported to have been famous in the 60's and 80's where several factors fueled it through 2007. However, it was slowed down by the 2008/2009 global financial meltdown. It is also recorded that mergers, acquisitions, management buyouts or takeovers activity has picked up since the recovery from the global

financial crisis and is on an increasing trend due to its adoption as a corporate reorganization strategy 'to boost the firms' financial performance. (DePamphilis, 2011).

Although there has been a general global increase in the M&A activity, The Merger-market M&A Trend Report (2014) indicates that the African and the Middle East M&A outlook in 2014 slumped in the first quarter by 50.4% to US\$ 6.3bn compared to Q1 2013 (US\$ 12.7bn). In East Africa it is reported that Kenya topped in regards to the M&A activity. (KPMG, 2014). The M&A deals in Kenya jumped from 15 in 2010 to 44 in 2013. The Kenyan financial sector recorded the best performance with regards to the M&A deals which improved from 2 deals in 2010 to 18 deals in 2013. The total value of publicly disclosed deals in 2011 reached \$667m, but dropped significantly to reach only \$119m in 2012. This was followed by a notable recovery, with total deal value reaching \$863m in 2013. (KPMG, 2014)

Scholars have over the recent past dwelt in a lot of discussion about the effects of M&A on the shareholder value and given different views regarding the same; Cummins & Weiss (2004) reported that European M&As created a small negative cumulative average abnormal returns (CAARs) for acquirers (generally less than 1%). DeLong (2001) also advanced that bank mergers that focus in terms of activity and geography enhanced stockholder value, whereas mergers that induce more functional diversification do not create value.

The locally done studies have postulated that M&As have a positive effect on the firm performance (Marembo, 2012), and some also recorded that it has a positive effect on shareholder value, (Mitema, 2014; Rono, 2012). Odero, *et al.* (2012) also revealed that mergers significantly influenced shareholder value with banks that have undertaken mergers creating more value than those that have not. It is however noted that little studies have been done

regarding the effects of M&A indicators on the shareholder value a concern that this paper seeks to address.

1.1.2 The Kenyan Insurance Industry

The Insurance industry in Kenya is governed by the insurance Act and is regulated by the Insurance Regulatory Authority (IRA) which is a body established in 2008 discharged with a core mandate to improve regulation and stability of the industry. The industry operates under an umbrella body known as the Association of Kenya Insurers (AKI), which was established in 1987 and previously known as the Insurance Association of Eastern Africa. Its membership is open to any registered insurance firm and it serves the purposes of promoting prudent business practices, creating awareness among the public and acceleration of the growth of insurance business in Kenya.

The state of the Kenyan economy has been deemed to be improving since the 2007/8 post-general election violence which has seen the operation of 48 insurance companies as at 2013. Among the 48 firms, 25 companies wrote non-life insurance business, 12 wrote life insurance business while 11 were composite (both life and non-life). There were also 187 licensed insurance brokers, 29 medical insurance providers (MIPs) and 4628 insurance agents. Other licensed players included 134 investigators, 105 motor assessors, 22 loss adjusters and 27 insurance surveyors. (AKI Annual Report, 2013)

As at 2013 the insurance penetration in Kenya stood at 3.44% ranking Kenya 4th in Africa behind South Africa, Namibia and Mauritius. It is also presumed that emerging risks such as Micro-insurance, oil and gas and Initiatives such as adoption of alternative distribution channels (banc assurance) and use of technology will improve insurance penetration level in Kenya. It is

also reported by AKI (2013) that the industry recorded gross written premium of Kshs. 130.65 billion compared to Kshs. 108.54 billion in 2012, signaling a growth of 20.4%. The gross written premium for non-life insurance was Kshs 86.64 billion (2012: Kshs 71.46 billion) while that for life insurance was Ksh 44.01 billion (2012: Ksh. 37.08 billion).

The increased uptake of insurance that has resulted to the growing middle class seeking social security and the recent discovery of mass oil in the northern Turkana regions and gas deposits along the coastal regions have put Kenya at an attractive center for Insurance growth with foreign companies developing interest by acquiring subsidiaries within the country an example being the acquisition of BlueShield Insurance by Prudential PLC which is one of the largest British insurance firms. The Shareholder's funds in the sector stood at Sh122 billion last year (2014) up from Sh98 billion underlining the capital injections. AKI (2014)

This good performance confirms the vibrancy of the industry since it has consistently recorded growth over the years. However the industry also cry foul of certain risks that deprive it of its profits or growth for example, the Kenyan insurance industry is highly affected by fraud, negative perception of insurance especially the life insurance cover, political instability, and terrorism threats all over the country amongst other factors.

1.2 Statement of The Problem

Mergers and Acquisitions are purposely intended to build internal capacity, increase the market share, attain cross boarder expansion, grow existing business when organic growth is becoming difficult (Korir, 2006) and help in the diversification of risks (Halfar, 2011). They are also poised to create synergies, diversification and build economies of scale (Jensen, 1984) which results to the rise in the values of both the predator and the targeted firms (Auebach & Alan, 1991).

Just like other firms, both the publicly and privately traded insurance companies in Kenya have a core objective of increasing the long-term value for their shareholders and also to increase the net worth of the business which is occasionally measured in terms of ROE, ROA, and EFF. The popularity of M&A within the insurance sector in Kenya is mostly affected by the limited customer base and low income from the underwriting business caused by the high level of competitive environment (Mbogo, 2010).

Several studies have indicated different views of M&A effect on shareholder value. For instance, Jensen and Rubback found out that corporate takeovers generate positive gains that target firm shareholders benefit, and that bidding firm shareholders do not lose". Local studies have also given different opinions for example; Korir (2006) established that mergers improve performance of companies listed at the securities exchange through increase in turnover, volume, market capitalization, and profit, Rono (2012) found that Mergers enhanced performance leading to improved shareholder's wealth of commercial banks in Kenya and Mitema (2014) study also revealed that M&A in the Kenyan insurance firms results to shareholder value increase.

Gugler et al. (2003) on the other hand revealed that 45% of merged firms reported lower profits than comparable non merged firms. Coffey et al. 2003 and Bruner, 2002 also posited that over

40% to 80% of M&As fail despite receiving a strong support coupled with high popularity within the corporate world. Pautler (2003) discovered that firms showed no enhanced shareholder value and a decline in revenue growth for both the target and acquiring firms.

Although many issues concerning corporate mergers have been addressed in existing literatures, little effort has been made to address the effects of M&A indicators on shareholder value of insurance firms. This study therefore intends to bridge this knowledge gap by analyzing the Market share, Debt capacity and Cash Flows as the key indicators of M&A.

1.3 Objectives of the study

1.3.1 General Objective

To find out the effect of Mergers and Acquisitions Indicators on the Shareholder Value of insurance firms in Kenya

1.3.2 Specific Objectives

- i. To find out the effect of Market Share on the Shareholder Value of the merged or acquired insurance firms
- ii. To assess the extent to which Debt Capacity affects the shareholder value of merged insurance firms
- iii. To evaluate the effect of Free Cash flows on the shareholder value of the merged or acquired insurance firms.

1.4 Research Hypothesis

Hypothesis 1

H₀: There is no significant effect of market share on the shareholder value of the merged or acquired insurance firms.

H₁: There is a significant effect of market share on the shareholder value of the merged or acquired insurance firms.

Hypothesis 2

H₀: There is no significant effect of Debt capacity on the shareholder value of the merged or acquired insurance firms

H₁: There is a significant effect of Debt Capacity on the shareholder value of the merged or acquired insurance firms.

Hypothesis 3

H₀: There is no significant effect of Cash flows on the shareholder value of the merged or acquired insurance firms.

H₁: There is a significant effect of Cash Flows on the shareholder value of the merged or acquired insurance firms.

1.5 Limitations of the study

The study failed to look at other factors that might affect the shareholder value like the managerial overconfidence, Insider dealings, Antitrust policy, Arbitrage, Currency fluctuations, deregulation, and hostile bids.

1.6 The Importance of the study

As aforementioned earlier about the existence of less concentration to expose the effects of M&A indicators on the shareholder value by scholars, This study intends to benefit different stakeholders differently as discussed below;

Corporate heads and Shareholders

The study would help the corporate heads and shareholders of Insurance firms and other companies to make appropriate decision regarding investments through Mergers and Acquisition. This would be drawn from the findings of the study

Policy Makers

The policy makers in the insurance industry who are the Insurance Regulatory Authority and the Association of Kenyan Insurance will benefit from this study by using the conclusions drawn to make good or better regulatory frameworks that do not hinder M&As and also affect the shareholder value i.e. the taxation policy on investments.

Academicians

To the academicians and the researchers, this study would help them to conduct further studies on the gaps that will be identified in this study. It would also be a source of empirical reference and literature review.

CHAPTER TWO

LITRATURE REVIEW

2.0 Introduction

This chapter reviews different studies on M&A. It discusses the theoretical as well as the empirical studies as revealed by different scholars.

2.1 Theoretical Literature

The main theories of M&A considered in this study are mainly; Neoclassical, and Behavioral theories and they are discussed below;

2.1.1 The Neoclassical theory

This theory was first discussed by Jensen and Rubback in 1983, where they said that managerial teams compete to manage the assets of the company while the shareholders act passively in the market as judges for corporate control. The theory also posits that a firm only bids for another if the value of the potential acquirer places on the target firm is greater than the value placed on it by its current owners. The Neoclassical theory of M&A records that firms redeploy assets towards more productive uses due to factors such as market shocks, with the aim to improve market efficiency or maximize shareholders wealth. (Sadeghi&Ngyuen, 2013)

Sadeghiand Ngyuen (2013) also explains that traditional Neoclassical theory views mergers as an efficiency improving response to economic, regulatory and industrial shocks. It also says that the key point behind mergers is to allow firms to smoothly transit into a new competitive environment, increase their profitability, and value of their shares.

The neoclassical theories assume that;

- Managers maximize shareholders' wealth
- Mergers are wealth creating
- Capital market efficiency

2.1.2 Shareholder Value theory

The shareholder wealth maximization model affirms that a firm should strive at maximizing the returns to shareholders as measured by the sums of capital gain and dividends for an assumption of a given level of risk. (Eiteman, *et al*, 2004). Nobel Laureate Milton Friedman (1970) strongly argues in favor of maximizing financial return for shareholders by saying that businesses do not have any moral obligation or social responsibility other than maximizing their own profit. The SWM theory assumes that an equity share price is always correct because it captures all the expectations of return and risk as perceived by investors, quickly incorporating new information into the share price. (Wesley, 2004)

Watson & Head, (2007) explains that a goal of financial management is to maximize the shareholder value by paying dividends and or causing the market value to rise for the purpose of capital gain. The maximizing value idea is related to that of maximizing shareholder value, as market value is the price at which an asset would trade in a competitive auction setting; for example, returning value to the shareholders if they decide to sell shares or if the firm decides to sell.

According to Booth, (1998) the economic justification for creating shareholder value (CSV) as the over-riding objective of the firm primarily comes from an assumption implicit in most of the

finance literature that all the markets in which the firm operates are perfectly competitive. Shareholder value creation is not the maximization of share price or managing for earnings or doing anything to make profits but it is driven by Long term Cash Flows. It is created when the long-term returns are higher than the cost of capital and the vice versa. (Cfasociety.org/srilanka)

The shareholder value or wealth maximization is measured by use of some popular traditional metrics for the company performance like the stock prices, Net Income, Dividend Payments, cash flow and free cash flows, Return on Investments, and the Return on Equity. It is also noted that the above mentioned traditional metrics show serious limitations and deficiencies if used as a performance metric that measures shareholder wealth creation (Hecking, 2002) hence the introduction of Economic Profit (EP), Economic Value Added (EVA) and Cash Value Added (CVA) where;

- Economic Profit = NOPAT – Invested Capital x Cost of Capital
- EVA® = AdjNOPAT – AdjInvested Capital x Cost of Capital(K^e)
- Cash Value Added = OCF – Gross Investment x Cost of Capital
- NOPAT = Net Operating Profit after Tax; OCF = Operating Cash Flow

The shareholder theory puts forward the following assumptions;

The first is that the human, social, and environmental costs of doing business should be internalized only to the extent required by law. All other costs should be externalized. The second is that self-interest as the prime human motivator. As such, people and organizations should and will act rationally in their own self-interest to maximize efficiency and value for society. The third is that the firm is fundamentally a nexus of contracts with primacy going to those contracts that have the greatest impact on the profitability of the firm.

2.1.3 The Hubris Hypothesis

This theory explicitly explains that mergers affect both the value of the firm and the shareholders' value as well. Roll (1986) postulates that around a takeover, the combined value of the target and bidder firms should fall slightly, the value of the bidding firm should decrease, and the value of the target should increase. Corporate managers of acquiring firms therefore undertake mergers in order to exchange their overvalued stocks for real assets.

The theory also records that managers systematically commit error of optimism in evaluating merger opportunities due to their over-confidence. According to Roll (1986), potential bids are turned down whenever the acquiring firm's valuation of the target turns up with a figure below the current market price. Bids are accepted when the valuation exceeds the price. Organ & Just (2009) also posits that overconfidence and optimism are the key drivers of M&A in spite of performances in terms of shareholder wealth creation and increase of the market value of the acquiring.

2.2 Market share

In the recent past, companies and institutions across the globe have developed keen interest in market share because of the high level of competition they receive at the market place.

According to Cooper & Nakanishi (2010), it is believed that the interest of the corporate managers in the market is in terms of profits or returns on investment (ROI). Bigger market share also means more power to the firm in controlling the prices and services it offers to customers (Heggsted, 1977).

Cooper & Nakanishi (2010) defines market share as the shares of the actual sales (either in quantity sold or dollar volume) for a product in a given period and in a given geographical area. Buzzell et al. (1975) reported a strong, positive relationship between market share and profitability. The links they found between market share and profitability were economies of scale, market power and quality management.

It has however, also been recorded by Fraering & Minor (1994) that a weak relationship exists between market share and profitability especially of banking, machinery, computers, diversified insurance, and financial services. Heggsted (1977) also found out that there is a weaker relationship between market growth and profitability.

2.3 Debt Capacity

According to Woodruff (2007) debt capacity is the proportion of debt to total assets that a firm is normatively willing (and is allowed by the financial market) to carry. It is an important aspect of financial management as explained by the theory of the firm. Assessing the debt capacity of a firm is always important because the investors want to avoid investments in companies with little

or no unused debt capacity and thus a high risk of default. Companies are also interested in evaluating their own debt capacity as they do not want to take an unnecessary risk of default (and thus failure) and incur increased interest costs for borrowing.(Woodruff, 2007).

Debt capacity of a firm as part of a financial synergy is said to increase when two firms combine which results to their earnings and cash flows becoming more stable and predictable. This allows them to increase their leverage which they couldn't manage as individual companies which results to a tax benefit to the combined firm.(Damodaran, 2005). As a result of risk reduction by conglomerates through diversification, Levy &Sarnat (1970), and Lewellen (1971) also argues that by combining uncorrelated income streams, one firm's operations can supply funds following merger to make up for the other's concurrent deficiencies.

Lewellen (1971) also reaffirms that increased tax subsidy as resulted from the increased debt capacity of the combined firms can also benefit the shareholders within some reasonable range of leverage. Thus both bond and share-holders may benefit from non-synergy conglomerate mergers. Stevens (1973) therefore indicates that firms that are acquired have lower leverage than similar firms that are not acquired, indicating that acquiring firms are looking for unused debt capacity.

2.4 Free Cash Flows

The fundamental insights of finance stipulates that the value of an asset or business is its present value of the cash flows it generates and for M&As transactions to create value it must be able to create a favorable impact on the amount, timing, or risk of the cash flow streams of the combined institution in comparison with those of the acquiring and target firms involved in the deal (Brookings-Wharton 2004).

Free-cash flow is defined as a company's true operating cash flow. It is the total net after-tax cash flow generated by the company and is available to all providers of the company's capital, both creditors and shareholders. (IMA, 1997). According to Hunt (1975) $FCF = \text{net income} + \text{non-cash items} - \text{increased NWC/Capex}$. Free cash flow can also be computed as net income plus amortization and depreciation less changes in working capital less capital expenditures. A negative cash flow might signal large investments in the firm's future success. (Windsor, 2008)

Free cash flow reflects the cash flow from the operations of a business for a period. Jensen (1986) writes that free cash flows found in the reserves should be paid out to shareholders in the form of dividends if the firm is to be effective and to maximize the stock price. He also records that acquisitions financed by cash and debt generates higher benefits than those attained through acquisition by exchange of stocks. Ross, et al. (2012) also says that shareholders of the acquiring firm can avoid tax on dividends if the firm makes acquisition using its excess cash. This is however an illegal motive but beneficial to the shareholders. O'Byrne (1991) found out that the coefficient of the future value of free cash flow is 1.0 which means that an incremental dollar of cash increases investor wealth by a dollar.

2.5 The Empirical Studies

2.5.1 International Evidence

Many studies have been carried out with the view to determine the effects of M&As on shareholder value. By examining 500 largest M&A deals made worldwide by publicly traded acquirers between 2002 and September 2009, Herd &McManus (2012) posited that mergers and acquisitions can create substantial amounts of shareholder value in any industry or region, at any point in the economic cycle.

Berger (2004) indicated that small companies find it hard to command significant market share when large and established players are operating in the same industry. In such situations the small industry player struggle to make a breakthrough that would enable them grow considerably as compared to large company. The bigger players expand without much struggle. To overcome such a challenge, the small companies turn to merger and/or acquisition to build a synergy and become competitive since remaining as a small player in an industry exposes the company to high risk. Through the M & A, the firms start commanding a stake in the big market.

The study by Juanjuan (2007) found that mergers and acquisitions significantly enhance the achievement of financial objectives of the firm under the participation. The study revealed that M & A always increase the value of the companies but only the value of the company that is acquiring the other. He also noted that some mergers have uncertain impact on the shareholders' value.

Halfar (2011) study found that the acquiring company was the main beneficiary of the transactions, since they enjoyed by creating value. The study failed to consider the performance

of all the companies merged and all these participating entities fared in the competitive environment with regards to market share.

A study by Tariq (2011) revealed that, there are controversial results about the abnormal returns to the acquiring firms' shareholders. Some studies suggest that there are no significant abnormal returns while others suggest negative abnormal returns. If negative abnormal returns exist, then the causes are not well known.

Yilmaz (2011) study showed that post-acquisition return on assets and return on sales values are significantly lower than pre-acquisition values. Therefore, accounting data, using the change model, supports the hypothesis that acquirer company performance is affected by merger and acquisition activities. The study used parametric t-test.

Cummins&Weiss (2004) after carrying out an event study on the stock price impact of M&A transactions on target and acquiring firms reports that European M&As created a small negative cumulative average abnormal returns (CAARs) for acquirers (generally less than 1%) on average across various windows surrounding the transaction date. They also add that targets realized substantial positive CAARs in the range of 12% to 15%.

Cybo-Ottone and Murgia (2000) also postulated that abnormal returns are higher in cross-product deals than in horizontal bank mergers after conducting an event study on the European mergers. DeLong (2001) also advances that bank mergers that focus in terms of activity and geography enhance stockholder value, whereas mergers that induce more functional diversification do not create value.

In their quest to find out the effect of M&A on shareholder wealth in Nigerian Banks, Adegboyega and Dele (2014) found out that mergers and acquisitions have positive effect on the shareholders wealth. Branch et al.(2012) concluded that large takeovers create substantial benefits for shareholders and bondholders of the target firms. Flugt (2009) also found evidence that target shareholders receive on average positive and significant abnormal return two days prior to the announcement and one day after disclosure of the deal, resulting in a large and Cumulative Abnormal Return (CAR)of 14.92%.

A report by L.E.K. Consulting LLC (2013) indicated that around 60% out of a 2,500 sampled M&A deals in the periods of 1993-2010 destroyed shareholder value which was depicted by the drop in shareholder returns by 10% after 2 years of the merger. This reports otherwise of the previously done studies.

Pautler (2003) also did a review on business consulting for the US Federal Trade Commission and discovered that firms showed no enhanced shareholder value and a decline in revenue growth for both the target and acquiring firms. Depamphilis (2011) also postulates that on average M&As causes shareholder gains over the period of the announcement but most of this gain is accrued to target firm shareholders only. However, he further says that these gains are destroyed after three to five years of the acquisition due to underperformance compared to their industry peers.

Bruner (1988) in his study, “The use of Cash and Debt Capacity as a motive for Merger revealed that the change in shareholder wealth is related to the change in leverage supporting the theory of Myers and Majluf that states that slack-rich bidders pairs with slack poor targets to create value.

2.5.2 Local Evidence

According to Rono (2012), there is an enhanced performance as a result of the Merger leading to improved shareholder's wealth of commercial banks in Kenya. The study used a Chi-square method for analysis. Mitema (2014) using intrinsic value to analyze the effect of M&A on shareholder value of insurance firms in Kenya also concluded that M&A results to shareholder value increase.

In her study to find out the effect of M&A on the shareholder wealth of listed petroleum firms in Kenya, Nyambura, (2014) uncovered that the past Kenyan Petroleum companies M&As were not wealth creating projects for the shareholders of both the bidding entity and the combined entity. However, Korir (2006) established that mergers improve performance of companies listed at the securities exchange by encouraging high turnover, volume, market capitalization, and profit.

Odero, et al. (2012) also revealed that mergers significantly influence shareholder value with banks that have undertaken mergers creating more value than those that have not. In their study they made an analysis of the return on assets (ROA), return on equity (ROE) and the efficiency ratio (EFF) as indicators of shareholder value for the commercial banks in the periods of 2006-2010. The sampled commercial banks population was 23.

2.6 Conclusion from the Literature

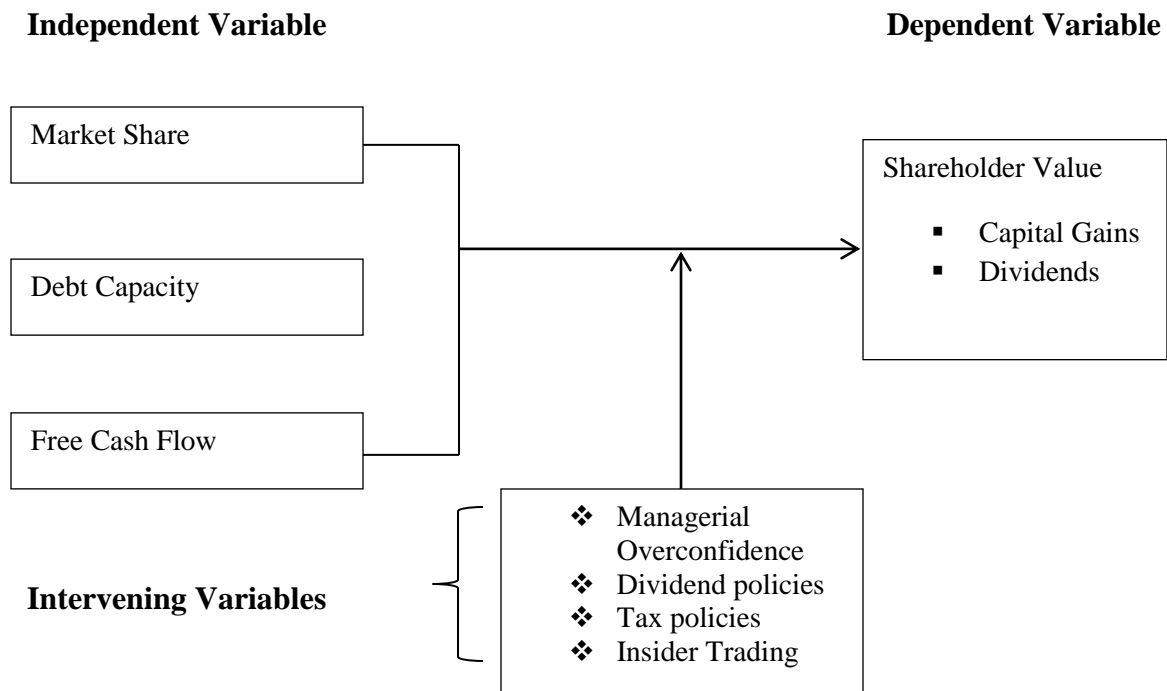
In conclusion of the reviewed empirical literature, it is noted that there exists limited knowledge concerning the effects of M&A indicators on the shareholder value especially with regards to the Kenyan phenomenon. It is also realized that the different methodology and data analysis used in these studies vary and therefore give conflicting results or evidence. Some of the local empirical

evidence also focused on a small sample, with majority focusing on listed companies. This study will therefore develop on the above mentioned weaknesses of the empirical evidence by including insurance companies which are both publicly and non-publicly listed and also use descriptive analysis and multiple regressions for the analysis of data in order to come up with accurate findings.

2.7 Conceptual framework

The study suggested that M&A as a value unlocking strategy influences the Market Share, Debt Capacity and the Free Cash Flows which affects the shareholder value. The shareholder value or return is determined by Dividends received per share and Capital gains. The study suggested that managerial overconfidence, Insider trading, Arbitrage, dividend policy and tax policy are some of the intervening variables that affect the shareholder value.

FIGURE 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails the method that was used to collect and analyze the data. It discusses the Research design, target population, sample procedure, data collection tools and data analysis and the regression model.

3.2 Research Design

Yin (2009) defines a research design as a guide to the process of data collection, analysis, interpretation and provision of a dialect for drawing inference on relations. The study adopted the event study methodology to examine the shareholder values of both the pre-merger and the post-merger insurance companies using key M&A indicators. The study used descriptive research design to assess the effect of Mergers and Acquisitions Indicators on the Shareholder Value of insurance firms in Kenya. This study used a descriptive survey (Describing the characteristics of existing phenomenon) in soliciting information in the area of research to enhance performance. Descriptive survey design was used since it would provide insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationships. This helped in providing useful and accurate information to answer the questions based on; who, what, when, and how. Furthermore a descriptive research is suitable since it considers issues such as economy of the design, rapid turnaround in data collection and it is suitable for extensive research.

3.3 Target Population

All items in any field of inquiry constitute a population (Kothari,2004),therefore the study's target population consisted both the listed and non-listed insurance firms in Kenya that opted for M&A as a corporate reorganization strategy during the periods of 2010-2014. The identified population was the eight (8) insurance firms according to Burbidge Capital (2014).

3.4 Sample Procedure

The study used census methodology in order to enable the researcher gather information about every specific member of the population. The focus was on the selected eight (8) insurance firms which adopted M&A within the periods 2010-2014 according to Burbidge Capital: Insurance Mergers and Acquisitions (2014)

3.5 Data Collection

The data was collected from secondary sources which included the audited financial statements from the sampled companies and the data from the NSE and the journals by Association of Kenya Insurers (AKI). It was reviewed, grouped and carefully organized into tables.

3.6 Data analysis

After data was collected, it was checked for completeness to ensure accuracy, consistency and uniformity, the data was then well arranged to facilitate coding and tabulation. A manual screening was done to check for completeness and exclude incomplete data further analysis. The data was then analyzed by classifying, measuring, and interpretation to establish how they affected shareholder value of the merged or acquired insurance firms. The study, which was

guided by the objectives, used descriptive statistics to provide a convenient way to produce the most useful statistics. The results produced were represented using tables and figures for ease of understanding

Thereafter, regression was carried out to estimate a model to explain shareholder value of the merged or acquired insurance firms in terms of market share, debt capacity, and free cash flows. The regression analysis was based on 5% level of significance (p-value = 0.05). Multiple regression analysis was carried out to establish the nature of the relationship based on the model;

$$SV_{it} = \beta_0 + \beta_1 MS_{1it} + \beta_2 DC_{2it} + \beta_3 FCF_{3it} + \varepsilon_{it} \dots\dots\dots (ii)$$

Where:

β_0 = is a constant, which is the value of dependent variable when all the independent variables are 0 that is the value of SV when each of MS, DC, and CF is zero

$\beta_1 - \beta_3$ = Regression coefficients of independent variables or change induced by MS, DC, and CF

ε = Error of prediction

SV = Shareholder Value

MS = market share

DC = debt capacity, and

CF = free cash flows

A Goodness of fit test for the proposed model was also carried out to see if the model was fit for the data. Frequency charts, and distribution tables, was also applied to investigate all the relationships between the dependent and independent variables. This made it easier for the researcher to understand and interpret the implications of the study. Descriptive analysis was performed using Stata software version 12.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter contains presentation and interpretation of the results obtained from an analysis of the collected data. These results obtained from the analysis were presented using tables and figures as appropriate for ease of understanding. These results were interpreted using a narrative underneath the respective representation and was based on the study objectives. Descriptive statistics were used to present analysis of the quantitative data. Thereafter, discussions on the research findings were also provided based on the literature reviewed earlier.

4.2 Response Rate

The study first collected from the Eight(8) Kenyan insurance firms that had undergone M & A. The study was able to collect data from all the 8 firms for the period between the year 2010 and 2014. The list of respondents is shown in Table 4.1.

TABLE 4.1: Total Response Rate

Insurance Firm
Saham Group-Marcantile
Cannon Assurance-Metropolitan Insurance
CFC-LIFE-LIBERTY KENYA
Shield Assurance-Prudential plc
ICEA-LION
BRITAM (k)-Real Insurance
Pan Africa Life-APA
UAP Insurance-Old Mutual (K) Acquisition

Source: Research Data (2017)

The study checked the data for completeness and confirmed that the data was complete and properly presented for analysis.

A summarized table for the totals based on the study variables is shown in Table 4.2.

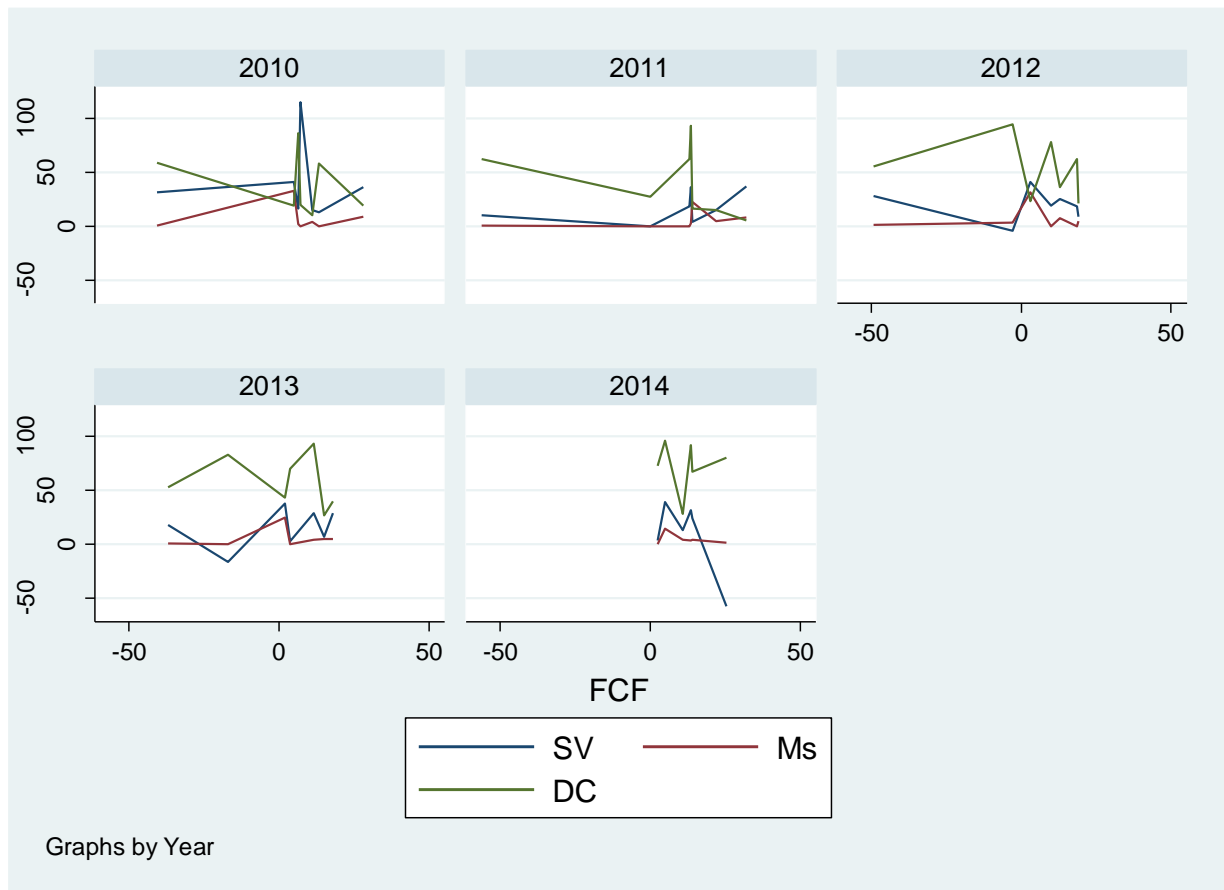
TABLE 4.2: Summarized table for the totals

Year	2010	2011	2012	2013	2014
Shareholder Value	266.15	132.15	149.09	128.07	42.60
% Group life Gross Market Share	57.29	50.21	58.72	51.43	35.93
% Debt Capacity	339.00	347.00	434.00	473.00	580.00
% Cash Flows	42.90	40.50	23.70	4.10	71.60

Source: Research Data (2017)

The results in Table 4.2 show that the highest totals for shareholder value was in 2010 at 266.15 while the least was in 2014 at 42.60%. The highest percentage of Group life Gross Market Share was in 2012 at 58.72% and the least being 35.93 in 2014. Meanwhile the highest market debt capacity was in 2014 at 580.00% and the least was 339.00% in 2010 while the highest cash flow was of 71.60% in 2014 and the least being 4.10% in 2013.

4.3 GROWTH PLOTS – TREND PLOTS for Dependent Variable



Graph 1

4.4 Descriptive Statistics

before conducting the descriptive statistics the data was declared a panel data and the growth plots- trend plots shown in the graphs above.

The study analyzed the data collected using descriptive statistics to describe the study variables, which helped to establish the effects of the independent variables (IVs) on the dependent variable (DV). This analysis was based on the study objectives.

The study then obtained an average percentage performance of the firms for each variable where the results were captured in table 4.3 below;

```
. xtline SV Ms DC FCF

. tabstat SV Ms DC FCF, statistics( mean sd var median kurtosis skewness ) columns(variables)
```

stats	SV	Ms	DC	FCF
mean	19.14857	5.764571	52.08571	4.344118
sd	25.84044	8.707577	28.496	20.87147
variance	667.7285	75.82189	812.0218	435.6183
p50	18	3.43	58	11
kurtosis	8.327822	6.14062	1.680073	4.97375
skewness	.6534904	2.050739	-.0009806	-1.628795

4.5 Inferential Analysis

The study sought to establish whether the independent variables; market share (MS), debt capacity (DC), and free cash flows (FCF) were predictors of dependent variable, Shareholder Value of the merged or acquired insurance firms and therefore estimated model of DV in terms of IVs. In this exercise, the study tested for existence of significant relationship between the IVs and the DV by first carrying out correlation test and then multiple regressions to estimate a study model

4.5.1 Diagnostic Tests on Study Variables

4.5.2 Correlation Analysis

The study carried out a correlation analysis on the study variables to establish whether there existed any significant relationship between the dependent variable (Shareholder Value of the merged or acquired insurance firms) and the independent variables (group life gross market share, debt capacity, and free cash flows). The study proposed that shareholder value of the

merged or acquired insurance firms was explained by market share, debt capacity, and free cash flows. It sought to establish whether there was a statistical significant relationship between shareholder value of the merged or acquired insurance firms and each of the independent variables used in the study. The data was analyzed using the Pearson's product moment correlation. The results on Table 4.5 illustrate these relationships.

TABLE 4.4: Correlation Results

```
. pwcorr SV Ms DC FCF
```

	SV	Ms	DC	FCF
SV	1.0000			
Ms	0.2568	1.0000		
DC	-0.2680	-0.3701	1.0000	
FCF	0.0026	0.1547	-0.2167	1.0000

The results of the correlation analysis in Table 4.4 show that under the IVs; debt capacity, and free cash flows were significantly related to shareholder value of the merged or acquired insurance firms, since the p-value for each was less than 0.05. However it is noted that the Market share is not significantly related to SV since it has a p Value greater than 0.05

Multiple regression was therefore carried out on the IVs; market share, debt capacity, and free cash flows against the DV; shareholder value of the merged or acquired insurance firms to estimate the model, since they had shown to have a significant relationship.

4.5.3 Regression Analysis

The study sought to establish whether the independent variables; market share, debt capacity, and free cash flows would actually influence the dependent variable (shareholder value of the merged or acquired insurance firms). The study therefore tested for existence of significant effect between the independent variables and the dependent variable. Multiple regressions were conducted to estimate a model that would explain DV in terms IVs. The estimation of the study model was;

$$SV_{it} = \beta_0 + \beta_1 MS_{1it} + \beta_2 DC_{2it} + \beta_3 CF_{3it} + \varepsilon_{it}$$

Where:

β_0 = is a constant, which is the value of dependent variable when all the independent variables are 0 that is the value of SV when each of MS, DC, and CF is zero

$\beta_1 - \beta_3$ = Regression coefficients of independent variables or change induced by MS, DC, and CF

ε = Error of prediction

SV = Shareholder Value

MS = market share

table 4.5 Regression

```
. regress SV Ms DC FCF
```

Source	SS	df	MS			
Model	2122.64911	3	707.549703	Number of obs =	34	
Residual	19379.6956	30	645.989853	F(3, 30) =	1.10	
Total	21502.3447	33	651.586203	Prob > F =	0.3663	
				R-squared =	0.0987	
				Adj R-squared =	0.0086	
				Root MSE =	25.416	

SV	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Ms	.4882922	.5439666	0.90	0.377	-.6226358	1.59922
DC	-.1947601	.167207	-1.16	0.253	-.5362423	.1467222
FCF	-.087018	.2178869	-0.40	0.692	-.5320024	.3579665
_cons	27.74371	11.29074	2.46	0.020	4.684943	50.80248

From the regression analysis of the variables in the table above the study deduced that; A 1 unit increase in Ms (Market Share) leads to an increase in Shareholder Value by 0.4882922 when all other factors are held constant, A 1 unit increase in DC(Debt Capacity) results to a decrease in Shareholder Value (SV) by 0.1947601 holding other factors constant. It also shows that a unit increase in FCF (Free Cash Flow) results to a decrease in Shareholder Value by 0.087018 holding other factors constant.

- The P>t for EPF is 0.377 which means that Ms is not statistically significant.
- The P>t of the constant is 0.020 meaning that it is statistically significant

The study made various interpretations while establishing the significance of the IVs in determining the DV

The study used the following hypothesis to test for the market share;

H₀: There is no significant effect of market share on the shareholder value of the merged or acquired insurance firms.

H₁: There is a significant effect of market share on the shareholder value of the merged or acquired insurance firms.

From these results, T= 0.90 and p-value= .377. Since $p < .05$ then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the group life gross market share is not zero and, hence, group life gross market share is useful as a predictor of shareholder value of the merged or acquired insurance firms.

The debt capacity was also tested using the hypotheses;

H₀: There is no significant effect of debt capacity on the shareholder value of the merged or acquired insurance firms

H₁: There is a significant effect of debt capacity on the shareholder value of the merged or acquired insurance firms.

From these results, T= -1.16 and p-value= 0.253. Since $p > 0.05$ then the null hypothesis is accepted and the alternate hypothesis rejected. At the $\alpha = 0.05$ level of significance therefore the study fails to appreciate the Debt Capacity as a useful predictor of shareholder value of the merged or acquired insurance firms.

Cash flows was tested using the hypotheses;

H₀: There is no significant effect of cash flows on the shareholder value of the merged or acquired insurance firms.

H₁: There is a significant effect of cash flows on the shareholder value of the merged or acquired insurance firms.

From these results, T= -0.40 and p-value= .692. Since p >0.05 then the null hypothesis is accepted and the alternate hypothesis is rejected. At the $\alpha = 0.05$ significance level.

The model estimated by the study is;

$$SV_{it} = 27.7 + 0.49MS_{1it} - 0.195DC_{2it} - 0.087FCF_{3it} + \varepsilon_{it}$$

as shown in Table 4.6 The regressed output in shows that market share had positive coefficients while debt capacity and free cash flows had negative coefficients. This implies that market share is directly proportional to shareholder value of the merged or acquired insurance firms. So an increase in market share led to a significant improvement of shareholder value of the merged or acquired insurance firms and vice versa. The results indicated that each of debt capacity and free cash flows was inversely proportional to shareholder value of the merged or acquired insurance firms. So an increase in debt capacity or free cash flows led to reduced shareholder value of the merged or acquired insurance firms while a decrease in debt capacity and free cash flows led to improvement of shareholder value of the merged or acquired insurance firms.

4.5.4 TESTING FOR THE GOODNESS OF FIT OF THE MODEL

In the fitted model R-squared indicates that 10% of the variations of SV are explained by the variables in the data.

Prob >F = 0.3663 which means the data doesn't fit the model. Therefore we reject the Null hypothesis (H_0) since the model is not statistically significant.

The regressed output also shows that explanatory variables (Ms, DC and FCF), are all insignificant since they have a significant level higher than 0.05

4.5.5 TESTING FOR HETEROSCKEDASTICITY USING SCATTER PLOTS

The residual versus the fitted model indicates that the model is not a good fit due to the scattered pattern. It indicates that there's a violation of the OLS assumption hence the existence of Heteroscedasticity as shown in scatter diagram below;

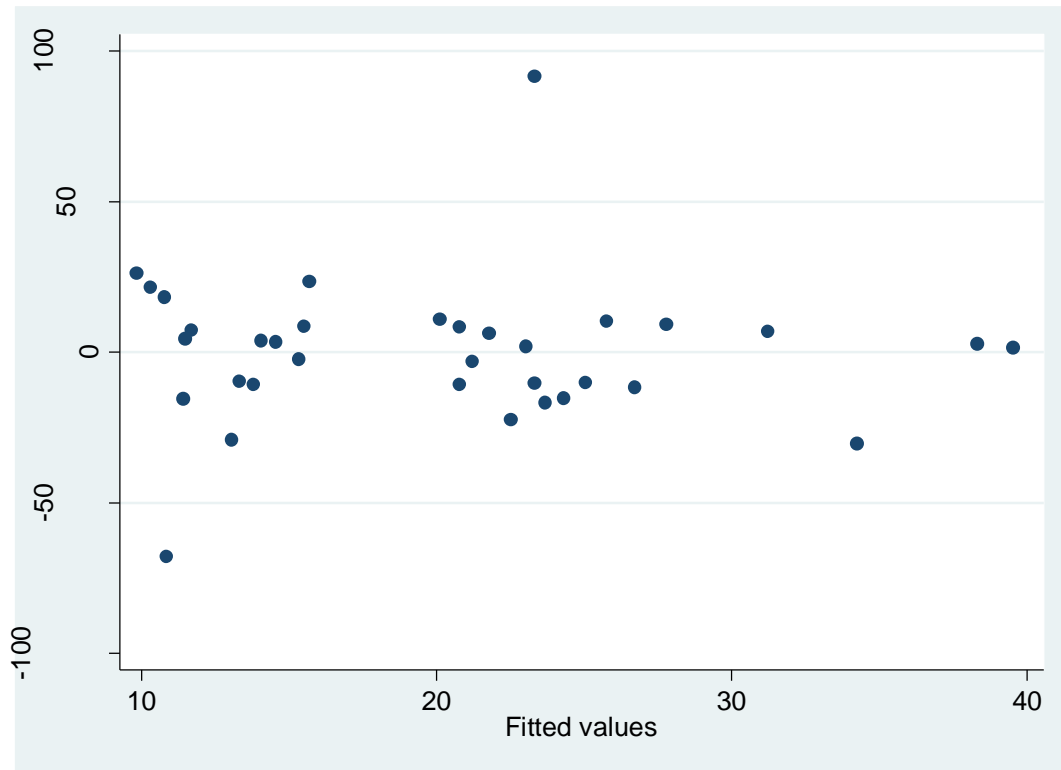


Diagram 2 of 2 heteroscedasticity

4.5.6 Correcting the Heteroscedasticity problem using 'robust' test

```
. xtreg SV Ms DC FCF, fe vce(robust)
```

```
Fixed-effects (within) regression      Number of obs   =      34
Group variable: Year                  Number of groups =       5

R-sq:  within = 0.0618                Obs per group:  min =       6
      between = 0.6554                    avg =      6.8
      overall = 0.0921                    max =       7

                                         F(3,4)         =      2.38
corr(u_i, Xb) = 0.1943                 Prob > F        =      0.2102
```

(Std. Err. adjusted for 5 clusters in Year)

SV	Robust					
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Ms	.519605	.5391154	0.96	0.390	-.9772193	2.016429
DC	-.0979099	.184774	-0.53	0.624	-.6109247	.415105
FCF	-.0432692	.1588348	-0.27	0.799	-.4842653	.397727
_cons	22.34018	12.19842	1.83	0.141	-11.52807	56.20843
sigma_u	9.5169474					
sigma_e	25.677991					
rho	.12077408	(fraction of variance due to u_i)				

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of findings, conclusions from the study as well as the recommendations based on the findings. It further highlights the research gaps the researcher felt should be filled by further research.

5.2 Summary of Study Findings

The results were summarized based on the study objectives. These were to; find out the effect of market share on the shareholder value of the merged or acquired insurance firms, assess the extent to which debt capacity affects the shareholder value of merged insurance firms, and evaluate the effect of free cash flows on the shareholder value of the merged or acquired insurance firms.

The study found that market share affects the shareholder value of the merged or acquired insurance firms in Kenya directly. Such that an increase in the market share causes an increase in the shareholder value. It was also established that a small change in market share caused a drastic change in shareholder value of the merged or acquired insurance firms in the same direction.

The study found out that there was a proportionate change in debt capacity which proportionately affects the shareholder value of merged insurance firms in the opposite direction. The study established that on overall, the debt capacity inversely affected the shareholder value of merged insurance firms. Such that when the debt capacity increase, the shareholder value of merged

insurance firms decreased and vice versa. The results show that the debt capacity had a proportionate negative effect on the shareholder value of merged insurance firms.

The study found that free cash flows also affected the shareholder value of the merged or acquired insurance firms negatively. Such that an increase in free cash flows led to decrease in shareholder value of the merged or acquired insurance firms. It can be concluded that the cash flows affected the shareholder value of the merged or acquired insurance firms in the opposite direction, inversely proportional.

There was an insignificant relationship between market share (p-value = 0.377), debt capacity (p-value = 0.025), and cash flows (p-value = 0.692), The study established that 10% of variation in shareholder value of the merged or acquired insurance firms in Kenya is explained by market share, debt capacity, and free cash flows. The study therefore found out that market share, debt capacity, and free cash flows were associated to shareholder value of the merged or acquired insurance firms in Kenya where market share influenced it positively and debt capacity, and free cash flows influenced it negatively.

5.3 Research Conclusions

Based on the study findings, this study revealed that there was no value added after M & A of the insurance firms in Kenya. That is there was no shareholder value addition of the merged or acquired insurance firms in Kenya. In fact the M & A affected the shareholder value negatively by reducing it.

The study concludes that market share affects the Shareholder Value of the merged or acquired insurance firms in Kenya positively. Such that when the firms increase their market share the

Shareholder Value of the merged or acquired insurance firms in Kenya increase too. However, when the market share reduces, the Shareholder Value of the merged or acquired insurance firm in Kenya reduces. There was significant relationship between the market share and the Shareholder Value of the merged or acquired insurance firms in Kenya.

The study concludes that the debt capacity affects the shareholder value of merged insurance firms in Kenya negatively. The study revealed that when the debt capacity increases, the shareholder value of merged insurance firms in Kenya reduces at a considerable rate. When the debt capacity decreases, the shareholder value of merged insurance firms in Kenya improves considerably. Thus holding debt capacity at lower levels increases the shareholder value of merged insurance firms in Kenya.

The study concludes that free cash flows affect the shareholder value of the merged or acquired insurance firms in Kenya negatively. In which case, when the free cash flows is increased the shareholder value of the merged or acquired insurance firms in Kenya reduces considerably and when the free cash flows is reduced the shareholder value of the merged or acquired insurance firms in Kenya improves proportionately.

Lastly, the study reveals that sustainable shareholder value of the merged or acquired insurance firms in Kenya is influenced by market share, debt capacity, and free cash flows. All these variables are predictors of sustainable shareholder value of the merged or acquired insurance firms in Kenya.

5.4 Recommendations

The study made various Policy and practical implications as well as Recommendations for further study as captured in this section.

5.4.1 Policy and practical implications

The study made policy recommendation based on the findings and study objectives. First, it recommends that the merged or acquired insurance firms in Kenya should aggressively enhance their market share by laying strategies on market penetration, so as to improve the shareholder value at considerable levels. This is on premise that although the potential market for insurance is about 70% of the formally employed; the estimated penetration of insurance services in Kenya is at 6.8% (Maluti&Mudaki, 2011). In fact an approximate 60% of the formally employed Kenyan do not have any kind of insurance, including compulsory insurance (Smith *et al.* ,2010). Considering this status of affairs, even with M & A, the penetration would be insignificant. That is, M & A would not yield many results where the population does not desire to consume the insurance products. However, by strategizing to penetrate into the market and creating the appropriate awareness, the merged or acquired insurance firms in Kenya would enhance their market share and thereby improve their shareholder value. Simply saying, these merged or acquired insurance firms in Kenya should aggressively widen their net by approaching marketing seriously to expand their penetration and hence increase the market share for enhance shareholder value of merged or acquired insurance firms in Kenya.

Secondly, the study recommends that the merged insurance firms in Kenya should work out modalities to cap their debt capacity so as to improve their shareholder value. These firms should try as much as possible to optimally increase their shareholder value. They should critically

assess their debt capacity to drastically reduce the unused debt, thereby reducing high risk of default. These companies should evaluate their own debt capacity to avoid any unnecessary risk of default(Woodruff, 2007).

Lastly the study recommends that free cash flow from the operations should be paid out to shareholders in the form of dividends so as to maximize the stock price. When the merged or acquired insurance firms in Kenya release the free cash, they would avoid tax on dividends if the firm makes acquisition using its excess cash (Ross *et al.*, 2012). This is simply because the free cash flows affect the shareholder value of the merged or acquired insurance firms in Kenya negatively.

5.4.2 Recommendations for further study

The present study establish that 10% of change shareholder value of the merged or acquired insurance firms in Kenya is explained by market share, debt capacity, and free cash flows.. However, this study did not explain what influences the remaining 90%. So another study needs to be done to explain the other factors that could influence the shareholder value of the merged or acquired insurance firms in Kenya.

The present study established that shareholder value of the merged or acquired insurance firms in Kenya was reducing over time while other studies had indicated that companies go M & A to increase the shareholder value. Therefore a study should be conducted to reveal the factors that hindered improvement of shareholder value of the merged or acquired insurance firms in Kenya.

5.5 Contribution to Knowledge

The study embarked on collecting data from merged or acquired insurance firms in Kenya and contributes to the knowledge in the following. First is in sustainability of mergers or acquisitions in insurance firms in Kenya. This would propel investment, economic growth and development and insurance service delivery to the entire country since implementation of the recommendation would lead to insurance companies ensuring their improving of the shareholder value of the merged or acquired insurance firms in Kenya. This would lead to high stake value to the shareholders, which is vital for promoting investment in the insurance industry.

The study will propel other studies to be conducted on shareholder value of the merged or acquired insurance firms in Kenya. It is a window opener for more research in the areas of shareholder value of the merged or acquired insurance firms in Kenya, making it useful to researchers and scientists.

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APPENDIX

APPENDIXI: Growing M&A Activity

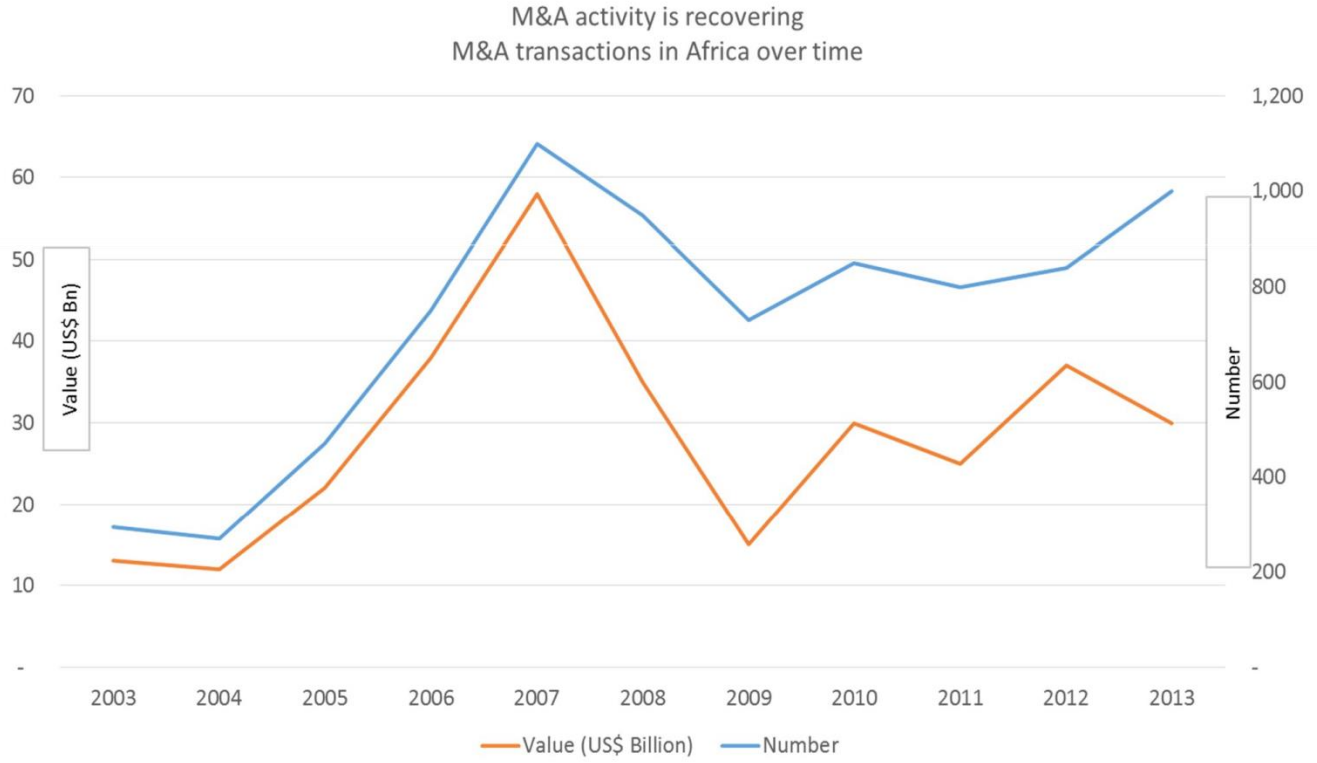
	Target Shareholders	Bidder Shareholders
On average, takeovers increase the combined market value of the merged firms, with target Shareholders earning large positive returns and bidding firm shareholders, on average, showing little or no abnormal return.	For the two-week period around the announcement date, returns range from 14–44%.	For the two-week period around the announcement date, average returns are close to zero when the target is a public firm. Some studies show small positive gains; others show small losses
The largest gains are realized at the beginning of a takeover wave.	Average returns vary by period: –1960s: 18–19% –1980s: 32–35% –1990s: 32–45%	Returns can be 2–3% when the target is a private firm as the target’s performance benefits from increased monitoring by the acquiring firm.
Takeovers with the largest losses come during the second half of a takeover wave.	Average returns vary by type of bid: –Hostile bids: 32% –Friendly bids: 22%	In the United States all-equity financed transactions are associated with negative abnormal returns and underperform all-cash bids.
	Returns are higher for all-cash bids than for all-equity offers.	In Europe, all-equity M&As are associated with positive returns (often exceeding all-cash bids), reflecting the greater concentration of ownership and the tendency of

block holders of stock to more closely monitor management.

Target share prices often react as much as six weeks prior to an announcement reflecting speculation or insider trading

Source: *DePamphilis, (2011)*

APPENDIX II: Growing M&A Activity in Africa

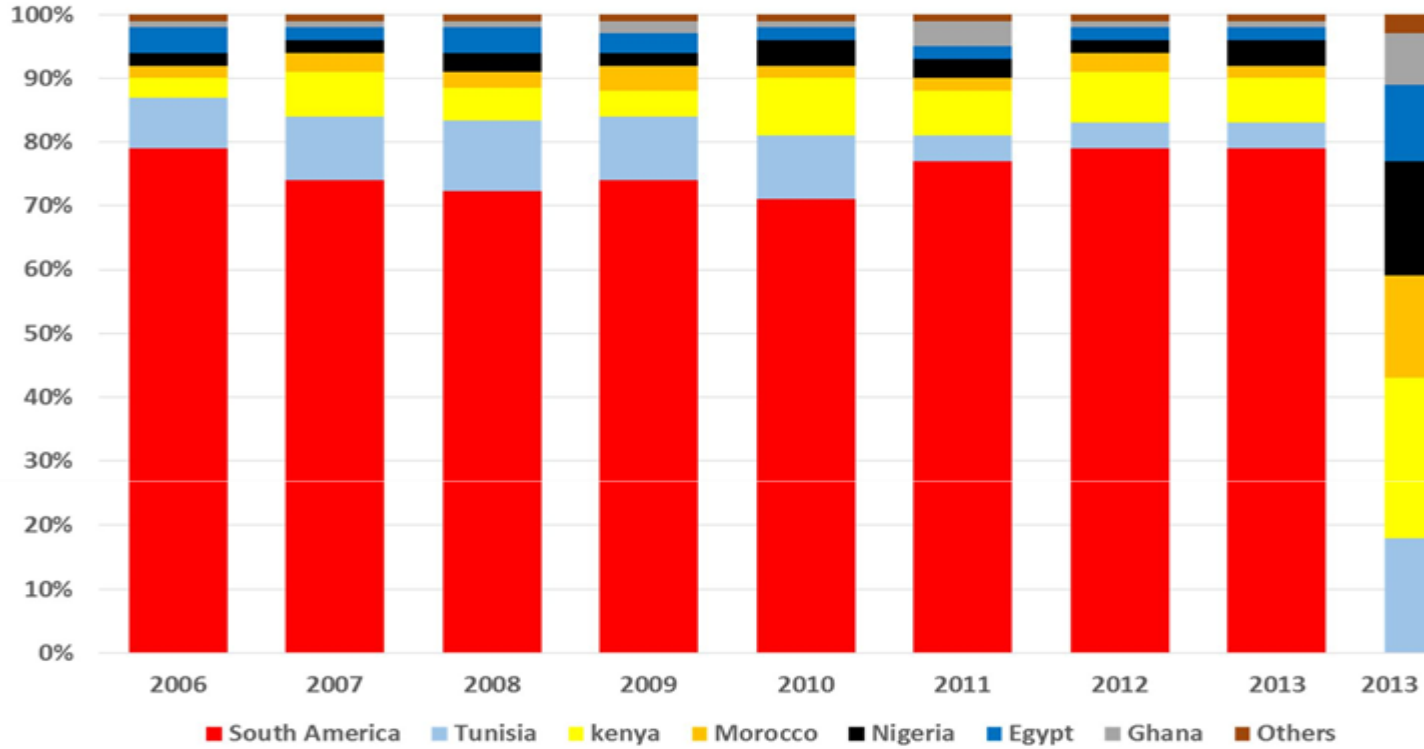


African Reinsurance Corporation, 2014

APPENDIX III: M&A Activity in African Countries



Steady exposure across the continent
Number of M&A transactions by target country



African Reinsurance Corporation, 2014

APPENDIX IV: Recent Transactions – East Africa

ACQUIRED COMPANY	INVESTING COMPANY	Year of Merger or Acquisition
MercantileInsuranceCompany,Kenya	Saham Group, Morroco	2014
PhoenixAssuranceofEastAfrica,Kenya	UnionInsuranceofMauritius	2014
CannonAssuranceLimited,Kenya	MetropolitanInsurance,SouthAfrica	2014
CenturyInsuranceCompany,Tanzania	UAPIInsurance,Kenya	2013
RealinsuranceGroup,EastAfrica	BRITAM,Kenya	2013-2014
Blue Shield Ltd	Prudential Plc	2014
ICEA	ICEALION group	2011
APA Insurance	Pan Africa Insurance	2011
CFC Life	Liberty Kenya Holdings	
Apollo Insurance	Swiss Re	2014
Gateway Insurance	Pan Africa Insurance	2015
AAR	Dutch Fund(IFHA)	2010