ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

Management Overconfidence and Short Run Cumulative Abnormal Return from Mergers and Acquisitions of Listed Firms Eastern Africa Securities Markets

Dr. Beth Wangari Kariuki
Department of Business Management, School of Business & Economics.
Dedan Kimathi University of Technology, Nyeri, Kenya

Abstract:- This paper study operating efficiency as a driver of the impact of mergers and acquisitions on stock market returns of listed firms in Eastern Africa Securities Markets. Operating efficiency is used as the proxy for management overconfidence. A sample of thirty (30) listed firms in Eastern Africa securities markets involved in mergers and acquisitions for a period of twenty (20) years between 1996 and 2015 was used. The study was guided by Hubris theory. Cumulative abnormal return was computed using event study approach. Using cross sectional regression analysis, the study finds a negative significant relationship between operating efficiency short run cumulative abnormal return. This adds to the existing body of literature that management overconfidence attribute influences management when pursuing mergers and acquisitions deals. Consequently, managers will trust that their own valuation of a target firm, end up overpaying for target firms thereby destroying shareholder wealth. The study recommends that when evaluating target firm synergies for acquisition purposes, corporate managers should not be overconfident about their valuation; rather they should seek comparison with market.

Keywords:- *Mergers And Acquisition, Short Run Cumulative Abnormal Return, Operating Efficiency.*

I. INTRODUCTION

Over the last four decades, mergers and acquisitions (M&As) have not only proliferated but also continue to play a dominant role in the world economy. Moreover, M&As activities remain a popular vehicle for corporate growth and diversification (Eurelich, Kopp and Fligge, 2022). Globally, corporations are increasingly pursuing mergers and acquisitions not only to implement globalization strategies and necessary restructuring, but also as a consequence of political, monetary and regulatory convergence (Trompenaars and Asser, 2010). Elmirzaev and Omonov (2019) documented that corporate restructuring strategies highly dominated in developed countries, especially the US and UK, however, with time developing countries started to follow the same pattern. Rosinski (2011) posit that firms rely on three mechanisms to achieve growth: organic growth, alliances, and mergers and acquisitions and of the three mechanism M&As strategies account for the biggest percentage (Kariuki, Muturi and Ndung'u, 2016).

Merger and acquisitions are often used interchangeably though they are different terminologies. In acquisition one organization purchase a part or whole another organization. Georgios and Mustaqe (2023) noted that merger involve consolidation of two or more firms to form a new entity while in an acquisition big and financially sound firm purchase the small firm. Historically, M&A activities started from the United States back in the eighteen century. Europe followed shortly with their M&A Activities starting in nineteen centuries (Focarelli, Panetta and Salleo, 2002). Existing literature document that M&A occurred in six distinct waves. The first wave started in 1904 and lasted up to 1904. Horizontal mergers dominated during the first wave. This was followed by the second wave from 1916 up to 1929. Most of the deals that featured in during this period were business deals interested in enjoying oligopoly (Golubov & Petmezas, 2012). Then came the third wave between 1965 and 1969. The wave was characterized by conglomerate deals (Fatima and Shehzad, 2014). The fourth wave lasted from 1981 to 1989 and basically hostile mergers highly featured. This was followed by the fifth wave that started from 1992 and lasted until 2000. During this period the mergers and acquisitions activities were involving firms in banks and telecom segments. It is important to note that mergers and acquisitions is that the deals equity capital to a certain extent (Kouser & Saba, 2011). The final wave in the history of M&A wave is the sixth merger wave. This wave started from 2003 and lasted up to 2007. Quite a number of deals featuring during this wave were in the metals, oil & gas, telecoms banks and health centers. The method of payment used in financing M&A activities throughout the six was cash (Alexandridis, Petmezas and Travlos, 2010).

II. LITERATURE REVIEW

The Hubris Hypothesis of corporate takeovers put forward by Roll (1986) remains relevant in explaining M&A stock market returns. The theory implies that managers acquires firms for their self-interest and the economic gain of the acquiring firm is not the only intent or even dominant

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

motive. In his seminal paper, Roll (1986) argued that managers are irrational while making M&A investments and more often they end up making poor investment decisions. Similar views were held by Heaton (2002). Managers are usually overconfident to the point that they believe that their own valuation of a target company is superior to the market valuation. Moreover, mergers and acquisitions activities are highly competitive and the desire of managers not lose in a bidding war may drive the purchase price of an acquisition far much higher than its actual economic value. The net results will be a bidder overpaying for target firms. This increases difficulty in earning the acquirer's cost capital on net acquired assets once they are restated to reflect their market value (Uysal, 2011; Harckbarth & Morellec, 2008; Depamphilis, 2010). In the end, the winner is cursed in that he paid more than the target firm worth and ultimately he feels remorseful for the action. Thus overconfident managers may make incorrect decisions, such as acquiring a poor target, and thereby destroying shareholder value. Over the years, the theory has gained popularity in form of management overconfidence (Baker, Dutta, Saadi & Zhu, 2012).

In developed markets there exist numerous empirical papers on managerial overconfidence and Mergers and acquisition return (Baker, Dutta, Saadi & Zhu, 2012). Most of these studies have documented a negative correlation between managerial overconfidence and M&A stock market returns (Mueller and Sirower, 2003; Eckbo, 2009; Laamanen and Keil, 2008). Using a total of 477 large public U.S firms Malmendier and Tate (2008) documented that quite often overconfident managers undertake M&A activities and the market usually react significantly negatively to the acquisitions activities done by the overconfident managers. Similar findings were reported by Doukas and Petmezas (2007) who did a study using a sample of U.K data spanning 1980- 2004. In this study a CEO was classified overconfident if he or she has acquired five or more firms within three years of the first acquisition. The study concluded that overconfident managers generate inferior abnormal returns relative to those created by 'rational' managers. Finally, in different study, Baker *et al.*, 2012 using a sample of 1389 completed acquisitions by Canadian acquirers listed on the Toronto Stock Exchange studied how markets reacts to M&A deals done by overconfident managers. They concluded that market react negatively to M&A deals done by overconfident managers. Contrary to the findings of the majority Moeller et al. (2004) and Boone and Mulherin (2008) report evidence failed to support hubris hypothesis.

Quite a number of studies conducted in find support for hubris hypothesis despite having employed different proxies for management overconfidence. Moeller, Schlingemann and Stulz (2004) used firm size to support managerial overconfidence hypothesis. Doukas and Petmezas (2007) classified a CEO as overconfident if he or she has acquired five or more firms within three years of the first acquisition while Malmendier and Tate (2008) defined a company CEO as overconfident if he or she continued to hold company options for a long period. Lastly, Baker, Dutta, Saadi and Zhu (2012) used operating efficiency of the firm as a proxy for managerial overconfidence. Research evidence clearly indicate that the hypothesis has been tested in developed market in a massive way. However, in the emerging markets there is there is little evidence regarding this theory. This study therefore, this study seeks to find out the impact of managerial overconfidence on M&A stock market returns of listed firms in Eastern Africa securities market. This will help in addressing this pertinent issue and close the existing literature gap on whether empirical evidence in the emerging markets support hubris hypothesis or otherwise.

This study follows the work of Baker, Dutta, Saadi and Zhu (2012) and used operating efficiency of the firm as a proxy for managerial overconfidence. Operating efficiency measures how a firm employs its resources effectively (Mohammad & Zahid, 2014). More so, it gives a review on how management utilizes assets. An improvement in the ratios usually translates to improved profitability. The main motive behind M&A according to efficiency theory is to gain operating and financial synergy. The current study employ operating efficiency to test the management overconfidence hypothesis. High operating efficiency of the firm may have two possible impacts on M&A stock market returns. First, high operating efficiency in a firm could be as a result of efficient management skills; therefore, when these firms engage in acquisitions activities they effectively integrate a new target firm. Consequently, the market reacts positively to such an event. On the other hand, the management of these firms may suffer from overconfidence thereby losing their focus; this could result in poor operating performance. Therefore, when making acquisition decisions the overconfident nature of the management will lead to poor target selection, target firm overpayment and poor post integration of the target firm. Thus, the market will react negatively to such an event. Based on past research work, a negative relationship was expected.

- *Objective of the Study*

To determine the impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa securities market.

- *Research Hypothesis*

- $H0_1$: There is no significant impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa securities markets.

III. RESEARCH METHODOLOGY

Event study approach was used to compute short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa Securities Markets. Studies similar to the current study that has employed the use of event study design include (Dube, 2006; Arx & Zeigler, 2008; Selcuk & Yilmaz, 2011). The first step entailed defining of the event period. The study considered 20 days before and 20 days after the merger or acquisition activity. Before the announcement date the estimation period is for 20 days, from

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

day T_{-51} to T_{-31} relative to the announcement day (day 0) and T_1 to T_{+20} that is 20 days after the announcement of a merger or an acquisition. Date zero represented the date the announcement was made for a particular firm it implied different calendar dates for different firms in the sample. The event period was considered long enough to capture all the effect of the M&A event, albeit subjecting abnormal return estimates to more noise. Actual returns were computed for all the firms included in the sample. This was followed by estimation of the predicted returns for each day t in the event period for each firm j. In line with other studies standard event methodology was used to compute the predicted returns for the sample firms involved in mergers and acquisitions over the event window (-20, +20) around the announcement date (Golubov, Petmezas & Travos, 2012; Golubov, Yawson and Zhang, 2015). The method is widely used because it takes explicit account of both the risk associated with the market and the mean return (Weston and Weaver, 2002).

Fourthly, abnormal returns were estimated by subtracting predicted returns from the actual returns. Golubov, Yawson and Zhang, (2015) opined that abnormal returns represents returns in excess of those predicted by the market model. This was followed by determining cumulative abnormal returns (CAR) for each firm, a process that involved cumulating abnormal return for each firm over the window period (-20, +20). Finally, average abnormal returns (AAR) was computed to check average total effect of the event across all the firms over the event period. This was done by averaging abnormal returns across the firms. This was done to cancel out the noise effect. Average abnormal returns (AAR) for each day over the entire event period (-20, +20) are then cumulated for each day over the entire event period to produce the cumulative average abnormal returns (CAAR). For each performance measure that is CAR and CAAR test statistics will be computed and compared to its assumed distribution under the null hypothesis that mean abnormal return equals zero. The null hypothesis is rejected if the test statistics exceed a critical value typically correspond to 5% or 1% tail region (Kothari & Warner, 2007). Further, the study used correlation research design determine the impact of deal characteristics on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa Securities Markets. Correlation research design examines the relation between two or more non-manipulated variables and the theoretical model that might be developed and tested to explain the resultant correlation (Miles & Shevlin, 2010). Uysal (2011) employed correlation study design while conducting a study on M&A.

The target population for the study was comprised of the firms listed in the security markets in the three Eastern Africa countries involved in mergers and acquisitions. The study employed multi-stage sampling technique to select the final sample (Cooper and Schindler, 2011). The initial stage involved determining the number of the listed firms involved in mergers and acquisitions. Secondly, the M&A transactions must have occurred between year 1998 and 2015. Appendix (1) presents all the listed firms that have been involved in mergers or acquisitions for period under study.

In addition, all the firms selected must have all the information regarding the operationalization of the variables. Alexandridis, Petmezas and Travos (2010) and Halfar (2011) used multi-stage sampling while studying gains from acquisitions around the world and effect of mergers and acquisition on long run financial performance of acquiring companies in South Africa respectively. The final sample included only the mergers and acquisitions made by firms listed in the security markets in the three Eastern Africa countries including Kenya, Uganda and Tanzania which acquired either a public or a private target in the same countries data for the period 1998 through 2015. Issue of confounding effect in the final sample were properly addressed (McWilliams & Siegel, 1997). The final sample comprised of thirty (30) completed publicly traded M&A in Eastern Africa acquiring either a private or a public target firm for the period between 1998 through 2015. The base year (1998) coincided with the liberalization of financial service sector in many Eastern Africa countries (Kodongo, Makoteli & Maina, 2014).

Secondary data collected from audited annual company reports and central bank reports and publications, Capital Market Authority and Nairobi Securities Exchange was utilized. The study relied of secondary data collected using secondary data collection sheet. Most studies on effect of M&A rely secondary data (Moeller *et al.* 2005; Alexandridis *et al.* 2010). Data required for event study analysis included daily securities prices; that is, the maximum and the minimum prices for the firms involved in mergers and acquisitions and the daily index for the NSE 20share which was used as a proxy for the market for the period under study. Short run study data was collected twenty (20) days before and 20 days after M&A announcement. The independent variable for the study was operating efficiency, the proxy for management overconfidence. It was measured by computing ratio of cash flow to total asset of the acquiring firm.

Descriptive statistics such as measures of central tendency; mean, mode and measure of variation; standard deviation were generated. Presentation was done using tables and graphs and interpretation done accordingly. Before subjecting data to inferential analysis, diagnostic tests were carried out. Data was checked for normality, independence assumption or lack of autocorrelation, multi-collinearity, homoscedasticity of residuals and linearity. Numerical methods; Kolmogorov-Smirnov (K-S) and Shapiro-Wilk tests were employed to check normality of the dependent variables (Shapiro & Wilk 1965; Shevlin & Miles, 2010). Durbin- Watson Coefficient was used to test autocorrelation. Durbin Watson statistics ranges between 0 and 4 (Gujarat, 2009). For independent observation, statistics range between 1.5 and 2.5 while a value closer to 0 indicates positive correlation while a value closer to 4 indicates negative correlation (Tabachnick & Fidell, 2014).

Multi-collinearity in the data was tested using Variance inflation statistics. Multi-collinearity is an undesirable situation that occurs where two or more predictors in a multiple linear regression are highly correlated (Argyrous, 2011). Breusch Pagan test was used to detect

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

heteroscedasticity in the data. Heteroscedasticity is a situation where the error variance is not constant (Gujarat, 2009). Finally, linearity assumption was checked using graphical analysis. Data was then subjected to inferential analysis. To determine effect of performance drivers on M&A announcements return of listed firms in Eastern Africa securities markets in the short run, bivariate linear regression was used. Similar studies that have employed bivariate Linear regression method while assessing shot run cumulative abnormal return from mergers and acquisitions in the corporate world include Moeller, Schingermann & Stulz (2005), Alexandridis *et al.* (2010), Fu, Lin and Officer (2013). To determine the impact of firm operating efficiency on shot run cumulative abnormal return on listed firms in Eastern Africa securities markets the model presented in equation one (1) guided the study one (1)

$$Y_t = \alpha + \beta_1 X_1 + \varepsilon_t \quad (1)$$

Where:
Y_t represents short run cumulative abnormal returns from mergers and acquisitions in Eastern Africa securities market.
X_1 is a measure of operating efficiency of the firm.
β_1 is the beta coefficient for the operating performance of the firm.
α is the model intercept.
ε_t is the error term of the model

IV. STUDY FINDINGS AND DISCUSSION

A. Descriptive Statistics

The findings of the descriptive statistics are presented in Table 4.1. Descriptive statistics employed included measures of central tendency such as mean and measures of dispersion such as minimum, maximum and standard deviation. In addition, measures of distributions (skewness and kurtosis) were also used. Table 1 shows the summary statistics for the computed short run cumulative abnormal returns from mergers and acquisitions and operating efficiency for the final sample of 30 firms over the period of analysis (1998-2015). The minimum short run cumulative abnormal returns in the short run was -8% and a maximum of 11% considering CAR[−1 + 1] that is, one day before and one day after the M&A. The average short run cumulative abnormal return was 2% while the dispersion was 5%. The data spread measured using both skewness and kurtosis coefficient showed the data was normally distributed. The minimum and maximum value of operating efficiency was 1% and 10% respectively. Lastly, firm operating efficiency had an average of 0.06 and a standard deviation of 0.03.

Table 1: Descriptive Analysis for Short Run Return

Variable	Min	Max	Mean	Std. Deviation	Skewness		Kurtosis	
					Statistic	Std. Error	Statistic	Std. Error
CAR -1, +1	-0.08	0.11	0.02	0.05	-0.12	0.43	-0.79	0.83
Operating efficiency	0.01	0.10	0.06	0.03	0.19	0.43	-0.83	0.83

B. Diagnostic Tests ⇁ Normality Test

Kolmogorov Smirnova (K-S) test and Shapiro Wilk (1965) were employed to check for normality in the data. Both test the null hypothesis that the data is normally distributed against an alternative which assumes that the data is not normally distributed. Using the p-value, we ought to reject the null hypothesis if the p value is less than 0.05 and accept it if otherwise (Porter & Gujarat, 2009). Table 2 presents results for the numerical normality test. The results reveal that the normality test statistics computed for CAR (-1, +1) were insignificant. The p value when using the Kolmogorov Smirnova (K-S) test is 0.2 while Shapiro Wilk p value 0.67 both of which are greater than 0.05. This indicated that the dependent variable was normally distributed (Shapiro & Wilk, 1965; Park: Shevlin & Miles, 2010).

Table 2: KolmogorovSmirnova (K-S) and Shapiro Wilk Normality Test for the Dependent Variable

Dependent Variable		Kolmogorov-Smirnova			Shapiro-Wilk	
	Statistic	Df	Sig.	Statistic	Df	Sig.
CAR -1, +1	0.093	30	0.200*	0.975	30	0.676

a. Lilliefors Significance Correction
*. This is a Lower Bound of the True Significance

➢ *Linearity Test*

Linearity test was conducted between operating efficiency and short run cumulative abnormal returns. The results are presented in Figure 1. The figure exhibits an inverse relationship between operating efficiency our proxy for management overconfidence and short run cumulative abnormal returns from mergers and acquisitions. Moreover, 22.7% of the variation in short run cumulative abnormal returns from can be accounted for by operating efficiency.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

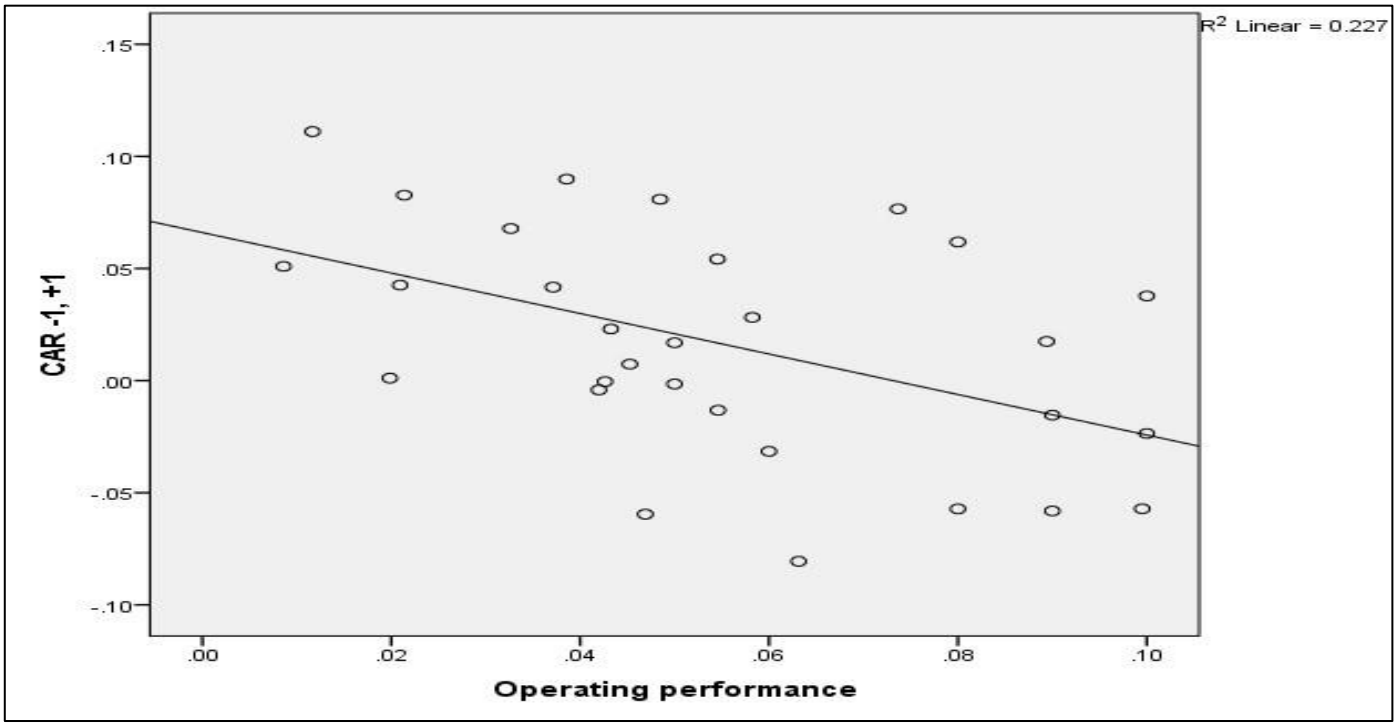

Fig 1: Linearity Test between Operating Efficiency and Short Run Cumulative Abnormal Returns Multi-Collinearity Test

The study used variance inflation factor and tolerance limits to check the presence of multi-collinearity in the data. Porter & Gujarat (2009) suggest that if the VIF is greater than 10 or tolerance is less than 0.1 then there is multicollinearity. The results are presented in Table 3. from the results operating efficiency had a VIF of 2.74 and a tolerance of 0.37. It was noted that none of the coefficients exceeded the acceptable threshold of 10 for VIF or were less than 0.1 for tolerance as suggested by Hamilton (2006). It was therefore concluded the independent variable for the had no problem of multicollinearity.

Table 3: Multi-collinearity Test Using VIF and Tolerance for the Study Variables

Independent Variable	VIF	1/VIF (Tolerance)
Operating efficiency	2.74	0.37

➢ *Autocorrelation Test*

Durbin Watson test statistics was used to check the presence of autocorrelation. Autocorrelation occurs when the error terms are correlated with each other (Gujarat, 2009). Garson, (2012) states that should the Durbin Watson coefficient ranges between 1.5 and 2.5 then a decision is made that there is no autocorrelation in the data. Durbin Watson test results are presented in Table 4. Since none of the regression model coefficient was outside the recommended ranges then it was concluded that there was no autocorrelation.

Table 4: Durbin Watson Test Results

Independent Variable	DW (Durbin Watson)
Operating Efficiency	2.26

C. Regression Results

- *Model Summary*

Table 5 present the model summary for impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions on listed firms in Eastern Africa securities market. The findings of the analysis indicate that 23% of the variation on short run cumulative abnormal returns from mergers and acquisitions can be attributed to operating efficiency while the remaining percentage can be explained by other factors excluded from the model.

Table 5: Model Summary for the Impact of Operating Efficiency on Short Run Cumulative Abnormal Returns from Mergers and Acquisitions.

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	0.476a	0.23	0.20		0.05	2.26

a. Predictors: (Constant), Operating efficiency.
b. Dependent Variable: CAR -1, +1

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

- *ANOVA Results*

Table 6 present an analysis of variance results for the impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa securities market. Results shows that the linear relationship between operating efficiency and short run cumulative abnormal returns had an F value of 8.207 which is statistically significant; p-value equals to 0.008 which is less than 0.05. This showed that the overall model is significant in predicting short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern African securities markets. From the study findings, the null hypothesis was rejected and a conclusion made that operating efficiency of the firm – the proxy for management overconfidence had a significant impact on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa securities markets.

Table 6: ANOVA for the Impact of Operating Efficiency on Short Run Cumulative Abnormal Returns from Mergers and Acquisitions

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.017	1	0.017	8.207	0.008a
	Residual	0.058	28	0.002		
	Total	0.075	29			

- *Coefficients for the Regression Between Operating Efficiency and Short Run Cumulative Abnormal Returns from Mergers and Acquisitions*

Table 7 present regression model coefficients results for the impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern African securities markets. The findings show that coefficient for the constant $\propto$ was 0.07 and it is significant; p-value = 0.000. The coefficient β = -0.90, is significantly different from zero with a p-value of 0.001 which is less than 0.05, hence significant. The t-values for the constant and operating efficiency are 3.43 and -2.87 respectively. The findings revealed that operating efficiency had a significant impact on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern Africa securities markets. Further, a beta value of negative 0.90 implies that a unit increase in operating efficiency decreases on short run cumulative abnormal returns from mergers and acquisitions by 0.90 units.

Table 7: Regression Coefficient for the Impact of Operating Efficiency on Short Run Cumulative Abnormal Returns from Mergers and Acquisitions

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	0.07	0.02		3.43	0.00
	Operating Efficiency	-0.90	0.32	-0.48	-2.87	0.01

a. Dependent Variable: CAR -1, +1

The study finding shows that operating efficiency had a significant impact on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern African securities markets. Based on the findings null hypothesis was rejected at 95% confidence level. It was therefore concluded that operating efficiency has a significant on short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern African securities markets firms. From the study findings presented, it was observed that operating efficiency is negatively correlated with short run cumulative abnormal returns from mergers and acquisitions of listed firms in Eastern African securities markets. The study findings concur with existing research evidence (Doukas & Petmezas, 2007; Malmendeir & Tate, 2008; Baker, Dutta, Saadi & Zhu, 2012).

While undertaking this study, it was noted that very few studies have looked at the impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions. In fact, maximum research on management overconfidence and short run cumulative abnormal returns from mergers and acquisitions is highly skewed in developed financial markets. Therefore, this study greatly contributed towards this debate by providing research evidence on the impact of operating efficiency the proxy for management overconfidence on short run cumulative abnormal returns from mergers and acquisitions using listed firms in Eastern Africa securities markets involved in M&A thus presenting out-of-sample evidence. The research findings from this work support hubris theory or excessive overconfidence articulated by Roll (1986). Due to excessive overconfident nature of management when pursuing M&A deals, they will tend to assume that their own valuation of a target firm is superior compared to advisory given by other players in the market. Consequently, due to over-optimism in evaluating target firm synergies, they end up overpaying (Heaton, 2002; Depamphilis, 2011). The overconfidence among managers may be induced by current or historical good operating efficiency; accordingly, such firms may make incorrect decisions, such as acquiring a poor target, and thereby destroying shareholder value.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

V. SUMMARY AND CONCLUSION

The study objective was to assess the impact of operating efficiency on short run cumulative abnormal returns from mergers and acquisitions listed firms in Eastern Africa securities markets. Operating firm efficiency was used as the proxy for management overconfidence. A ratio of cash flow to total asset of the acquiring firm was used as a measure of firm's operating efficiency. The study findings indicate that operating efficiency had a negative and significant effect on short run cumulative abnormal returns from mergers and acquisitions listed firms in Eastern Africa securities markets. Based on research findings the study concludes that operating efficiency has a negative impact on short run cumulative abnormal returns from mergers and acquisitions listed firms in Eastern Africa securities markets. This means that M&As firm with high operating efficiency react negatively to M&A announcements. The findings are in agreement with management overconfidence hypothesis which state that due to overconfidence nature of management, when pursuing M&A deals, managers will trust that their own valuation of a target firm is superior and as a consequence they end up overpaying for target firms acquisition thereby destroying shareholder wealth. Secondly, most of M&A deals are driven by managerialism where managers make acquisitions to build their own spheres of influence. In conclusion it was observed that managers operating in listed firms in Eastern Africa securities markets which is in the category of emerging markets are not exceptional.

RECOMMENDATION

The study recommends that firm management should endevour to maximise shareholders' wealth when making M&A decisions. The study therefore recommend that when scounting for mergers and acquisitions targets, due diligence on the firm valuation should be conducted satisfactoriry for the investment decision to create shareholders wealth. The study recommends should that two or more valuation models should be employed for comparison purposes. Most importantly if scrutiny reveals that the firm is overvalued then the target firm M&A team should demand for cash as a method of payment

REFERENCES

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

[2]. Argyrous, G. (2011). *Statistics for Research, With Guide to SPSS*. New Delhi: Sage publication.

[3]. Arx, U., & Ziegler, A. (2008). The effect of CSR on stock performance: *New evidence for the USA and Europe.*

[4]. *Economics working paper series 08/85*. Swiss Federal Institute of (ETH) Zurich (Center of Economic Research), Switzerland. http://ssrn.com/abstract=1102528 Electronic.

[5]. Baker, H., Dutta, S., Saadi, S., & Zhu, P. (2012). Are good performers' bad acquirers*? Financial Management*, 41(1), 95–118.

[6]. Boone, A. L., & Mulherin, J. H. (2007). How are firms sold? *Journal of Finance*, 62, 847-875.

[7]. Doukas, J. A., & Petmezas, D. (2007). Acquisitions, overconfident managers and self-attribution Bias. *European Financial Management*, 13, 531-577.

[8]. Cooper, R. D., & Schindler, P. S. (2011). *Business Research Methods* (11th ed.). New York, United States: McGraw Hill Publications.

[9]. DePamphilis, D. M. (2010). *Mergers, Acquisitions and other Restructuring Activities: A Integrated Approach*. Burlington: Elsevier.

[10]. Eckbo, B. (2009). Bidding strategies and takeover premiums: a review. *J. Corp. Finance* 15:149–78

[11]. Laamanen, T., & Keil, T. (2008). Performance of serial acquirers: Toward an acquisition program perspective *Strategic Management Journal*, 29, 663-672.

[12]. Elmirzaev, S. and Omonov, S. (2019). Mergers and Acquisitions in developed countries: Practice and analysis. *International Finance and Accounting*: Vol. 2019: Iss. 2, Article 9.

[13]. Eurelich M., Kopp R., and Fligge B., (2022) Mergers and acquisitions research, A bibliometric analysis. Elsevier,Volume 40 (6) 832- 846.

[14]. Fatima, T. and Shehzad, A. (2014). An Analysis of Impact of Merger and Acquisition of Financial Performance of Banks: A case of Pakistan. Journal of Poverty, Investment and Development - An Open Access International Journal Vol.5 29-36.

[15]. Focarelli, D. Panetta, F and Salleo, C. (2002) Why Do Banks Merge? *Journal of Money*. Credit and Banking. Vol. 34, No. 4. 1047-1066

[16]. Garson, D. (2012). *Testing Statistical Assumptions: Statistical*. Associate Publishing.

[17]. Georgios K. and Mustaqe E. (2023). Mergers and Acquisitions of Cooperative Banks. Before and After a Takeover.A Financial Analysis. *Journal of Finance and Investment Analysis*, Vol. 12, No. 3, 2023, 1-25.

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

[19]. Gulubov, A., Yawson, A., & Zang, H. (2015). Extra ordinary acquirers. *Journal of Financial Economics*, 116, 314-330.

[20]. Hackbarth, D., & Morellec, E. (2008). Stock returns in mergers and acquisitions. *Journal of Finance*, 63, 1213-1252.

[21]. Halfar, D. (2011). *The effect of mergers and acquisitions on long-run financial performance of acquiring companies.* (Unpublished MBA Research Project). Gordon Institute of Business Science, University of Pretoria, South Africa.

[22]. Hamilton, L.C. (2006). *Statistics with stata*. Cengage: Belmont, CA.

[23]. Heaton, J. B. (2002). Managerial optimism and corporate finance. *Financial Management*, 31, 33-45

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

[24]. Kariuki, Muturi and Ndung'u, 2016. Firm Characteristics and Stock Market Return to Mergers and Acquisitions Announcements in Emerging Markets. Evidence from Mergers and acquisitions Firms Listed in Eastern Africa Securities Markets. international journal of economic commerce and management. Vol. IV, Issue 12, 200-216.
[25]. Kodongo, O., Mokoteli, T., & Maina, L. (2014). Capital structure, profitability and firm value: panel evidence of listed firms in Kenya. *(April 1, 2014)*. Electronic copy available at: http://ssrn.com/abstract=2465422.
[26]. Kothari, S. P. & Warner, J. B. (2007). *Econometrics of Event Studies*: *Handbook of Corporate Finance*, eds. B. Espen Eckbo, Elsevier-North-Holland, Amsterdam.
[27]. Kouser, R. Saba, I. (2011). Effects of business combination on financial performance: evidence from Pakistan's banking sector. Australian Journal of Business and Management Research Vol.1 No.8 54-64.
[28]. Mamendier, U., & Tate, G. (2008). Who makes acquisitions? CEO overconfidence and the market reaction.*Journal of Financial Economics*, 89, 20-43.
[29]. Mcwilliams, A., and Siegel, D. (1997). Event studies in management research. Theoretical and empirical issues. Academy of Journal Management. Vol. 40, No. 3, 626-657.
[30]. Miles, J., & Shevlin, M. (2010). *Applying Regression and Correlation. A Guide for Students and Researchers.* New Delhi: Sage Publication Inc.
[31]. Moeller, S., Schingemann, P., & Stulz, R. M. (2004). Firm size and gains from the acquisitions. *Journal of Financial Economics*, 73, 201-228.
[32]. Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2005). Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. *Journal of Finance*, 60, 757-782.
[33]. Mueller D., and Sirower M.(2003). The causes of mergers: tests based on the gains to acquiring firms' shareholders and the size of premia. https://doi.org/10.1002/mde.1103.
[34]. Muhammad, A., & Zahid, A. (2014). Mergers and acquisitions: Effect on financial performance of banking institutions of Pakistan. *Journal of Basic Applied Scientific Research*, 4(4), 249-259.
[35]. Rosinski, P. (2011) Global Coaching for Organizational Development. *International Journal of Coaching in Organizations*, Issue 30, 8(2), 49-66.
[36]. Roll, R. (1986). The hubris hypothesis of corporate takeovers. *Journal of Business*, 59, 197-216.
[37]. Selcuk, A., & Yilmaz, A. (2011). The Impact of Acquisitions on Acquirer Performance: Evidence from Turkey. *Business and Economics Journal*, 22, 1-7.
[38]. Shapiro, S., & Wilk, M. (1965). Analysis of variance test of normality. *Biometrica*, 52(3), 591-599.
[39]. Tabachnick, B., & Fidell, L. (2014). *Using Multivariate Analysis.* Boston, Pearson Education Inc.
[40]. Gujarati, D. (2009). *Basic Econometrics* (4th ed.). New Delhi, DN: McGraw Hill.
[41]. Trompenaar, F., & Asser, M. N. (2010). The Global M&A Tango, how to reconcile cultural differences in mergers, acquisitions and strategic partnerships. Oxford: Infinite Ideas Limited.
[42]. Uysal, V. B. (2011). Deviation from the target capital structure and acquisition choices. *Journal of Financial Economics*, 102(3), 602–620.
[43]. Weston, J. F., & Weaver, S. (2002). *Mergers and Acquisitions: Executive MBA Series*. United State of America:
[44]. McGraw-Hill. Kothari, C. R. (2009). *Research Methodology: Methods & Techniques* (5th ed.). New Delhi. New Age International Publishers.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/IJISRT24NOV1011

APPENDIX

Appendix I. Study Population a) Listed Financial and Non-Financial Institutions involved in Mergers Institution Merged with Current name Date

- Stanbic Bank (K) Ltd Stanbic Finance (K) Ltd Stanbic Bank of Kenya Ltd 1996 National Industrial African Mercantile Bank
- Credit Bank Ltd Corp NIC Bank 1997 Standard Chartered Standard Chartered Standard Chartered Bank of
- Bank of Kenya Financial Services Kenya 1999 Diamond Trust Bank Premier Saving and
- (K) ltd Finance ltd Diamond Trust (K) Bank 1999
  Barclays Bank of Kenya Barclays Merchant
- Ltd Finance Ltd Barclays Bank of Kenya Ltd 1999
  Kenya Commercial Kenya Commercial
- Bank Finance Co Kenya Commercial Bank Ltd 1999
  Cooperative Merchant
- Cooperative Bank Ltd Bank Ltd Cooperative Bank of Kenya 2002
- CFC Bank Ltd Stanbic Bank Ltd CFC Stanbic Bank Ltd 2008
  Saving and Loan (K) Kenya Commercial Bank
- Ltd Ltd Kenya Commercial Bank Ltd 2010 Investment & Mortgage
- Biashara Bank Ltd Bank Ltd I&M Ltd 2002
- Pan African Insurance Apollo Insurance Co Ltd APA Insurance 2003
- Kobil Kenya Kenya Oil Kenol Kobin 2014 Essar
- Safaricom Ltd Telecommunication Safaricom ltd 2014

Source: Competition Authority of Kenya

➢ *Listed Financial and Non Financial Institutions Acquisition Firms in Eastern Africa Securities Market*

S/n	Acquisition Companies	Year
•	Kenya oil Acquisition of kobil oil	2007
•	Acquisition of Uganda Telecom by Lap Green company 2006 16 Equity Bank of Kenya Acquires Housing Finance	2007
•	Equity Bank of Kenya Acquires Microfinance Institution (MFI) of Uganda	2008
•	Safaricom Kenya Acquires One Com (Kenya IT Firm). 2008 19 Total Kenya acquistion of Chevron Kenya	2009
•	East African Breweries Acquistion of Serengeti Breweris of Tanzania	2010
•	East African Breweries Acquisition of Kenya Breweries	2011
•	TPS Serena group of Hotels acquires Hotel Movenpick Dareesalam	2012
•	Acquistion of Crown Berger (Crown Paint Kenya Acquisition of Crown Paint Tanzania) 2012 24 Tps Eastern Africa (Serena) Acquistion of TPS Uganda	2012
•	I&M Bank Acquisition by City Trust	2012
•	Pan African Insurance Acquisition by Hubris Holding Ltd 2012 27 Centum Inestment acquisition of Genesis Kenya Investment Management	2013
•	Scan group and Cavendish Squareholdings	2013
•	Acquisition of Getaway Insurance Company by Pan Africa Insurance Holding ltd	2014
•	Britam Acquisition of Real Insurance	2014
•	British American Investment (Britam) Kenya Acquisition of Housing Finance	2014
•	Acquistion of Phoenix Uganda by Kenol Kobil	2014
•	Barclays Bank acquires First Assurance Company	2015
•	Equity Investment Bank acquires 250,000of Thuo and Partners Brokerage Firm 2013 35 Standard Chartered private Equity (SCPE) and ETC group.	2013
•	I&M Bank Acquisition of Giro Bank	2015
•	Equity Bank of Kenya Acquires Pro-credit Bank of Congo	2015
•	Unga Group Ltd Acquisition of Enns Valley Bakery Ltd	2014

Source: Competition Authority of Kenya