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ABSTRACT

This study analysed the risk factors associated with mergers and acquisition on financial performance of firms listed at the NSE. The study was based on the theories of Differential Efficiency/Financial Synergy Theory, Q Theory of Merger, Size and Return To Scale Theory, and Hubris Theory. The study adopted a descriptive research design and mixture of qualitative and quantitative methods of research approach. The target population of 16 firms that merged between 2000 and 2016 was used. Primary data on finding risk was collected with the aid of structured questionnaireand secondary data on profitability, liquidity and funding variables was obtained from financial reports of the target population firms. Collected data was analysed using Statistical Package of Social Science (SPSS) version 23. Multiple regression analysis and correlation analysis was performed. Result showed that post merger performance for revenue was higher than pre merger with a significance increase in revenue and profit; post merger cash flow performance was lower compared to pre merger with a significance decrease in cash flow; post merger debt ratio recorded was higher than pre merger debt ratio with a significance rise in use of debt funding for M&A deals; pre merger equity funding ratio was higher than post equity ratio; post merger current asset ratio was greatly lower that pre merger with a significance drop in value of current asset over current liabilities; pre merger acid test ratio was higher that pre merger with a significance rise in inventories following M&As; and post merger cash ratio was higher than pre merger with a significance rise in cash and cash equivalence following M&A; cash payment has adverse effect on financial cash flow, mixed payment had moderate effect and leverage payment had low adverse effects. The study concluded that M&As deals have favourable effect or low risk on profitability performance of combined firm; adverse effects on funding risk of the combined business; adverse effect or increased risk on firms liquidity performance. The recommends that great care should be observed in transacting M&As not to adversely affect the combined firm cash flow; a mixture of both equity and debt should be adopted as the increased use of debt increases finance risk of the concern; prudent management of current assets to avoid liquidity risk that might arise from increased liability related to M&As deals and use of hybrid and non cash payment methods in settling M&A deals.

Key Words: *Profitability Risk, Funding Risk, Liquidity Risks Payment Risk, Financial Performance*

INTRODUCTION

Mergers and acquisitions represent the end of the continuum of options companies have in combining with each other. Other options include licensing, alliances, partnerships and joint ventures. As argued by Andrade, Mitchell, Stafford (2001), mergers and acquisitions are the combinations that have the greatest implications for size of investment, control, integration requirements, pains of separation and people management issues. Mergers and acquisitions are not synonymous and do not have exact definitions. For instance, in a merger, two companies come together and create a new entity while in acquisition one company buys another one and manages it consistent with the acquirer's needs (Barros& Cabral, 1994). According to Gaughan (2007), DePamphilis (2003), Scott (2003), a merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence.

In a merger, the acquiring company assumes the assets and liabilities of the merged company. Moreover, although the buyingfirm may be a considerably different organization after the merger, it retains its original identity. An acquisition occurs when one company acquires significance control or ownership interest in another firm, or selected assets of another firm such as a manufacturing facility (DePamphilis, 2003). Scott (2003) views an acquisition as the purchase of an asset such as a plant, a division, or even an entire company. In comparison, the distinction in meaning of 'merger' and 'acquisition' may not really matter since the net result is often the same, that is, two companies (or more) that had separate ownership are now operating under the same roof, usually to obtain some strategic or financial objective. Although the result of M&A's is the same, the strategic, financial, tax and even cultural impact of M&A's deal may be very different depending on the type of transaction (Sherman, Hart 2006). These differences determine their success as well as failure, posing more risks.

Across the globe, there has been unprecedented growth in M&As, Kenya included. However, the real drivers and value for M&A's still remains perplex among scholars with diverse findings on benefits and risks. Although many M&As are used as a tool to gain competitive advantage, generate efficiency and enhance growth potential (Yash, 2005), the meaningful gain for M&A still remains a misery given the rate at which they fail across the globe. For instance, The Economists Report (2016) estimate between 50% and 70% failure rate of M&A deals with 35% break ups before even mixing up operations. Additionally, Dealogic (2016) projects a 46% failure rate of record-breaking $5 trillion global worth of M&A's before the end of 2018. Therefore, this study will determine the risk factors associated with M&A's and their effects on firm performance. The subsequent sub-sections discuss the M&A's from global, regional and local perspective.

Mergers and acquisitions have become a more and more popular tool for companies to expand strategically, either developing existent capabilities or entering into new activities. It is also frequently used to eliminate competition. The global mergers and acquisitions were at an all-time high in 2015, with $4.28 trillion worth of deals according to global merger market report by Deloitte (Deloitte, 2016). This is a 16.6 percent more than the previous peak in 2007 and about 30 percent more than 2014. Both the U.S. and Asia recorded their highest M&A values and two of the only six deals ever valued at over $100 billion were announced in 2015. The United States, with 4,786 deals worth $1.97 trillion, accounted for 46.2 percent of global M&A activity, its highest share since 2001 and the deal value increased by 40.6 percent compared to 2014. Pfizer's purchase of Allergan, worth $183.7 billion, was the third-biggest M&A transaction in history (Deloitte, 2016).

The main drive for M&As in Europe and America is the global competition companies are exposed to. According to Bruner (2004), globalcompetitionrequires firms to not only constantly grow and improvebut also enables them to choose from a wide variety of possible takeover targets. As pointed by Akhigbe, Madura, and Whyte (2004) the reasons to engage in acquisitions are motives concerning market power or potential economies of scale or scope, which are expected to create sustainable long-term value. Consecutively, the perceived motivation drivers for M&Es activity are generally considered to be the acquiring firms' desire to increase its return by expanding geographically. Despite the growth in value of M&A's, there are numbers of factors that pose risk to their success. For example rise in interest rates, the war on terror, Gr/Brexit and the US elections, are some of the risk that threatened global M&A's according to Mergers market report (2016).

In Africa continent, mergers and acquisitions constitute a powerful growth tool used by companies to achieve long-term growth and increased revenue or profitability (Sherman & Hart, 2006). According to The Deloitte M&A Index Report (2016) Africa's M&A activities declined to $27.4 billion, the lowest level since 2012 due to the sharp drop in oil and other commodity prices for the natural resources exporting nations. African companies have been diversifying their portfolios and led by South Africa, outbound acquisitions reached $9.5 billion so far in 2015.

In Nigeria, the prospects of mergers and acquisitions have continued to evolve due to passage of different legislation to regulate business combinations including the Companies and Allied Matters Act of 1990 and the Investment and Securities Act of 2007, among other sector-specific Acts. The most striking activities in mergers and acquisitions in Nigeria were undoubtedly the 2005 mergers that took place in the banking sector. These mergers were driven by the Central Bank of Nigeria's 2004 directive to all Nigerian banks to increase their shareholders' fund to a minimum of NGN25 Billion (Approximately US$208) from the previous minimum shareholders fund of NGN2 Billion (Ojoro, 2006).

Kenya is the regional leader in the East African M&A market. It is the preferred entry point for companies wishing to expand further in the region due to its strategic geographical location, well established private sector, favourable government incentives, developed infrastructure and robust human capital. This is expected to remain the case over the medium term. According to KPMG's Deal Space (2014), Kenya has led the East African transaction space with over 134 deals disclosed since 2010. The trends in the M&A market in Kenya, according to KPMG (2014), suggest that deal volumes in the financial services sector have shown high growth in recent years, whereas sectors such as manufacturing, tourism and healthcare have not seen significant deal activity. Noteworthy is the banking and insurance sectors in Kenya, which are likely to witness significant deal activity in the near future due to the revised regulatory capital requirements. Other trend to watch for is the growth in the finance-related technology services sector to increase Kenya's banked population.

Mergers and acquisition activities in Nairobi Securities exchange have been on the rise over the years, Access Kenya was acquired by dimension data holdings a premium provider of IT solutions and services for KSh 3 billion in May 2013. Another acquisition is that of motor dealer CMC motors limited by Al Futtaim which was closed during year 2014, Total Kenya acquired Chevron Kenya in 2009, Trans century acquired Rift valley railways during the year 2006 and Unga millers is also in talks to acquire Ennsvalley bakery just to mention a few of acquisitions deals (Standard Digital, 2013).

Statement of the Problem

Kenya's corporate mergers and acquisitions have been occurring at an unprecedented rate being

one of the most important developments in corporate finance in the last decade. However, on the other hand, there has also been unprecedented rise in M&A's failures drawing attention of scholars to question the reason behind this phenomenon. More research about M&A's performance has been studied and there seems to be diverse findings specifically with motives and benefits. Although it appears like the there is a consensus on the following as reason behind M&As failures: lack of straightforward trade-off between principles and money (Cliford, 2000); economic costs of underperformance and determination of investment decision (Lewis and Mackenzie 2000); temporal synergy (Weston, Mitchell and Mulherin, 2004) and agency problems resulting in less than optimal returns (Jensen, 1986). The aforementioned risks cannot be generalized to all companies, necessitating astudy to be carried out to identify specific risks associated with M&A's in Kenya situation.

In Kenya corporate sector, KPMG Reports (2015) indicated that over 68% of M&A's deals entered between 2010 and 2015 have reverted, raising concern despite the known 'Dos and Don'ts' for M&As. For instance, the acquisition of 85% of Paradise Investments and Development Kenya by Paradise Safari Park failed to materialize due to what the management termed inconsistency in operational activities (The Economist, 2015). Similarly, TPSEA (Serena) merger with TPS (D) or Dar es Salaam Serena Hotel in Tanzania failed after two years of operation due to different corporate culture. According to Oyuma (2012), the merger between Stanbic Bank Kenya Limited and CFC Bank Limited which gave birth to CFC Stanbic Holdings also experienced technical challenges that almost crippled its operation in the earlier days.

Recent studies in Kenya have failed to pinpoint risk factors associated with M&As. Kamwaro (2015) analysed strategic mergers in Kenyan organizations: a case of ICEA Lion group however it did not look into risk factors associated with mergers; Katuu(2003)analysed non-financial risk Assessment in Mergers, Acquisitions and Investments in Kenya however the study too did not report on financial risk; Mailanyi (2013) analysed effects of M&A's on the Financial Performance of Oil Companies in Kenya, just like previous studies this study did not analyse risk factors, necessitating a need for this study.Up to this point, it is clear that little scholarly efforts have been devoted to analysis of risk factors associated with M&A's in Kenya. To the best of researcher's knowledge, no study has analysed the risk factors associated with M&As for listed firms in NSE, specifically drawing linkage to rising M&A's failure rate. Therefore, this study filled the knowledge gist and provided a renewed meaning to the research area.

Objectives of the Study

The general objective of the study was to analyse the effect of risk factors of mergers and acquisitions on financial performance of firms listed on the NSE. The specific objectives were:-

- To establish the effects of profitability risk on financial performance of M&A's firms listed on NSE.
- To assess the effects of funding risk on financial performance of M&A's firms listed on NSE.
- To ascertain the effects of liquidity risks on financial performance of M&A's firms listed on NSE.
- To determine the effects of payment risk on financial performance of M&A's firms listed on NSE.

LITERATURE REVIEW

Theoretical Review

Differential Efficiency &Financial Synergy of Mergers Theory

This theory collaborate profitability risk variable of the study. According to Fluck and Lynch (1999), developed the theory of financial synergy, finance synergy of mergers theory explains that the

motivation of mergers and acquisitions stems from inability to finance marginally profitable projects as standalones due to agency problems. Example is conglomerate merger which is a technology that allows these projects to survive a period of distress by improving profitability. The theory sees mergers as a way of increasing the combined values of acquirers and targets by financing positive net present value (NPV) projects that cannot be financed as standalones. This theory view mergers as a way to increase the combined value of the acquirer and target. The theory has two important caveats concerning its applicability; first, one of the merging firms must be experiencing financial distress. The theory is most directly applicable to marginally profitable start-up companies and existing companies that are financially distressed. Second, theory only applies when severe agency problems exist between the manager and the claim holders of the distressed firm. The theory for this reason is more applicable to mergers where one of the merging firms is small (Fluck and Lynch, 1999).

According to the theory, differential efficiency of mergers occurs if the management of firm A is more efficient than the management of firm B and if after firm A acquires firm B, the efficiency of firm B is brought up to the level of firm A, then this increase in efficiency is attributed to the merger. According to this theory, some firms operate below their potential and consequently have low efficiency. Such firms are likely to be acquired by other more efficient firms in the same industry. This is because; firms with greater efficiency would be able to identify firms with good potential operating at lower efficiency. They would also have the managerial ability to improve the latter's performance. However, a challenge would arise when the acquiring firm overestimates its impact on improving the performance of the acquired firm. This may result in the acquirer paying too much for the acquired firm.

Alternatively, the acquirer may not be able to improve the acquired firm's performance up to the level of the acquisition value given to it. The managerial synergy hypothesis is an extension of the differential efficiency theory. It states that a firm, whose management team has greater competency than is required by the current tasks in the firm, may seek to employ the surplus resources by acquiring and improving the efficiency of a firm, which is less efficient due to lack of adequate managerial resources. Thus, the merger will create a synergy, since the surplus managerial resources of the acquirer combine with the non-managerial organizational capital of the firm. When these surplus resources are indivisible and cannot be released, a merger enables them to be optimally utilized. Even if the firm has no opportunity to expand within its industry, it can diversify and enter into new areas. However, since it does not possess the relevant skills related to that business, it will attempt to gain a 'toehold entry' by acquiring a firm in that industry, which has organizational capital along with inadequate managerial capabilities (Prasad and Mahesh, 2012).

Financial Synergy The managerial synergy hypothesis is not relevant to the conglomerate type of mergers. This is because, a conglomerate merger implies several, often successive acquisitions in diversified areas. In such a case, the managerial capacity of the firm will not develop rapidly enough to be able to transfer its efficiency to several newly acquired firms in a short time. Further, managerial synergy is applicable only in cases where the firm acquires other firms in the same industry. Financial synergy occurs as a result of the lower costs of internal financing versus external financing. A combination of firms with different cash flow positions and investment opportunities may produce a financial synergy effect and achieve lower cost of capital. Tax saving is another considerations. When the two firms merge, their combined debt capacity may be greater than the sum of their individual capacities before the merger. The financial synergy theory also states that when the cash flow rate of the acquirer is greater than that of

the acquired firm, capital is relocated to the acquired firm and its investment opportunities improve (Halfar, 2011).

Size and Return to Scale Theory

This theory collaborate funding risk variable. According to Sharma (2013) the size and return of the firm are the key determinants of funding source and level. Accordingly, benefits of size are usual source of "synergies", that is, the positive incremental net gain associated with the combination of two firms through a merger or acquisition. For instance, suppose firm A acquires firm B for cash. The synergy or total gain in value to the shareholders of A and B is Synergy = VAB - [VA + VB]. If the synergy is *positive*, then the combination of the two firms (VAB) is more valuable than the sum of the separate firms. As learnt from the first principles of finance, the value of an asset is the present value of its discounted Future cash flows. The cash flows from synergy are: ΔCFt = CFABt - [CFAt + CFBt]. If positive, then the combined firm results in greater cash flow than the Sum of the separate firms. If no value is created through the combination of A and B, i.e. synergy = 0, then the merger is a zero-sum game and the gain to B shareholders is equal to the cost to A shareholders. If VAB> VA + VB, then both parties may benefit (Sharma (2013).

In terms of economies of scale, the average costs decline with larger size. Large firms are more able to implement specialization. A combined firm may operate more efficiently than two separate firms. A firm can achieve greater operating efficiency in several different ways through a merger or an acquisition. Economies of scale relates to the average cost per unit of producing goods and services. If the per unit cost of production falls as the level of production increases, then an economy of scale exists. When companies merge, overheads are reduced and operational efficiency is improved since there is a sharing of central facilities such as corporate headquarters, top management, staff and computer services. Through economies of vertical integration, vertical mergers make it easier to coordinate closely related operating activities (Moctar&Xiaofang, 2014).

Q Theory of Mergers

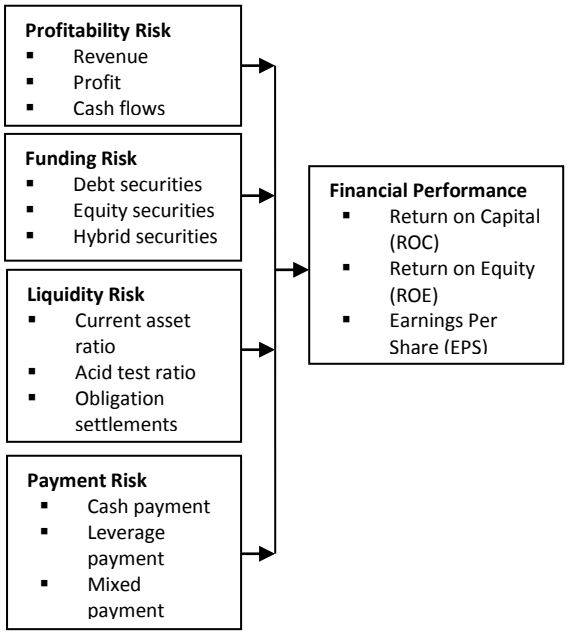
The Q theory of merger collaborate liquidity risk variable of the study. The theory was developed by Jovanovic and Rousseau in 2002. According to Jovanovic and Rousseau (2002), Q-theory of mergers proposed that the same forces driving firms' direct investments also drive their decisions about merging with other firms. The theory views mergers in a macroeconomic sense as devices for solving an economy wide problem of reallocating capital. Reallocation is needed as new technologies emerge with the potential to transform fundamentally the ways that firms do business. Readying the existing capital stock (both physical and human) for use in a new technological climate is less costly, if new firms as they gain experience with new technologies are able to acquire older firms while keeping their organization capital intact. When this happens, the management skills and technological adaptability of the acquirer are passed to the target's assets, facilitating their transition back to the technological frontier.

A key implication is that firms with high values of Tobin's Q (defined as the ratio of a firm's market value to the replacement cost of its assets), and therefore greater ability to raise the value of target assets, will use acquisitions more intensely than purchases of more costly new capital. The Q-theory of mergers holds that a firm's M&A activity depends on the difference between its Q and the Q's of its potential targets. Jovanovic and Rousseau (2002) used exchange listed in United States firms from Standard and poor's composter database for 1970 to 2000 and found that M&A investments are more sensitive by a factor of 2.6 to Tobin's Q than are direct investments. Since transactions costs (i.e., brokerage, legal, etc.) associated with M&A are considerable, however, firms must weigh these costs against the advantages of M&A over direct capital investment.

Hubris Theory

This theory best collaborate payment risks associated with mergers and acquisitions. According to Roll (1986), the founder of the theory, Hubris theory takes a hypothetical view that merger and acquisitions affect the value of merging firms as assessed from payments. When a merger or acquisition announcement is made, the shareholders of the bidding firm incur a loss in terms of the share price while those of the target firm generally enjoy a rise in the share price. The current reasoning behind this is that when a firm announces a merger offer to the target, the share price of the target firm increases because shareholders in the target firm are ready to transfer shares in response to the high premium that will be offered by the acquiring firm (Harjeet&Jiayin, 2013). Roll contends that some managers overestimate their own managerial capabilities and pursue takeovers with the belief that they can better manage their takeover target than the targets current management team, acquiring managers then overbid for the target and fail to realize the gains expected from the merger in the post-merger period thereby diminishing shareholders wealth (Megginson& Smart, 2009).

Conceptual Framework



Independent variable Dependent variable

Figure 1: Conceptual Framework

Profitability Risk

Firm's operating environment is envisioned by its production capability as defined by its resources and management team. Daft (2009) viewed managers as people who scout for problems, make decisions for solving them and monitor consequences to see whether additional decisions are required. In this regard, management strive to create a favourable business operating environment that enables firm to achieve its goal and objectives in the most effective and efficient way. Since mergers and acquisitions attempts to create synergy through elimination of duplicated task, its attempts to combine different working environment into one. This can pose challenge to both firms' trade, profit and cash flows. However, Dressler (2004) observed that there is a general assumption that companies with relatively low overheads costs will be more productive and yield better financial performance. The lower the relative overheads costs the better the companies perform in terms of return on sales and return on assets. Therefore, under this variable the study will analyse how mergers and acquisitions affects the resultant firm ability to expand its market share vis revenue, profitability and cash flows. Therefore, revenue, profit and cash flows formed elements of profitability risk

Funding Risk

During the process of an M&A, in order effectively to control a target enterprise in the future, meanwhile satisfy the requirement of enterprise future development, the acquirer needs significant capital to merge with the target enterprise. The financing risk of M&A refers to the risk of financial security and funding resources required by mergers and acquisitions. According to Harjeet and Jiayin (2013) the financing method includes internal financing and external financing and includes: the financial risk of debt financing which is raising funds by issuing bounds or loaning

from the bank. Muia (2011) argued that the capital cost of debt financing is low as it can not only save on taxes but also increase the growth of earnings per share. Meanwhile, debt financing will enhance the asset-liability ratio and reduce the debt-paying ability of an enterprise. Second is the financial risk of equity financing. Equity financing refers to financing through the issuance of shares, warrants, and absorbing direct investment. This financing system can quickly raise large amounts of money. However, this approach leads to a change of the structure of ownership, unfair distribution of shares to old and new shareholders, or even substantial shareholders' loss of control of the acquiring enterprise. The third is financial risk of Hybrid security financing. Hybrid securities financing refer to long-term financing that utilizes dual features of both debt and equity financing. Normally, it contains convertible bonds and convertible preferred stock. Therefore, under this variable the study assessed risk of debt security on financial performance, equity security and hybrid security on financial performance of the M&A firms.

Liquidity Risk

Firm's liquidity is its ability to meet current obligation as and when they fall due. Firm liquidity revolves around working capital management. According to Moctar and Xiaofang (2014) working capital is the residual amount obtained after offsetting current liabilities from current assets. Thus current assets are the earning mechanism of any business enterprise. Liquidity risk affects firm's current asset management, current liabilities management and settlement of obligations. Thus, current assets management, current liability management and settlement of obligations are the elements of analysis under liquidity risk.

Payment Risk

In order to finish the acquisition of a target enterprise, the acquirer will employ a specific way for payment. The mode of payment will bring risk to the pricing, which involves capital liquidity and stock dilution. The payment methods involved in an enterprise merger and acquisition mainly include cash payments, equity payments, lever payments, and mixed payments. Different payment methods will produce different financial risks. According to Halfar (2011) cash is the most convenient payment method, and its biggest advantage is that it is fast. Using it allows the acquirer to gain control of the target enterprises with the fastest speed (Wang, 2011). However, this mode of payment has many shortages; for example, the scale of the transaction is limited by payment capacity and increasing enterprise financial pressure. The increasing pressure on enterprise cash flow will harm corporate liquidity and meanwhile will slow the reaction ability of the enterprise to adapt to its external environment.

Furthermore, this mode of payment increases the enterprise's debt burden and consequently produces the risk of debt and bankruptcy. Equity payments help acquirer avoid the pressure of instant payments and can make the shareholders of the target enterprise become shareholders of a new or subsequent company automatically, allowing them to enjoy the earnings growth of the merged company (Zheng, 2011).

Leverage payment indicates that the acquirer mortgages the assets of the target enterprise and future cash flow and then uses the loan to acquire the target enterprise. The financial risk of this mode of payment is twofold: on the one hand, if the operating condition of the target enterprise is bad, the cash flow in the future will be unstable and liabilities will increase and thus the merger and acquisition companies would sustain a heavy debt burden or even fail to pay back the debt. Mixed payment refers to the mixture of cash payments, equity payments, and leverage payments. If the mixture is reasonable, each kind of payment will complement and constrain one another and thus the M&A activities will be carried out smoothly. Hence under this variable, the study analysed cash payment risk, debt payment risk and mixed payment risk (Gathecha, 2013).

Financial Performance

Firms' financial performances, according to Valentin (2012), are classified into classic and modern indicators of financial performance. Classic indicators include return on assets, return on equity, return on investment, gross profit margin, net profit margin, debt ratio, current ratio, acid test ratio. Modern indicators relates to the concept of creating value. Financial performance exists at different levels of the organization, financial performance measures are split into; profitability, liquidity/working capital, gearing, investor ratios (Kaplan Financial Knowledge, 2014). The study adopted the classical indicators, that is, return on capital (ROC), return on equity (ROE) and earnings per share (EPS).

Empirical Review

Financial Performance

Several research studies have been carried out on different aspects of financial performance by the researchers, economists and academicians. To commence with, Ghosh and Maji (2004), in their paper, to examine the used efficiency of Working capital management as a measure of financial performance, using data from the year 1992-1993 to 2001-2002. They conclude from the study liquidity is a good measure of organization financial performance.

SudiptaandGhosho (2008) analyzed the financial performance of Tata Iron and Steel Company (TISCO) using liquidity and ratios as a measure. The study reported that the liquidity position of the company, based on current ratio as well as quick ratio, was not satisfactory during the study period. They found that the degree of influence of liquidity on its profitability was low and insignificant, thus recommended liquidity and management of current assets ratios as good measures of financial performance of a firm.

Harshad (2013) studied the financial performance of selected companies in particular and the plastic industry in general with the help of composited such ratios like Profitability, Activity, Liquidity and solvency. He judges the financial performance with the help of Trend Analysis and Analysis of Variance. He concluded that the liquidity and profitability performance was not good, but in terms of activity and solvency performance of industry was satisfactory.

Muslumov (2005), in a similar study, analysed the privatization associated with a declining value added and shareholders' profitability in M&As. The study reported a decline in the value added and shareholders' profitability as mainly caused by the decrease in return on assets. The decline in the return on asset was traced to declining asset productivity. Thus the study indicated that profitability and return on equity are indicators of financial performance.

Adolphus (2008) conducted a study on performance relationship of Nigerian manufacturing companies. The results of the study have revealed a significant relationship between liquidity, .profitability, efficiency and leverage measures. The study recommended liquidity, .profitability, efficiency and leverage measures as good measures of financial performance.

Otieno and Macharia (2011) analysed the relationship between Working Capital Management and Profitability: A Case Study of Commercial Bank listed at the NSE. The study employed the following proxies as independent variables: Inventory Turnover in Days, Cash Conversion Cycle, Current Ratio, Quick Ratio, Gross Working Capital, Average Payment, size of firm, and Funds allocated by government in Public Sector Development Program. The study found that Inventory turnover in Days and Average Payment Period have negative relation with firm performance and their probability is significant. The study emphasized that Current Ratio has proved statistically insignificant and has negative impact on Return on Equity in this study.

Profitability Risks

Olusola and Ojenike (2012) did a study on mergers and performance of conglomerates companies in Nigeria. The study analysed the effect of risk factors of mergers and acquisition on performance of firms in Nigeria. Panel data for the

study was collected on four sample companies for the period of fifteen years. Conglomerates companies were purposively selected for the study because they were the only sector on the Nigeria stock exchange list that had carried out merger and acquisition, the period of study covered 1990-2005. Variables used in the study included profitability performance measure by sales/turnovers, net profit, earnings per share, returns on capital employed and market adjusted returns of securities. An analysis of the performance of the selected companies before and after the merger and acquisition transactions revealed that the post-merger and acquisition transactions really improved the performance of sampled companies. This implies that the realization of merger and acquisition objectives such as optimization of resources was achievable.

Research by Halfar (2011) with the aim of evaluating whether in the long-run acquiring companies create or destroy value with target acquisitions by comparing and evaluating pre and post-acquisition performance within defined event windows. Three metrics were used namely; abnormal share price return, abnormal operating cash-flow return and abnormal intrinsic value creation. The study population was defined as all mergers and acquisitions that had occurred between 2000 and 2009 in Johannesburg Stock Exchange. The research used a non-representative, judgmental sample of 29. A two tailed paired sample T-test at the 5% level of significance was used to test for statistically significant difference of means between the pre and post-acquisition event windows. Statistical analysis was completed using IBM's SPSS software package. The research concluded that, on average, mergers and acquisitions destroy value within two years post-acquisition, although some evidence was found in support of acquiring firm value creation in the third year after the acquisition.

Knapen (2012) analysed the shareholder wealth effects of mergers and acquisitions based on the stock prices of the merging firms in the nine-year period from 2003 up to 2011. The study only included takeovers in which one of the involved firms is Dutch and listed on the Amsterdam Stock Exchange. The hypothesis was tested using an event study, in order to determine abnormal returns in a specific window set around the date of announcement. The study gave insight on effects around the announcement dates of 71 takeovers. For the four investigated event windows, it showed all significant positive cumulative abnormal returns on average. The paper concluded that mergers and acquisitions in the sample did create positive shareholder wealth effects.

Funding Risk

Agorastos et al. (2012) study examined the effects of mergers and acquisitions (M&A's) of acquiring firms in Greece among different industries using accounting data. The main objective of the study was to evaluate the risks associated with funding process for post-merger performance of Greek listed firms in the Athens Stock Exchange that participated in merger or acquisition in the five year period from 1998 to 2002, among seven different industry categories. A set of twenty six ratios was employed, in order to measure thirty firms' post-merger performance per industry, as well as the whole sample, and selected accounting data from 1994 to 2006 were compared for the post-merger performance of the sample firms at four years after the M&A events. The results revealed the post-merger performance of the acquiring firms was affected by their industry type and funding sources. The results also showed M&A did not provide a better post-merger performance for the acquiring firms on the whole examined sample and especially for firms that utilized debt sources of fund.

Sharma (2013) examined the impact of merger on the financial performance of merging companies by examining some pre-merger and post-merger financial ratios. The sample consisted of 9 Bombay Stock Exchange listed companies of metal industry involved in mergers during the year 2009 to 2010. Paired sample t test was carried out to

assess the difference in performance between post-merger and pre-merger periods. The findings showed a marginal but not significant improvement in case of liquidity and leverage but the profitability results showed significant decline in return on net worth and return on asset. The results of the study suggested that in case of M&A, synergy can be generated in long run with the careful usage of the resources. The success of M&A deals depend on post integration process, timely action and checking on the costs of integration process. The study showed mixed results on the relationship between mergers and acquisitions on financial performance with time being of essence.

Liquidity Risk

Moctar and Xiaofang (2014) did a study on the liquidity risk impact of mergers and acquisitions on the performance of West African banks. The study was conducted across the economic community of West African States (ECOWAS) which is the most popular regional economic community in Africa. To achieve the objective of the study, investigations were conducted to determine banks that have experienced M&A in ECOWAS region. Data was collected from banks annual reviews. Three groups of variables were used in this study: liquidity ratio, performance ratios (return on assets and return on equity) and investment valuation variables (earnings per share). Two groups of banks were used as case study: the first group consists of Access bank plc Nigeria and SG-SSB Ghana the two banks that had experienced M&A and the second group consisted of Zenith bank plc Nigeria and Bank of Africa Niger that have not experienced M&A. The study first compared the situation of the first group before and after the mergers and alsoanalysed the two groups in terms of liquidity, performance and investment valuation using financial ratios. The study revealed that in terms of liquidity, M&A improved the situation of the banks in short and long term. It also revealed that performance and investment variables decrease in the period of M&A and increase two or three years later. This meant that in West Africa, M&A had significant short and long term positive effects on the liquidity of banks, while a negative effect in short term and a positive effect in long term on the performance and investment valuation variables.

Muia (2011) explored the determinants of growth of firms through mergers and acquisitions in Kenya by focusing on completed merger and acquisition transactions of firms listed at the Nairobi Stock Exchange. The period covered was the occurrence of M&A between 1999 – 2009.The study examined bidder characteristics, industry variables and market variables. The study population consisted of 32 firms in the financial and industrial sectors listed at the Nairobi Stock Exchange. Stratified and purposive sampling techniques were used to obtain a sample size of 6 firms. The data were analyzed and presented using descriptive statistics implemented through appropriate statistical computer package. Pearson's correlation was used to study variables relationship. Profitability, industry concentration, sales growth and stock market index were the used variables in determining growth of firms through mergers and acquisitions. The study concluded that firms be encouraged to embrace M&A growth strategy in corporate finance especially when pursuing the profitability and wealth objectives.

Gathecha (2013) did a study on liquidity risk associated with mergers and acquisition announcement at the NSE for listed companies. The period covered occurrence of M&A between 1999 to 2011.The study used Descriptive research design, the population of this research consisted of all the companies that had undergone mergers and acquisition. Both stratified and purposive sampling techniques were used to design and select a representative sample size of five firms in financial and industrial. The data was analyzed using descriptive statistics to describe the variables under investigations. Descriptive statistics used were arithmetic mean, median, maximum, minimum, standard deviations, percentages and rankings. Statistical Package for

the Social Sciences (SPSS) software was used for data analysis. From the findings, information content of mergers and acquisition positively affected shareholders' wealth, results indicated that generally, there was an increase in the volumes of shares traded when mergers and acquisitions were announced and also increase in volumes of shares traded after the mergers and acquisitions as compared to those before the mergers and acquisitions.

Payment Method risk

Prasad and Mahesh (2012) did a study which focused on the performance of Indian Airline companies after the consolidation of airline sector in year 2007-08. The main objective of the paper was to analyze whether funding sources could affect the Indian airline companies achieved financial performance efficiency during the post-merger & acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards. Pre and post-merger performance ratios were computed for the entire set of sample companies, which had gone through M&A during the selected period. The pre and post M&A performance ratios were compared to see if there is any statistically significant change in performance of acquirer firm after M&A, using "paired sample t-test" at confidence level of 0.01 or 99%. Also Pearson Correlation coefficient test was been employed to assess the relationship of variables. The findings of the study showed that firms that adopted equity funding showed no improvement in surviving Company's return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & acquisition. The study showed a negative relationship between funding of mergers and acquisitions on financial performance.

Harjeet and Jiayin (2013) did a study on empirical investigation of mergers and acquisitions by Chinese listed companies. They examined 136 M&A deals from 1997 to 2007 initiated by Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges where the acquirer gains complete control of the target. The data showed that the Chinese M&A market is dominated by domestic deals with unlisted targets that are either standalone private firms or wholly owned subsidiaries. Acquirers experienced significant positive abnormal stock returns around the announcement date and over the three years after the acquisition. The results were largely driven by state-owned firms, cash acquirers and firms that acquire related targets. The results did not find change in operating performance from the pre to the post-acquisition period for the acquirers.

Rosy (2013) did a study on mergers and acquisitions with focus on empirical study for the Post-Merger Performance of Selected Corporate Firms in India. A sample of 47 firms listed in Indian stock exchanges which had undergone M&A during April 1, 2008 to March 31, 2009 was chosen. The study captured the impact of M&A on liquidity, profitability, operating performance and leverage of sample merged/acquirer companies using ratio analysis and t-test. The financial ratios used in the study were current ratio, quick ratio, gross profit ratio, net profit ratio, return on assets, return on capital employed, debtors turnover ratio, fixed assets turnover ratio, total assets turnover ratio, debt equity ratio and interest coverage ratio. The study proved that there is a significant improvement in the liquidity, profitability, operating performance and financial leverage for a few merged/acquirer firms.

METHODOLOGY

The study adopted a descriptive study. Descriptive studies are conducted to demonstrate associations or relationships between things in the world around, that is, determines and reports the way things are (Mugenda&Mugenda, 2013) when data is collected to describe persons, organizations, settings or phenomena (Creswell, 2009). The target population for the study was listed firms on Nairobi Securities Exchange (NSE) that have participated in mergers or acquisitions during the year 2000 to 2015.

FINDINGS

Effects of Profitability Risk on Financial Performance of M&A's firms

The study objective one was developed to assess that effect of profitability risk on financial performance of M&A's firms listed at the NSE. Under this variable, pre and post merger performance measurement though Profitability measures, namely Revenue, profit and cash flow was conducted. The results were shown in Table 1.

Table 1: Pre and Post Profitability Elements Performance

Profitability Rations	Revenue (billions)	Profit (billions)	Cash flow (billions)
Pre Merger			
Year -3	31.10	1.10	13.40
Year -2	41.58	1.10	11.10
Year -1	37.58	1.00	7.70
Total (A)	**110.26**	**3.20**	**32.20**
Post Merger			
Year 1	40.25	1.10	6.90
Year 2	51.51	1.34	7.58
Year 3	64.65	1.50	11.09
Total (B)	**156.41**	**3.94**	**25.57**
Grand Total (A+B)	**266.67**	**7.14**	**51.77**

Revenue Performance

In the context of revenue, the mean pre merger performance recorded was 110.26 billion and post merger performance recorded was 156.41 billion. This shows the post merger performance was high compared to pre merger performance of M&As banks in Kenya. In addition, the pre merger revenue performance indicated a mixed result with highest value of 41.58 billion recorded a year to business combination. Similarly, the post merger revenue performance recorded a constant rise in revenue with highest revenue 64.65 billion being recorded on the third year. The implication of constant rise in revenue following M&As deal could be attributed to increased production and market size resulting into increase in revenue. This finding corroborates with finding of Otieno and Macharia (2011) who reported rise in firms operation following merger deals.

In the context of net profit performance, the mean pre merger profit performance recorded was 3.20 billion and post merger profit performance recorded was 3.94 billion, a slight increase of about 0.74 billion. The highest pre merge profit performance recorded slightly declining performance with highest average value of 1.1 billion being two years to actual transaction. On the other hand, the post merger profit performance recorded constant rise with highest profit of 3.94 billion recorded in third year following business combination. The finding implies that M&As improves profitability of firm, however this find did not concur with Adolphus (2008) revealed a significant reduction in profitability immediately after M&As in Pakistan.

In the context of cash flow performance, the mean pre merger cash flow recorded was 32.20 billion and post merger cash flow being 51.14 billion. This shows the post merger cash flow performance was high compared to pre merger performance of M&As banks in Kenya. Further to that, pre-merge cash flow recorded a constant declining cash flow on average with highest being 13.4 billion, three years to business combination. Similarly, the post merger recorded slightly declining performance with highest average value of 1.1 billion being two years to actual transaction. On the other hand, the post merger profit performance recorded constant rise with highest profit of 3.94 billion recorded in third year

following business combination. This finding is in agreement with Adolphus (2008), Otieno and Macharia (2011) and Olusola&Ojenike (2012) who recorded cash flow reduction as the major risk affecting M&A's deals.

Effects of Funding Risk on Financial Performance of M&A's Firms

The second objective was designed to assess the effect of funding risk on financial performance of M&As firms listed at the NSE. Under this variable, the study analysed three gearing ratios namely debt ratio, equity ratio and debt to equity ratio. The pre and post merger performance of these ratio are shown in Table 2.

Table 2: Pre and Post Funding Elements Performance

Gearing Ratios	Debt Ratio	Equity Ratio	Debt-Equity Ratio
Pre Merger			
Year -3	0.243	0.657	0.321
Year -2	0.269	0.631	0.368
Year -1	0.309	0.791	0.447
Mean (A)	**0.274**	**0.693**	**0.379**
Post Merger			
Year +1	0.472	0.528	0.898
Year +2	0.566	0.594	0.904
Year +3	0.623	0.647	0.996
Mean (B)	**0.554**	**0.590**	**0.933**
Mean (A+B)	**0.414**	**0.641**	**0.656**

Results displayed in Table 2 showed that mean pre-merger performance recorded for debt ratio was 0.274 times and post merger performance mean was 0.554. This finding shows that post-merger debt ratio performance was almost twice the pre-merger performance denoting a rise in debt funding following M&A's deals. There was a general rise in pre merger debt ratio with highest ratio recorded 0.309 times at Year-1 and lowest debt ratio recorded 0.243 at year-3. For post merger, debt ration performance equally indicated continued rise in with highest and lowest ratio reported 0.623 at year+3 and 0.472 at year +1 respectively. The continued rise in debt ration implies that most M&As deal tends to be largely financed by debt funding. This finding corroborates with Halfar (2011).

In the context of equity funding ratio the mean pre merger and post merger performance was recorded 0.693 times and 0.590 times respectively, denoting a slight reduction in equity funding. However, trend analysis of pre-merger debt ration reveals a rising performance with high and low ratio of 0.791 at year-1 and 0.631 at year-2. On the other hand, the post merger debt ration performance reported a steady rise in equity ratio, with the highest and lowest equity ratio being 0.528 times in the year+1 and 0.647 times at year+3. This finding clearly illustrate that equity funding are still preferred means of funding mergers and acquisitions. Particularly, increase in port merger equity ratio could be attributed to settlement of M&A's deals through exchange of shares. This finding agrees with Knapen (2012) who reported that mergers and acquisitions in erode shareholder wealth.

In the context of debt to equity ratio the mean pre merger performance recorded was 0.379 times and post merger mean performance recorded was 0.933, denoting a great rise in use of debt to equity in funding of M&A's of firms listed at NSE. The highest pre merger debt to equity ratio recorded was 0.447 in year-1 as against lowest debt to equity ratio recorded 0.321

times at year-3. This denotes a continuous rise in use of debt especially towards sealing of M&A's deals. Further for post merger debt to equity ratio, the study reported a continued rise with highest and lowest ratio being 0.996 at year+3 and 0.898 at year+1 respectively. This finding collaborates with Agorastos et al. (2012) and Sharma (2013).

Effects of Liquidity Risk on Financial Performance of M&A's Firms

The study objective three was developed to assess that effect of liquidity risk on financial performance of M&As firms listed at the NSE. Under this variable, the study analysed three liquidity ratios namely current ration, acid test ration and cash ratio. The pre and post merger performance of these ratio are shown in Table 3.

Table 3: Pre and Post Liquidity Elements Performance

Liquidity Ratios	Current Asset Ratio	Acid Test Ratio	Cash Ratio
Pre Merger			
Year -3	1.9	2.04	0.179
Year -2	1.11	2.42	0.295
Year -1	1.13	1.94	0.507
Total (A)	**4.14**	**6.4**	**0.981**
Post Merger			
Year +1	-0.14	3.7	0.002
Year +2	0.07	2.85	0.083
Year +3	0.12	2.37	0.474
Total (B)	**0.05**	**8.92**	**0.559**
Grand Total (A+B)	**4.19**	**15.32**	**1.54**

From table 3, the context of current ratio shows that the mean pre merger performance recorded was 4.14 times and post merger performance recorded was 0.05 times. This showed that post merger current asset performance was largely lower compared to pre merger performance for banks listed at the NSE. The high drop in current asset was largely due to huge cash outflows used in settlement of M&A deals. In addition, the highest pre merger current ratio performance exhibited an increasing trend with the highest pre combination current ratio recorded 1.33 times at Year-1. For post merger, current ration performance for year one (immediate year after merger) reported a negative (-0.14) denoting more current liabilities than current asset. This result could be attributed to the large liabilities created during business combination or liabilities absorbed from acquires. However, this was followed by steady rise in positive current ratio brought about by settlement of created or absorbed liabilities. This finding corroborates with Moctar and Xiaofang (2014).

In the context of acid test ratio the mean pre-merger and post-merger performance was recorded 6.4 times and 8.92 times respectively, denoting a reduction in inventories in the combined business. This result could probably explain that most of merger or/and acquisition are motivated by the need to expand production to fill the expanded market, thus allowing the combined firm to produce more, which requires that inventories must be increased. Alternative, reduction in inventories could also be attributed to by acquiring low performing firms or downward revaluation of inventories for strategic purposes. The highest pre merger performance of acid test ratio was recorded 2.42 times at year-2 as against lowest acid test ratio recorded 1.94 times in the year-1. Further the post merger acid test performance indicated a constant declined, with the highest acid test ratio recorded 3.7 times in the year+1, as against the lowest acid test ratio recorded 2.37 times year+3. The constant decline in post merger acid test clearly denotes a rise in inventories due to expansion of production for

the combined business. This finding agrees with Muia (2011) and Gathecha (2013).

Lastly for the third objective, in the context of cash ratio the overall pre merger and post merger performance was recorded 0.981 times and 1.540 times respectively. The highest pre merger performance of cash ratio recorded was 0.507 times in year-1 as against lowest cash ratio recorded 0.179 times at year-3. This denotes a rise in cash ratio and is also supported by finding on cash flow performance under profitability analysis which reported a steady rise in pre merger cash flow. This finding could justify increase in cash flow for acquire firm as one of the drive for M&As. In addition, the finding could further imply that firm intending to combine or acquire others tend to accumulate free cash flows probably to be used for settlement of the M&A's related transactions. This finding collaborates with Prasad and Mahesh (2012).

Effects of Payment Risk on Financial Performance of M&A's firms

The study objective four was developed to assess that effect of payment risk on financial performance of M&As firms listed at the NSE. Under this variable, the study analysed three forms of settlement of M&As deals namely cash payment, leverage payment and mixed payment on a five likert scale with, 5 denoting very strong effect and 1 denoting very weak. The mean and standard deviation results are presented in Table 4.

Table 4: Mean and Standard Deviation for Payment Risk

Items	Min	Max	Mean	Std Dev.
Extent to which cash payment has adverse effect on merged/acquired firms' financial cash flow.	1	5	4.23	0.597
Extent to which leverage payment has adverse effect on merged/acquired firms' financial cash flow	1	5	2.08	0.126
Extent to which that mixed payment has adverse effect on merged/acquired firms' financial cash flow	1	5	3.39	0.419
Average Mean	**1**	**5**	**3.23**	**0.381**

From the findings in Table 4, the extent to which cash payment has adverse effected financial cash flow of M&A's firms revealed a mean of 4.23 and a standard deviation of 0.597, extent to which leverage payment has adversely affected cash flow of M&As firms revealed a mean of 2.08 and standard deviation of 0.126, and extent to which mixed payment has adversely affected cash flow of M&As firms revealed a mean of 3.39 and standard deviation of 0.419. The average mean and standard deviation of all elements of payment risk is 3.23 and 0.381 respectively. This finding implies that cash payment has adverse effect on financial cash flow, mixed payment has moderate effect and leverage payment has low adverse effects. These finding implies that in mean, payment risk has moderate effects.

Inferential Statistics: T-Test: Paired Two Sample for Means

The study performed T-Test two paired for sample for mean for both average/mean of pre and post M&A performance. T-Test measures the significant difference at 5% significant level between pre and post M&A of each ratio collectively for all firms taken as a sample for the study. For each pre and post M&A financial ratio P-value (two-tail) was taken to check the significant impact. If the P-value is less than 0.05, it means there is a significant difference in the financial ratios between pre and post M&A. In other case if the P-value is greater than 0.05, there will be insignificant difference between the financial ratios for pre and post M&A. The mean results are discussed for each ratio.

Profitability Ratio Performance

Table 5 below showed the mean of average and P-Value for profitability elements analyzed. From the table, it is clear that there was an increase in revenue ration performance and profit ration performance with P-values of 0.0202 and 0.0161 respectively all significance at 95% level of significance. On the other hand, finding also revealed that there was a decrease in cash flow ratio performance following M&A's with a P-value of 0.0129 significance at 95% level of significance. These findings denote that M&A deals significantly results to increase in revenue and profit, and significance decrease in cash flow. These finding are in accordance with the finding of Amel et al. (2004) and Muhammad (2010) who found decrease in cash flow after M&A. However, the finding about revenue and profit is associated with the finding of Lin et al., (2006) and Sinha&Kaushik (2010).

Table 5: Mean of average and P-Value for the Profitability ratio

Profitability	Pre Merger Mean	Post Merger Mean	P value
Revenue	36.753	52.137	0.0202*
Profit	1.067	2.013	0.0161*
Cash flow	10.733	9.523	0.0129*

Funding Ratio Performance

Results for funding ration performance is depicted in Table 6 and showed the mean of average and P-Value for profitability elements analyzed. Result indicated that there was an increase in debt ration performance following M&A with a P-value of 0.038 significance at 95% level of significance and an increase in debt to equity ratio following M&A with a P-value 0.046 also significance at 95% level of significance. Result for equity ratio showed a decrease in with P-value of 0.246 and insignificance at 95% level of significance. This finding implied that M&A deals significantly led to increase in use of debt finance with raised debt to equity ratio. This raises the financial risk for combined business. These finding were in agreement with the finding of Amel et al. (2004) and Muhammad (2010).

Table 6: Mean of average and P-Value for the each ratio

Funding Ratios	Pre Merger Mean	Post Merger Mean	P value
Debt Ratio	0.274	0.554	0.038*
Equity Ratio	0.693	0.590	0.246
Debt to Equity Ratio	0.379	0.933	0.046*

Liquidity Ratio Performance

Table 7 shows the results for liquidity ration performance. From Table 7, it can be seen that there was a decrease in current ration performance and cash ration performance with P-values of 0.0164 and 0.0317 respectively all significance at 95% level of significance. In addition, acid test ratio also exhibited decrease in performance with a P-value of 0.4889 but insignificance at 95% level of significance. These findings confirmed that M&A deals significantly results to increase in current assets or increase in current liabilities and significance reduction in cash and cash equivalents. These finding corroborates with the finding of Lin et al., (2006) and Sinha&Kaushik (2010).

Table 7: Mean of average and P-Value for the Profitability ratio

Profitability	Pre Merger Mean	Post Merger Mean	P value
Current Ratio	1.380	0.017	0.0164*
Acid Test Ratio	2.133	2.973	0.4889
Cash Ratio	0.327	0.220	0.0317*

Regression Analysis

Finding for multiple regression analysis is shown in Table 8, and reveal R^2 of 0.6368, implying that 63.68% change in M&As performance can be attributed to changes in the profitability risk, funding risk, liquidity risk and payment risk.

Table 8: Model Summary

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate
1	0.798a	0.6368	0.6151	0.001

a. Predictors: (constant), profitability risk, funding risk, liquidity risk, payment risk.

b. Dependent variable: Financial performance

Analysis of variance (ANOVA) result indicated total variance of 55.058 as the difference between variance which can be explained by the independent variables and error. In addition, the higher value of F-statistics (F_{Cal} =12.675> F_{Cri} = 4.123 at confidence level 95 % and sig is 0.000<0.05) indicated that there existed a significant goodness of fit of the model $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Table 9: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.826	1	4.707	12.675	.000[a]
	Residual	36.232	67	.647		
	Total	**55.058**	**68**			

a. Predictors: (constant), profitability risk, funding risk, liquidity risk, payment risk.

b. Dependent variable: Financial performance

Coefficient Analysis

Table 10: Coefficient Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.574	0.192		2.522	0.015
	Profitability risk	0.598	0.205	0.412	3.304	0.002
	Funding risk	0.665	0.011	0.563	3.882	0.001
	Liquidity risk	0.291	0.136	0.134	4.124	0.002
	Payment risk	0.542	0.824	0.353	2.124	0.008

a. Predictors: (constant), profitability risk, funding risk, liquidity risk, payment risk.

b. Dependent variable: Financial performance

Results for variable coefficient or beta values revealed a constant value of 0.574 which denotes the change in dependent variable not attributed to by the analysed variables. Regression result further revealed beta value for profitability risk β_1=0.598, p=0.02<0.05 implying that a unit change in profitability risk will leads to 0.598 factor change in M&As financial performance; funding risk has β_2= 0.665, p=0.001<0.05, t=3.882 implying that a unit change in funding risk will leads to 0.665factor change in M&A financial performance; liquidity risk has β_3=0.291, p = 0.002<0.05, t=4.124 implying that a unit change in liquidity risk will leads to 0.291 change M&As financial performance; and finally payment risk has β_4=.0.542, p=0.008>0.05, t= 2.124, implying

that a unit change in payment risk will leads to 0.542 factor change in M&As financial performance. These results reveal that the most significance variable for the study is funding risk, followed by profitability risk, payment risk and liquidity risk. The regression model for the study is $Y = 0574+0.598X_1 +0.665X_2 +0.291X_3 +0.542X_4$

CONCLUSION AND RECOMMENDATION

For profitability performance elements, post merger performance for revenue was higher than pre merger with a significance increase in revenue following M&A; post merger profit performance was higher that pre merge with a significance increase in profit; and post merger cash flow performance was high compared to pre merger with a significance increase in cash flow. A unit change in profitability risk will leads to 0.598 factor change in M&As financial performance

For the funding element performance, post merger debt ratio recorded was higher than pre merger debt ratio with a significance rise in use of debt funding for M&A deals; pre merger equity funding ratio was higher than post equity ratio however the reduction in use of equity funding was insignificance; post merger debt to equity ratio was higher than pre merger with a significance rise in use of debt over equity funding. A unit change in funding risk will leads to 0.665 factor change in M&A financial performance.

For liquidity ration performance, post merger current asset ratio was greatly lower that pre merger with a significance drop in value of current asset over current liabilities; pre merger acid test ratio was higher that pre merger with a significance rise in inventories following M&As; and post merger cash ratio was higher than pre merger with a significance rise in cash and cash equivalence following M&A. A unit change in liquidity risk will leads to 0.291 factor change in M&A's financial performance.

Lastly for payment elements, cash payment has adverse effect on financial cash flow, mixed payment has moderate effect and leverage payment has low adverse effects.A unit change in payment risk will leads to 0.542 factor change in M&A's financial performance.

Conclusions of the study

The study made the following conclusion based on key findings. First, the study concludes that M&A's deals have favourable effect or low risk on profitability performance of combined firm. This reduced profitability risk is achieved by significance rise in revenue and profit, thus M&A's lead to increase in revenue and profit. Secondly, M&A deals have adverse effects on funding risk of the combined business. This adverse effect is cost by increased use of debt finance which raises the risk of equity funding. In addition, the high debt to equity ratio confirms increased risk on financial performance. Thirdly, M&A's has adverse effect or increased risk on firms liquidity performance. This increased liquidity risk is indicated by reduction in current ratio, acid test ratio and significance cash ratio. Lastly, for payment risk, settlement of M&A's deals with cash increased cash flow risk for the combined business and thus payment risk too.

Recommendations

The study made the following recommendations. First, based on finding on significance reduction in cash flow following M&A's deals, the study recommends that great care should be observed in transacting M&A's not to adversely affect the combined firm cash flow. Secondly, in financing M&A's deals, the study recommends that mixture of both equity and debt should be adopted as the increased use of debt increases finance risk of the concern. Thirdly, the study recommend for a prudent management of current assets to avoid liquidity risk that might arise from increased liability related to M&A's deals. Lastly, the study recommends that hybrid and non cash payment methods should be adopted for M&A's to avoid cash flow risk that arises from M&A deals.

Suggestions for Further Studies

Countless researches have been done throughout the world to determine the impact of M&A's strategy on corporate sector. This study accomplished the declared gap in explaining the impact of M&A's risk on financial performance in Kenya. However, a number of issues were observed that would form the basis for future research. First, since the study only concentrated in analysis of firms listed at the NSE, similar analysis should be extended to firms not listed at the NSE as they form the bulk of current business combinations in most emerging economies. Secondly, the study suggest further analysis to be done to determine how funding risk and liquidity risk effects can be mitigated to enhance M&A's financial performance in corporate world.

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