

Mergers and Acquisitions Announcements and Stock Returns of Listed Firms at the Nairobi Securities Exchange, Kenya

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ABSTRACT: This study examined the effect of mergers and acquisitions announcements on stock returns among firms listed at the Nairobi Securities Exchange, Kenya. The study was anchored on Synergy Theory and adopted a positivist research philosophy, a descriptive research design and event study methodology. The broader study targeted all 60 firms listed at the Nairobi Securities Exchange and identified 127 corporate announcement events between 2014 and 2024. For the mergers and acquisitions component, 10 announcement events were analysed using a census approach. Secondary data on announcement dates and daily share prices were obtained from the Nairobi Securities Exchange. An event window of 15 trading days before and 15 trading days after each announcement was used. Actual returns, expected returns, abnormal returns (AR), cumulative abnormal returns (CAR), standardized abnormal returns and standardized cumulative abnormal returns were analysed, with significance assessed using one-sample t-tests at the 5% level. The findings showed limited market reaction before the announcements. On the first trading day after an M&A announcement, the average abnormal return increased to 0.1216 and was statistically significant, $t(9) = 3.145$, $p = .020$. Cumulative abnormal returns were positive and statistically significant from day +1 through day +7, with CAR reaching 0.1488 on day +1. The study therefore established that mergers and acquisitions announcements have a statistically significant positive effect on stock returns among firms listed at the Nairobi Securities Exchange. The study recommends clear and timely communication of the strategic rationale, expected synergies and anticipated benefits of M&A transactions to strengthen investor confidence and facilitate informed market responses.

KEYWORDS: Mergers and acquisitions announcements, stock returns, abnormal returns, cumulative abnormal returns, Nairobi Securities Exchange, Kenya

1. INTRODUCTION

Stock markets facilitate the allocation of capital and provide investors with opportunities for wealth creation. Stock returns are central to this process because they reflect changes in the market value of securities as investors respond to new information. Corporate announcements therefore provide an important channel through which firm-specific information reaches investors and becomes incorporated into stock prices. Mergers and acquisitions (M&A) announcements are material corporate disclosures because they communicate major changes in ownership, strategy and organisational structure. M&A transactions are commonly undertaken to improve operational efficiency, expand market reach, acquire strategic resources and create financial or operating synergies. Njika (2025) notes that acquisition premiums and market responses are closely connected to expectations regarding the efficiency and value generated by a transaction. Investor responses to M&A announcements may be positive or negative depending on the expected benefits and risks of

the transaction. Positive responses may arise where investors anticipate economies of scale, stronger competitive positioning, improved earnings capacity or other synergies. Conversely, concerns about acquisition costs, integration difficulties or overpayment may weaken the market response. Andreou et al. (2022) show that M&A decisions can be associated with important stock-price consequences, while Lee and Yerramilli (2022) demonstrate that reference prices and relative values affect the timing and interpretation of M&A announcements.

Evidence also suggests that market reactions differ across institutional settings. Pandey and Kumari (2020), using an event-study approach for acquiring banks in India and the United States, found that M&A announcements generated abnormal stock-price reactions and that the emerging market in their study was more sensitive to the information than the developed market. Such differences make local evidence important because the response observed in one market cannot automatically be assumed to apply to another.

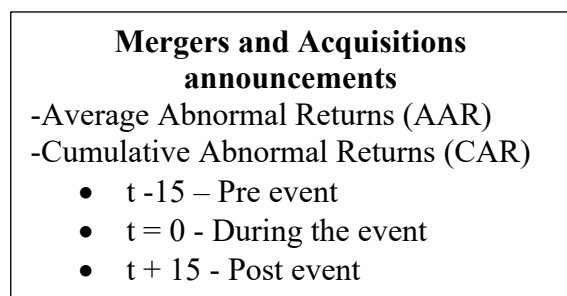
In Kenya, listed firms periodically announce mergers and acquisitions as part of strategic growth and restructuring. However, the magnitude and timing of the stock-market response to these announcements require empirical assessment within the Nairobi Securities Exchange. The present study therefore examined the effect of mergers and acquisitions announcements on stock returns among firms listed at the Nairobi Securities Exchange.

2. STATEMENT OF THE PROBLEM

Stock prices at the Nairobi Securities Exchange fluctuate as investors continuously reassess firm value in response to new information. Mergers and acquisitions announcements are particularly important because they may alter expected cash flows, operating efficiency, market position and the risk profile of the firms involved. Although M&A transactions are generally undertaken with an expectation of value creation, the resulting stock-market response is not necessarily uniform. Existing empirical evidence shows that M&A announcements can generate abnormal returns, but the direction, magnitude and duration of the response differ across markets. Pandey and Kumari (2020) found differing reactions between an emerging and a developed market, while Lee and Yerramilli (2022) show that transaction-specific valuation considerations influence the timing of M&A announcements. These findings underline the importance of market context in determining investor response. The Kenyan securities market differs from larger developed markets in liquidity, information dissemination, investor composition and institutional characteristics. Consequently, findings from other markets cannot be directly generalized to firms listed at the Nairobi Securities Exchange. The study addressed this contextual gap by examining abnormal returns and cumulative abnormal returns surrounding M&A announcements at the NSE over the 2014–2024 period.

5.2 Conceptual Framework

Independent Variable



Dependent Variable

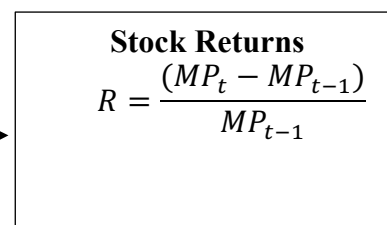


Figure 1. Conceptual Framework

5.2.1 Mergers and acquisitions announcements

Mergers and acquisitions announcements are public disclosures of corporate restructuring activities in which

3. OBJECTIVE OF THE STUDY

To establish the effect of mergers and acquisitions announcements on stock return among firms listed at the Nairobi Securities Exchange.

4. RESEARCH HYPOTHESIS

H₀₁: Mergers and acquisitions announcements have no statistically significant effect on stock return among firms listed at the Nairobi Securities Exchange.

5. LITERATURE REVIEW

5.1 Theoretical Review – Synergy Theory

Synergy Theory explains mergers and acquisitions (M&A) on the premise that combining firms may create greater value than the firms could generate independently through operating, financial, and managerial efficiencies. Synergistic gains may arise from economies of scale, cost reductions, complementary resources, improved operational efficiency, and enhanced revenue-generating capacity. Atrill and McLaney (2021) explain that financial decisions, including business combinations, should ultimately be evaluated in terms of their capacity to enhance shareholder value. Lumby and Jones (2019) similarly situate corporate restructuring and investment decisions within the broader objective of value creation. In the context of M&A, investors assess whether the anticipated benefits of combining firms outweigh acquisition and integration costs. Roll (1986), while advancing the competing Hubris Hypothesis of corporate takeovers, recognizes synergy as one of the explanations offered for takeover gains. Synergy Theory is therefore relevant to the present study because it provides a basis for examining whether investors perceive M&A announcements as value-enhancing information, as reflected in abnormal stock returns.

firms combine or one firm acquires a controlling interest in another. Such transactions may be undertaken to improve efficiency, expand market reach, combine complementary

resources and enhance shareholder value. Investor interpretation of the expected strategic benefits and integration risks determines the stock-market response. Andreou et al. (2022) and Lee and Yerramilli (2022) show that M&A announcements involve valuation and timing considerations that can influence stock-price adjustment. Because M&A transactions may develop through several stages before formal disclosure, the event-study approach is useful for distinguishing pre-announcement, announcement-day and post-announcement market reactions.

5.2.2 Stock Returns

Stock returns represent changes in the value of an investment over a specified period (Lo & Zhang, 2024). In an event study, the information effect of an announcement is assessed by comparing the observed return with the return expected in the absence of the event. The difference is the abnormal return. Cumulative abnormal returns aggregate abnormal returns across the event period and therefore indicate the overall market response to the announcement.

5.3 Empirical Review

Pandey and Kumari (2020) examined M&A announcement effects on the stock returns of 14 acquiring banks from India and the United States using event-study methodology. They found that M&A information generated abnormal stock-price reactions and that the emerging market in their study exhibited greater sensitivity to the announcements than the developed market. The study demonstrates that market structure and efficiency can influence the response to M&A information.

Andreou et al. (2022) examined mergers and acquisitions in relation to stock-price consequences and showed that M&A activity can have important implications for subsequent market outcomes. Lee and Yerramilli (2022) further found that reference prices and relative values influence the timing of M&A announcements, emphasizing that investors interpret transaction information in the context of valuation benchmarks.

Although these studies provide useful evidence, they were conducted outside Kenya. Differences in liquidity,

information efficiency, regulatory arrangements and investor behaviour limit direct generalization to the Nairobi Securities Exchange. The present study addressed this contextual gap by analysing M&A announcements among NSE-listed firms over the period 2014–2024.

6. RESEARCH METHODOLOGY

The study adopted a positivist research philosophy and a descriptive research design together with event-study methodology. The broader study targeted all 60 firms listed at the Nairobi Securities Exchange and identified 127 corporate announcement events between 2014 and 2024. Mergers and acquisitions accounted for 10 events, representing 7.87% of the corporate announcements analysed. A census approach was used.

Secondary data on M&A announcement dates and daily share prices were obtained from the Nairobi Securities Exchange. The announcement date was designated as $t = 0$. The event window covered 15 trading days before and 15 trading days after the announcement, thereby allowing assessment of both anticipatory and post-announcement market reactions.

Actual and expected returns were determined and used to estimate abnormal returns. The broader study used the market model and Capital Asset Pricing Model framework in estimating expected and abnormal returns. Abnormal return for firm i on day t was defined as the difference between the actual return and the expected return:

$$AR_{it} = R_{it} - E(R_{it})$$

where AR_{it} is the abnormal return for firm i at time t , R_{it} is the actual return and $E(R_{it})$ is the expected return.

Cumulative abnormal returns were obtained by aggregating abnormal returns over the relevant event period:

$$CAR = \sum AR_{it}$$

Descriptive statistics summarized the abnormal and cumulative abnormal returns. One-sample t-tests were then used to determine whether the observed average abnormal returns and cumulative abnormal returns differed significantly from zero. Statistical significance was assessed at the 5% level.

7. FINDINGS AND DISCUSSION

7.1 Descriptive Statistics of Abnormal Returns

Table 1: Descriptive Statistics of Abnormal Returns Following Mergers and Acquisitions Announcements

Days	Number of Companies	Average AR _{it}	σAR _{it}	SAR _{it}
-15	10	0.00124	0.01063	0.11693
-14	10	-0.01046	0.02767	-0.37797
-13	10	-0.00147	0.01181	-0.12462
-12	10	0.00374	0.02220	0.16863
-11	10	0.00609	0.01668	0.36485
-10	10	0.00389	0.00988	0.39344
-9	10	-0.00511	0.01813	-0.28205
-8	10	0.00640	0.01553	0.41210
-7	10	0.00636	0.00826	0.76951

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-6	10	0.00254	0.01157	0.21981
-5	10	-0.00004	0.01212	-0.00354
-4	10	-0.00456	0.00735	-0.62025
-3	10	-0.00309	0.00597	-0.51662
-2	10	-0.01110	0.02656	-0.41789
-1	10	0.02051	0.03780	0.54264
0	10	0.00570	0.00985	0.57894
+1	10	0.12156	0.10225	1.18887
+2	10	-0.01403	0.02473	-0.56722
+3	10	-0.00196	0.01778	-0.11007
+4	10	-0.00540	0.00912	-0.59232
+5	10	-0.00730	0.00804	-0.90788
+6	10	-0.00570	0.01390	-0.40993
+7	10	-0.00610	0.01176	-0.51857
+8	10	-0.00880	0.01622	-0.54252
+9	10	-0.00370	0.01374	-0.26937
+10	10	-0.00874	0.00999	-0.87500
+11	10	-0.01367	0.02250	-0.60762
+12	10	-0.01031	0.01519	-0.67892
+13	10	-0.00469	0.01246	-0.37609
+14	10	-0.00573	0.01348	-0.42507
+15	10	-0.00751	0.01227	-0.61259

Note: ARit = abnormal return; σ ARit = standard deviation of abnormal returns; SARit = standardized abnormal return.

The pre-announcement abnormal returns fluctuated around zero, indicating limited anticipatory market reaction. On the announcement day, the average abnormal return was 0.00570. The strongest response occurred on day +1, when

the average abnormal return increased to 0.12156. Thereafter, returns were negative or close to zero, indicating that the major positive price adjustment was concentrated immediately after the announcement.

7.2 Descriptive Statistics of Cumulative Abnormal Returns

Table 2: Descriptive Statistics of Cumulative Abnormal Returns Following Mergers and Acquisitions Announcements

Days	Number of Companies	CARit	σ CARit	SCARit
-15	10	0.00220	0.01054	0.20887
-14	10	-0.00861	0.02627	-0.32782
-13	10	-0.01578	0.03626	-0.43519
-12	10	-0.00900	0.01749	-0.51435
-11	10	-0.00479	0.01875	-0.25533
-10	10	-0.00281	0.02240	-0.12559
-9	10	-0.01151	0.03455	-0.33318
-8	10	0.00009	0.02070	0.00431
-7	10	0.00064	0.02962	0.02157
-6	10	0.00952	0.02447	0.38900
-5	10	0.01287	0.02578	0.49921
-4	10	0.00599	0.02480	0.24161
-3	10	0.00202	0.02929	0.06890
-2	10	-0.00616	0.03998	-0.15402
-1	10	0.01621	0.03704	0.43764
0	10	0.02440	0.03937	0.61976
+1	10	0.14883	0.13617	1.09302
+2	10	0.13334	0.12034	1.10798
+3	10	0.13653	0.11285	1.20983
+4	10	0.13341	0.11883	1.12264
+5	10	0.12726	0.11486	1.10790

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+6	10	0.12692	0.11651	1.08934
+7	10	0.12100	0.11686	1.03543
+8	10	0.09874	0.13256	0.74490
+9	10	0.08015	0.16266	0.49272
+10	10	0.06025	0.17981	0.33510
+11	10	0.05110	0.16614	0.30756
+12	10	0.05945	0.13821	0.43013
+13	10	0.05321	0.14220	0.37417
+14	10	0.03999	0.14383	0.27807
+15	10	0.03744	0.14416	0.25973

Note: CARit = cumulative abnormal return; σ CARit = standard deviation of cumulative abnormal returns; SCARit = standardized cumulative abnormal return.

Cumulative abnormal returns were small before the announcement and stood at 0.02440 on the announcement day. CAR increased sharply to 0.14883 on day +1 and remained strongly positive through day +7. Thereafter, CAR

gradually declined but remained positive through day +15. The pattern indicates that the M&A announcements generated a strong positive cumulative response concentrated in the first post-announcement week.

7.3 One-Sample Test of Average Abnormal Returns

Table 3: One-Sample Test for Mergers and Acquisitions Announcement AARit

Day	t	df	p-value	Mean Diff.	95% Lower	CI Upper	CI
-15	0.309	9	0.767	0.0012	-0.0086	0.0111	
-14	-1.000	9	0.356	-0.0105	-0.0360	0.0151	
-13	-0.330	9	0.753	-0.0015	-0.0124	0.0094	
-12	0.446	9	0.671	0.0037	-0.0168	0.0243	
-11	0.965	9	0.372	0.0061	-0.0093	0.0215	
-10	1.041	9	0.338	0.0039	-0.0052	0.0130	
-9	-0.746	9	0.484	-0.0051	-0.0219	0.0117	
-8	1.090	9	0.317	0.0064	-0.0080	0.0208	
-7	2.036	9	0.088	0.0064	-0.0013	0.0140	
-6	0.582	9	0.582	0.0025	-0.0082	0.0132	
-5	-0.009	9	0.993	0.0000	-0.0112	0.0112	
-4	-1.641	9	0.152	-0.0046	-0.0114	0.0022	
-3	-1.367	9	0.221	-0.0031	-0.0086	0.0024	
-2	-1.106	9	0.311	-0.0111	-0.0357	0.0135	
-1	1.436	9	0.201	0.0205	-0.0144	0.0555	
0	1.532	9	0.176	0.0057	-0.0034	0.0148	
+1	3.145	9	0.020	0.1216	0.0270	0.2161	
+2	-1.501	9	0.184	-0.0140	-0.0369	0.0088	
+3	-0.291	9	0.781	-0.0020	-0.0184	0.0145	
+4	-1.567	9	0.168	-0.0054	-0.0138	0.0030	
+5	-2.402	9	0.053	-0.0073	-0.0147	0.0001	
+6	-1.085	9	0.320	-0.0057	-0.0186	0.0072	
+7	-1.372	9	0.219	-0.0061	-0.0170	0.0048	
+8	-1.435	9	0.201	-0.0088	-0.0238	0.0062	
+9	-0.713	9	0.503	-0.0037	-0.0164	0.0090	
+10	-2.315	9	0.060	-0.0087	-0.0180	0.0005	
+11	-1.608	9	0.159	-0.0137	-0.0345	0.0071	
+12	-1.796	9	0.123	-0.0103	-0.0244	0.0037	
+13	-0.995	9	0.358	-0.0047	-0.0162	0.0068	
+14	-1.125	9	0.304	-0.0057	-0.0182	0.0067	
+15	-1.621	9	0.156	-0.0075	-0.0189	0.0038	

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Note: Test value = 0. Statistical significance was evaluated at $p < .05$.

The pre-announcement average abnormal returns were statistically insignificant. The announcement-day return was also insignificant, $t(9) = 1.532$, $p = .176$. On day +1, however, the mean abnormal return of 0.1216 was positive and statistically significant, $t(9) = 3.145$, $p = .020$, with a

95% confidence interval from 0.0270 to 0.2161. All subsequent individual-day abnormal returns were statistically insignificant at the 5% level. This indicates that the strongest daily market response was concentrated on the first trading day after the M&A announcement.

7.4 One-Sample Test of Cumulative Abnormal Returns

Table 4: One-Sample Test for Mergers and Acquisitions Announcement CARit

Day	t	df	p-value	Mean Diff.	95% Lower	CI	95% Upper	CI
-15	0.553	9	0.600	0.0022	-0.0075		0.0120	
-14	-0.867	9	0.419	-0.0086	-0.0329		0.0157	
-13	-1.151	9	0.293	-0.0158	-0.0493		0.0178	
-12	-1.361	9	0.222	-0.0090	-0.0252		0.0072	
-11	-0.676	9	0.525	-0.0048	-0.0221		0.0126	
-10	-0.332	9	0.751	-0.0028	-0.0235		0.0179	
-9	-0.882	9	0.412	-0.0115	-0.0435		0.0204	
-8	0.011	9	0.991	0.0001	-0.0191		0.0192	
-7	0.057	9	0.956	0.0006	-0.0268		0.0280	
-6	1.029	9	0.343	0.0095	-0.0131		0.0322	
-5	1.321	9	0.235	0.0129	-0.0110		0.0367	
-4	0.639	9	0.546	0.0060	-0.0169		0.0289	
-3	0.182	9	0.861	0.0020	-0.0251		0.0291	
-2	-0.407	9	0.698	-0.0062	-0.0431		0.0308	
-1	1.158	9	0.291	0.0162	-0.0180		0.0505	
0	1.640	9	0.152	0.0244	-0.0120		0.0608	
+1	2.892	9	0.028	0.1488	0.0229		0.2748	
+2	2.931	9	0.026	0.1333	0.0220		0.2446	
+3	3.201	9	0.019	0.1365	0.0322		0.2409	
+4	2.970	9	0.025	0.1334	0.0235		0.2433	
+5	2.931	9	0.026	0.1273	0.0210		0.2335	
+6	2.882	9	0.028	0.1269	0.0192		0.2347	
+7	2.739	9	0.034	0.1210	0.0129		0.2291	
+8	1.971	9	0.096	0.0987	-0.0239		0.2213	
+9	1.304	9	0.240	0.0801	-0.0703		0.2306	
+10	0.887	9	0.409	0.0603	-0.1060		0.2265	
+11	0.814	9	0.447	0.0511	-0.1026		0.2048	
+12	1.138	9	0.299	0.0594	-0.0684		0.1873	
+13	0.990	9	0.360	0.0532	-0.0783		0.1847	
+14	0.736	9	0.490	0.0400	-0.0930		0.1730	
+15	0.687	9	0.518	0.0374	-0.0959		0.1708	

Note: Test value = 0. Statistical significance was evaluated at $p < .05$.

Cumulative abnormal returns were statistically insignificant throughout the pre-announcement period and on the announcement day. A significant positive cumulative response emerged on day +1, $t(9) = 2.892$, $p = .028$, and remained statistically significant through day +7, $t(9) = 2.739$, $p = .034$. From day +8 onward, cumulative abnormal returns remained positive but were no longer statistically significant at the 5% level. The results show that the positive

information effect accumulated during the first week after the announcement and subsequently stabilized.

7.5 Hypothesis Testing

The null hypothesis stated that mergers and acquisitions announcements have no statistically significant effect on stock return among firms listed at the Nairobi Securities Exchange. The significant positive average abnormal return on day +1 ($p = .020$), together with statistically significant

positive cumulative abnormal returns from day +1 through day +7 ($p < .05$), provides evidence against the null hypothesis. H_{01} was therefore rejected. Mergers and acquisitions announcements had a statistically significant positive effect on stock returns among firms listed at the Nairobi Securities Exchange.

7.6 Discussion of Findings

The findings show that the market response to M&A announcements was positive and concentrated immediately after disclosure. The first post-announcement trading day recorded a significant positive abnormal return, while the cumulative effect remained significant for seven trading days. This pattern indicates that investors interpreted the announcements as value-relevant information and incorporated the expected benefits into stock prices over a relatively short period.

The findings are consistent with the logic of Synergy Theory because a positive market response is expected where investors anticipate operational efficiencies, complementary resources, improved market position or other benefits from combining firms. They also agree with Pandey and Kumari (2020), who found that M&A announcements generate abnormal stock returns and that market sensitivity to such announcements can differ across institutional settings.

The absence of statistically significant pre-announcement abnormal returns suggests limited evidence of systematic anticipatory trading in the analysed M&A events. The significant CAR from day +1 to day +7 further indicates that the information effect was not confined to a single trading day, although the strongest daily response occurred immediately after disclosure.

8. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 Summary

The study examined the effect of mergers and acquisitions announcements on stock returns among firms listed at the Nairobi Securities Exchange. Ten M&A announcement events occurring within the 2014–2024 study period were analysed using an event window extending from 15 trading days before to 15 trading days after the announcement. Pre-announcement abnormal returns were generally small and statistically insignificant. A statistically significant positive average abnormal return of 0.1216 was recorded on day +1, while cumulative abnormal returns were statistically significant from day +1 through day +7. The evidence therefore showed a positive stock-market response to M&A announcements.

8.2 Conclusions

The study concludes that mergers and acquisitions announcements have a statistically significant positive effect on stock returns among firms listed at the Nairobi Securities

Exchange. The strongest daily market response occurs on the first trading day after the announcement, while the cumulative positive effect persists for approximately one trading week. The findings suggest that investors generally interpret the analysed M&A announcements as value-enhancing information and rapidly adjust security prices following disclosure.

8.3 Recommendations

Listed firms undertaking mergers and acquisitions should communicate the strategic rationale, expected synergies and anticipated benefits of the transaction clearly and promptly. Disclosure should provide investors with sufficient information to evaluate the expected value implications of the transaction. Continued shareholder communication during implementation and integration may further reduce uncertainty, strengthen investor confidence and support orderly price discovery.

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