MERGERS AND ACQUISITIONS STRATEGY ON PERFORMANCE OF OIL MARKETING COMPANIES IN NAIROBI COUNTY

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ABSTRACT

Mergers and Acquisitions as growth strategies have in the past been used in several industries across the business world. Growth strategies are intended to derive great efficiency for company operations. This study investigates the effects of mergers and acquisitions (M&As) on the performance of oil marketing companies (OMCs) in Nairobi County, Kenya. Specifically the study sought to determine the effect of liquidity on the performance of oil marketing companies in Nairobi County, establish the influence of financial leverage on the performance of oil marketing companies in Nairobi County, determine the influence of capital adequacy on the performance of oil marketing companies in Nairobi County, analyze the influence of customer satisfaction on the performance of oil marketing companies in Nairobi County, and establish the size of the firm and its effect on the performance of oil marketing companies in Nairobi County. Anchored in synergy, growth, and market power theories, the study employed a descriptive research design and census sampling to analyze data from 37 senior managers of Nairobi-based OMCs. Both primary (questionnaires) and secondary (annual financial statements) data were collected and analyzed using SPSS 21.0 using correlations, descriptive statistics and regression analysis. Findings reveal that all five independent variables significantly impact OMC performance. While liquidity and financial leverage have a moderate inverse relationship with performance, capital adequacy, customer satisfaction, and firm size demonstrate a positive linear correlation. The study recommends that OMCs pursue M&As to achieve sustained growth and profitability. By strategically managing liquidity, financial leverage, capital base, customer satisfaction, and operational capacity, OMCs can enhance their long-term success. Industry regulators are also encouraged to facilitate a conducive environment for M&As.

Keywords: *Mergers and acquisitions, oil marketing companies, performance, liquidity, financial leverage, capital adequacy, customer satisfaction, firm size*.

INTRODUCTION

As described by Wang'ombe (2018), when two or more organizations come together to form a single, larger body, a merger takes place. The merger may give the company a new name, combine the names of the original organizations, or subsequent rebranding altogether. When a company buys or purchases another company, the process is referred to as an acquisition. The research by Owino (2018) establishes that the merger process is either adverse or friendly. The merger and acquisition can be either private or public. M&As have been widely used as a growth strategy across various industries. While they offer potential benefits like increased market share, economies of scale, and enhanced market power, M&As can also be complex and challenging to execute successfully.

Globally, M&As have been a prominent feature of the business landscape, driving economic growth, innovation, and job creation. However, the success of M&As can vary across regions due to factors such as economic conditions, regulatory frameworks, and cultural differences.

In the African context, M&As have presented both opportunities and challenges. While they can facilitate market entry, technology transfer, and operational synergies, factors like fragmented markets, limited financing options, and political instability can hinder their success.

Kenya's oil marketing sector has witnessed several notable M&As, including the merger of Kenol and Kobil and the acquisition of Caltex by Total. These transactions have had significant implications for market dynamics, competition, and the overall performance of OMCs.

GENERAL OBJECTIVE

The objective of the study was to determine the effect of mergers and acquisition strategy on performance of oil marketing companies in Nairobi County, Kenya.

SPECIFIC OBJECTIVES

1. To determine the effect of liquidity on the performance of oil marketing companies in Nairobi County.
2. To establish the effect of financial leverage on the performance of oil marketing companies in Nairobi County.
3. To determine the effect of capital adequacy on the performance of oil marketing companies in Nairobi County.
4. To analyze the effect of customer satisfaction on the performance of oil marketing companies in Nairobi County.
5. To establish the size of the firm and its effect on the performance of oil marketing companies in Nairobi County.

Conceptual Framework

The study employs a conceptual framework that links the independent variables (liquidity, financial leverage, capital adequacy, customer satisfaction, and firm size) to the dependent variable (OMC performance).

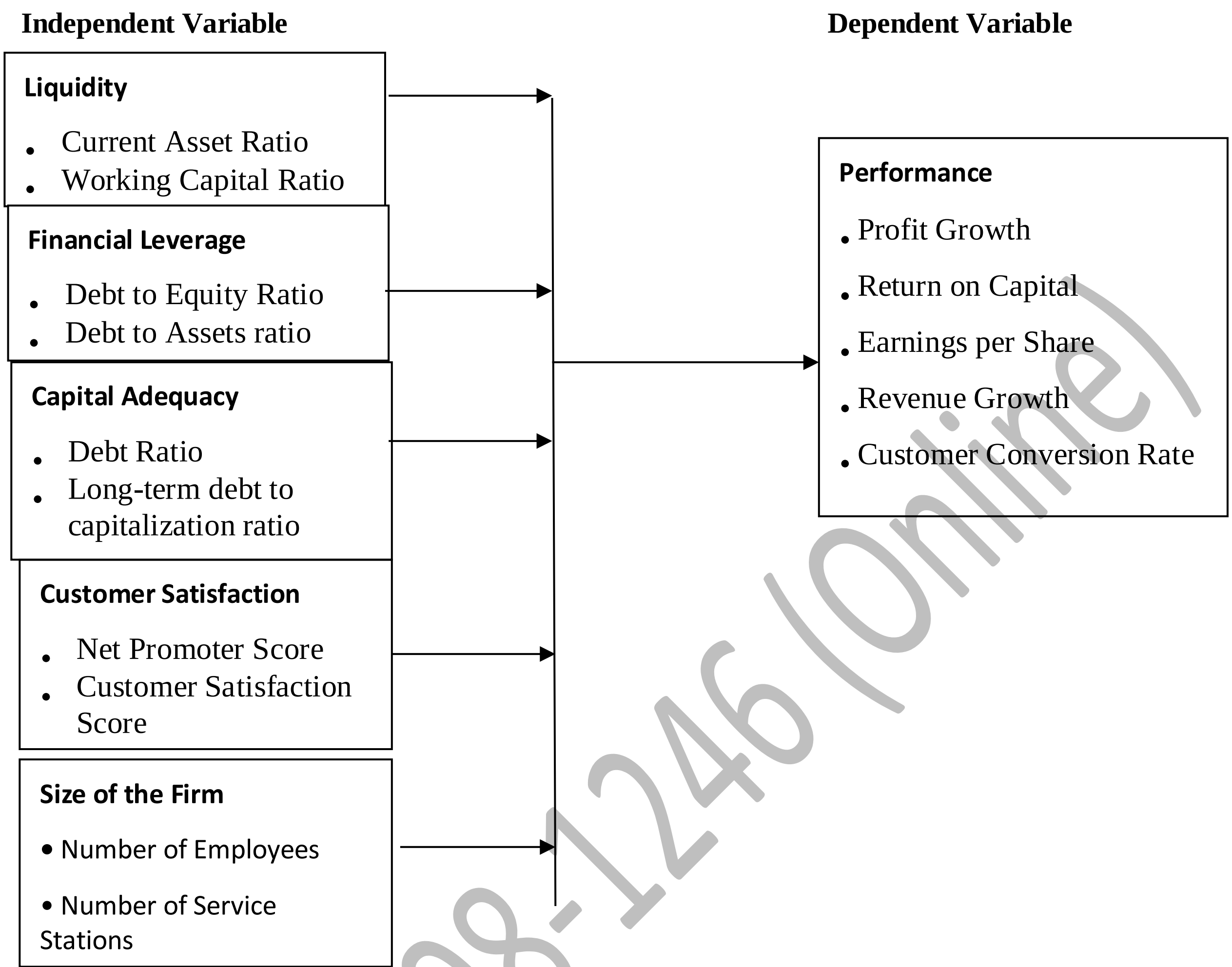

Figure 1.1 Conceptual Framework

THEORETICAL FRAMEWORK

Synergy Theory

Synergy, as defined by Eccles, Lanes, and Wilson (1999), is the "net present value of cash flows that may result from improvements made when companies are combined." While synergy theory suggests potential benefits like increased efficiency, cost savings, and revenue growth, empirical evidence suggests that realizing these benefits can be challenging.

Financial Synergy

Financial synergy aims to reduce the cost of capital through economies of scale, uncorrelated mergers, and tax benefits. However, achieving these benefits can be difficult, and tax-related synergies may have limited value. Research by Knoll (2008) proved that financial synergy can also be attained through tax-related synergy.

Operating Synergy

Operating synergies focus on improving operational efficiency through economies of scale, complementary resources, or market power. While these synergies can enhance performance, they require careful integration and coordination. Junge (2014) stated that economies of scale improve Operational efficiencies. Economies of scale assume it is cheaper to produce a single item from one firm than from two firms. According to Donald (2016), these cost-cutting synergies are typically related to the physical convergence of the merging companies' operations.

Revenue Synergy

According to Ficery, Herd, and Pursche (2007), Revenue Synergies are the total accumulated revenue generated from two merged companies instead of single entity companies. Revenue synergies seek to increase revenue by expanding market reach, cross-selling products, or leveraging complementary capabilities. However, realizing revenue synergies often involves overcoming challenges such as integration complexities and customer acceptance.

Managerial Synergy

Research led by Bhat (2008) referred to Managerial Synergy as the capability of the merged firms to develop and successfully apply their management talent to the various business units. Managerial synergy leverages the combined management talent of the merging firms to enhance performance. While effective management can drive value creation, achieving managerial synergy requires careful integration and alignment of organizational cultures.

Since the Oil Marketing Companies in Nairobi depend on Financial Leverage, Capital adequacy, liquidity to gain a competitive advantage and grow, there is a relationship with the synergy theory. The synergy theory implies that OMC's that have either merged or have acquired have more value for the oil marketing fraternity than those that operate as independent OMC's.

Critics argue that the synergy theory overestimates the potential benefits of M&As, overlooks integration challenges, and fails to consider the trade-offs and conflicts that may arise. A more nuanced understanding of M&As requires recognizing the limitations and risks associated with synergy realization.

Growth Theory

According to Haspeslagh (1991), the Growth Theory acknowledges the potential risks and challenges of M&A. Integrating different organizational cultures, management styles, and operational systems can pose significant hurdles to achieving the expected growth benefits. The growth theory suggests that M&As can accelerate growth by expanding market presence, acquiring synergies, and accessing new technologies. However, it also acknowledges the challenges of integration and the potential for value destruction. M&As can provide growth opportunities, but successful integration is crucial. Financial health is essential for effective M&A execution. Postmerger integration requires careful planning and execution to realize growth benefits. **Market Power Theory**

The Market Power Theory, as stated by Valentini and Di Guardo (2012), claims that businesses engage in M&A to increase their market power and acquire a competitive advantage. This theory suggests that M&A can result in economies of scale, synergies, and improved market positioning, enabling the combined entity to exert greater control over the market and potentially dominate it. The market power theory posits that M&As can increase market power and competitive advantage. However, critics argue that this theory oversimplifies market dynamics and may overlook other factors motivating M&As. Mergers can enhance market power through economies of scale and reduced competition. However, market power may be limited by factors like dynamic competition and technological advancements. Other factors, such as diversification and knowledge-sharing, may also drive M&As.

Understanding the interplay between synergy theory, growth theory, and market power theory is essential for evaluating the potential benefits and challenges of M&As. While these theories provide valuable insights, a comprehensive analysis should consider the complexities of integration, the limitations of synergy realization, and the broader market dynamics that influence M&A outcomes.

Literature Review

Previous research on the impact of mergers and acquisitions (M&As) on firm performance has yielded mixed results, with studies highlighting both positive and negative effects on financial liquidity on performance. Njambi and Kariuki (2018) found a positive relationship between financial liquidity and firm performance, suggesting that well-managed liquidity can enhance profitability. Wangari (2015) identified an inverse relationship between liquidity and performance, indicating that firms with higher liquidity levels may not always experience better performance. Karuiru (2018) observed that financial leverage can have a mixed impact on performance, with both positive and negative effects depending on specific factors.

Studies have often used limited liquidity measures. A comprehensive analysis should consider various liquidity ratios to gain a more nuanced understanding. While Agency Theory and Efficiency Theory are commonly used, exploring other theories like Transaction Cost Theory and Real Options Theory could provide additional insights. Most studies have used cross-sectional or short-term longitudinal designs. Longer-term studies are needed to capture the dynamic effects of liquidity on performance. Future studies should consider a larger and more diverse sample of OMCs to improve generalizability. Incorporating qualitative research can provide valuable insights into the underlying factors influencing the relationship between liquidity and performance.

Ng'anga (2018) examined the effects of M&As on the financial performance of Kenyan insurance companies. He found that M&As generally improved financial performance but could also lead to increased risk, limited financial leverage and financial strain. The study used a descriptive crosssectional design and a limited sample size. Karuiru (2018) analyzed the relationship between financial leverage and financial performance in Kenyan commercial banks. He found that financial leverage could positively impact financial performance, but excessive leverage could lead to increased risk and financial strain. The study used panel data analysis and a sample of 10 companies.

Muriithi (2021) investigated the impact of firm size on the value creation of M&As in the Kenyan banking sector. He found that larger acquiring firms could achieve greater value creation, but the study focused solely on financial performance and did not consider customer satisfaction. Ajwang (2020) examined the effects of M&As on customer satisfaction at UAP Old Mutual Kenya Limited. He found that M&As could positively impact customer satisfaction through improved service quality and product offerings. However, the study was limited to a single case and did not consider other factors influencing customer satisfaction. Cherono (2019) explored the relationship between M&As and customer satisfaction in Kenyan commercial banks. He found that M&As could have a positive impact on customer satisfaction, but the effects could vary depending on factors like integration challenges and communication strategies. The study used a cross-sectional design and a sample of 500 customers.

Arasa (2020) investigated the impact of firm size on shareholder wealth in Kenyan listed companies. He found that firm size could influence the value creation from M&As. However, the study focused solely on shareholder wealth and did not consider other aspects of firm performance. Ekambi et al. (2021) examined the relationship between firm size and strategic value creation in Kenyan financial institutions. They found that larger firms could achieve greater strategic value creation through M&As. However, the study was limited to a specific industry and did not consider other factors influencing M&A outcomes. Mwanzi (2021) analyzed the effects of M&As on the size and financial performance of Kenyan insurance companies. He found that M&As could increase firm size and improve financial performance, but the effects could vary depending on industry-specific factors. Maranga (2016) investigated the impact of M&As on the cost and scale efficiency of Kenyan commercial banks. He found that M&As could enhance efficiency through economies of scale and operational synergies. However, the study did not consider the long-term effects of M&As on other aspects of bank performance.

It was noted that further research was needed to address the identified knowledge gaps and provide a more comprehensive understanding of the relationship between liquidity, financial leverage, capital adequacy, customer satisfaction, firm size and performance in the context of M&As. The studies considered various theories, but additional frameworks like the pecking order theory and the trade-off theory could provide further insights. The sample sizes and research designs varied across the studies, limiting their generalizability. Longitudinal studies with larger samples are needed. The studies did not fully consider contextual factors such as market conditions, regulatory changes, and technological advancements that could influence the relationship between financial leverage and performance.

Existing research suggests a complex relationship between the independent variable and OMC performance. While financial leverage, liquidity, capital adequacy, customer satisfaction and firm size can enhance performance through increased investment opportunities, when in excess, can also lead to financial strain and increased risk. Future research should address the identified knowledge gaps to provide a more comprehensive understanding of the relationship between liquidity, financial leverage, capital adequacy, customer satisfaction and firm size and the performance of OMCs.

RESEARCH METHODOLOGY

Research Design

Takwi (2021) defined research design as a plan or perspective on the method selected and the justification for that selection. Research design, which is the core of planning, is defined by Cooper and Schindler (2014) as the choice and declaration of the project's broad research methodology or strategy. This study employed a descriptive research design to investigate the relationship between liquidity, capital adequacy, financial leverage, firm size, and customer satisfaction on the performance of oil marketing companies (OMCs) in Nairobi County. Descriptive research designs are suitable for collecting data on specific variables at a particular point in time and providing insights into the research problem. By examining the financial leverage, liquidity, capital adequacy, firm size, customer satisfaction, and financial and non-financial performance of the selected OMCs, the researcher was able to identify potential correlations and trends.

Target Population

The target population consisted of OMCs in Nairobi County that have undergone mergers or acquisitions between 2004 and 2023. This timeframe encompasses periods of economic and political stability and instability, as well as fluctuations in global oil prices, which would have influenced M&A activity in the sector.

Sample Size and Sampling Design

A census approach was used to select all available OMCs that met the criteria. This was due to the relatively small size of the target population, ensuring that all relevant data was included.

Research Instruments

Both primary and secondary data were used in this study. Primary data was collected using a structured questionnaire administered to senior managers of the selected OMCs. The questionnaire covered demographic information, general information about the respondents, customer satisfaction, and recommendations. Secondary data was obtained from company financial statements, industry reports, government publications, newspaper articles, and academic journals.

Data Collection Procedures

Data was collected through a combination of secondary data sources and questionnaires. Secondary data was obtained from publicly available sources, while primary data was collected through questionnaires administered to senior managers of the selected OMCs.

Data Analysis Procedures

Descriptive statistics were used to summarize and organize the data. Inferential statistics, including regression analysis, were employed to analyze the relationships between variables. The regression model used was:

Y = β0 + β1X1 + β2X2 + β3X3 + β4X4 + β5X5 + á Where:

- Y represents firm performance
- β0 is the regression constant
- β1...β5 are the regression coefficients
- X1...X5 are the independent variables (liquidity, financial leverage, capital adequacy, customer satisfaction, and firm size) • á represents the error term

Diagnostic tests were conducted to ensure the validity of the regression model assumptions, such as linearity, independence, homoscedasticity, and normality.

RESEARCH RESULTS

The researcher computed the results to provide interpretation in the form of percentages, mean and standard deviation.

Descriptive Analysis

Effect of Liquidity and Performance of the Company

To understand the relationship between the company's liquidity and performance after the merger and or acquisition.

Table 1: Liquidity and Performance of OMCs

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The recent merger/acquisition has affected the company's liquidity, which in turn has impacted its profitability and key financial ratios like the current ratio and quick ratio.	8	8	35	30	19	3.44	0.123262
Expansion plans and marketing initiatives have been adjusted due to liquidity concerns	19	14	8	43	16	3.23	0.135944

Table 1 shows that 19% (n=7) of the managers strongly agree that the company's liquidity had an impact on its profitability based on the current ratio. Whereas 30% (n=11) agreed with the statement that the company's liquidity affected the profitability. Majority of managers were neutral and neither agreed nor disagreed with the statement making up 35% of the respondents. 8% indicated that they disagreed and another 8% strongly disagreed that liquidity affected profitability.

The data also shows that 16% of respondents strongly agreed with the statement that expansion and marketing plans have been adjusted due to liquidity concerns whereas 43% agreed. 8% of respondents remained neutral, choosing to neither agree nor disagree while 14% and 19% disagreed and strongly disagreed with the same statement.

The mean score of 3.44 on the question of whether mergers and acquisitions have affected the company's liquidity indicates a generally positive sentiment among the respondents and that they either agree or strongly agree that the merger has affected the liquidity of the company. The standard deviation of 0.123262 suggests that while a majority of the respondents agree with the statement, there is a certain degree of varied opinions with some disagreeing and others remaining neutral. The mean score of 3.23 on whether the expansion plans have been adjusted in order to accommodate liquidity concerns indicates a positive agreement among the respondents whereas majority agreed or strongly agreed. Standard deviation of 0.135944 on the same statement demonstrates variances in opinion despite the majority falling into agreement with the statement.

Impact of Financial Leverage and Performance of the Company

To understand the relationship between the financial leverage and performance after the merger and or acquisition. The results from the questionnaire are presented in the Table 2 below.

Table 2: Financial Leverage and Performance

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The merger/ acquisition has increased the company's financial leverage and thus impacted on its profitability	14	8	8	51	19	3.54	0.180899
The company has taken up additional debt financing to amplify potential returns on equity	8	0	19	65	8	3.65	0.259656

Table 2 shows that 19% (n=7) of the managers strongly agree that the merger/acquisition has increased the financial leverage of the company, where 51% agreed with the same statement. Managers that neither agreed nor disagreed made up 8% of the respondents while 8% indicated that they disagreed. Finally, 14% strongly disagreed that mergers affected have affected the financial leverage. The data also shows that 8% of respondents strongly agreed with the statement that the company has taken up additional debt in order to increase returns on equity whereas 65% agreed. 19% of respondents remained neutral, choosing to neither agreed or disagreed while 0% and 8% disagreed and strongly disagreed with the same statement.

The mean score of 3.54 on the question of whether mergers and acquisitions have increased the company's financial leverage indicates a generally positive sentiment among the respondents and that they either agree or strongly agree that the merger has affected the financial leverage of the company. The standard deviation of 0.180899 suggests that while a majority of the respondents agree with the statement, there still remains a difference in opinion. The mean score of 3.65 on whether the company has taken up additional debt to increase equity indicates a positive agreement among the respondents whereas majority agreed or strongly agreed. Standard deviation of 0.259656 on the same statement demonstrates a large inclination of the respondents being agreement with the statement.

Effect of Capital Adequacy and Performance of the Company

To understand the relationship between the capital adequacy and performance after the merger and or acquisition. The results from the questionnaire are presented in the table 3 below. **Table 3: Capital Adequacy and Performance**

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The capital base of the company has increased as a result of the merger or acquisition	8	0	14	51	27	3.89	0.200984

The increment in capital has aided in the expansion of services and or products	8	0	8	57	27	3.95	0.228214

Table 3 shows that 27% of the managers strongly agree that the merger/acquisition has increased the capital base of the company, whereas 51% agreed with the same statement. Managers that neither agreed nor disagreed made up 14% of the respondents while none disagreed. Finally, 8% strongly disagreed that mergers affected have affected the capital base. The data also shows that 27% of respondents strongly agreed with the statement that an increment in capital has assisted in expansion of services and products whereas 57% agreed. 8% of respondents remained neutral, choosing to neither agreed or disagreed while 0% and 8% disagreed and strongly disagreed with the same statement.

The mean score of 3.89 on the question of whether mergers and acquisitions have increased the company's capital base indicates a generally positive sentiment among the respondents and that they either agree or strongly agree. The standard deviation of 0.200984 suggests a majority of the respondents agree with the statement. The mean score of 3.95 on whether the increment of capital has assisted in expanding the services and products indicates that the respondents agree or strongly agree. Standard deviation of 0.228214 on the same statement demonstrates a large inclination of the respondents being agreement with the statement as opposed to a smaller number disagreeing.

Impact of Customer Satisfaction and Performance of the Company

To understand the relationship between the customer satisfaction and performance after the merger and or acquisition. The results from the questionnaire are presented in the table 4 below.

Table 4 Customer Satisfaction and Performance

	SD %	D %	N %	A %	SA %	Mean	Std. Dev

Customers are satisfied with the company's services after Merger & Acquisition	8	0	27	30	35	3.84	0.151206
The merger has increased the number of customers served per station	8	8	8	35	41	3.92	0.163954

Table 4 shows that 35% of the managers strongly agree that customers are satisfied with the company's services post-merger, whereas 30% agreed with the same statement. Managers that neither agreed nor disagreed made up 27% of the respondents while none disagreed. Finally, 8% strongly disagreed that mergers affected have affected the customers' satisfaction levels. The data also shows that 41% of respondents strongly agreed with the statement that there has been an increment of customers served per station post-merger whereas 35% agreed. 8% of respondents remained neutral, choosing to neither agreed or disagreed while 8% each disagreed and strongly disagreed with the same statement.

The mean score of 3.84 on the question of whether customers are satisfied with the company's services post-merger indicates a generally positive sentiment among the respondents and that they either agree or strongly agree. The standard deviation of 0.151206 suggests a majority of the respondents agree with the statement with minimum deviation. The mean score of 3.92 on whether there has been an increment of customers served per station post-merger indicates that the respondents agree or strongly agree. Standard deviation of 0.163954 on the same statement demonstrates a large inclination of the respondents being agreement with the statement as opposed to a smaller number disagreeing.

Effect of Size of the Firm and Performance of the Company

To understand the relationship between the size of the firm and performance after the merger and or acquisition. The results from the questionnaire are presented in the table 5 below.

Table 5 Size of the Firm and Performance

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The number of service stations has increased across Nairobi as a result of the merger/ acquisition	8	0	0	35	57	3.76	0.251075
The merger has led to an impact on the workforce i.e. layoffs, changes in responsibilities, high turnover, increase in job roles	14	0	19	35	32	3.71	0.143778

Table 5 shows that 57% of the managers strongly agree that the number of service stations has increased across Nairobi as a result of the merger/ acquisition, whereas 35% agreed with the same statement. There were no managers that seemed to be neutral with the statement while none disagreed also. Finally, 8% strongly disagreed that mergers affected the number of service stations. The data also shows that 32% of respondents strongly agreed with the statement that the merger has led to an impact on the workforce i.e. layoffs, changes in responsibilities, high turnover, increase in job roles whereas 35% agreed. 19% of respondents remained neutral, choosing to neither agreed or disagreed while none disagreed and 14% strongly disagreed with the same statement.

The mean score of 3.76 on the question of whether the number of service stations has increased across Nairobi as a result of the merger/ acquisition indicates a generally positive sentiment among the respondents and that they either agree or strongly agree. A strong standard deviation of 0.251075 suggests a majority of the respondents agree with the statement with minimum deviation. The mean score of 3.71 on whether the merger has led to an impact on the workforce i.e. layoffs, changes in responsibilities, high turnover, increase in job roles, indicates that the respondents agree or strongly agree. Standard deviation of 0.143778 on the same statement demonstrates a wider variance in opinions with the statement.

Correlational Analysis

The relationship between Liquidity on Performance of OMC's

Table 6: The relationship between Liquidity and Performance of OMCs

		Profit	Working Capital Ratio	Current Assets Ratio
Pearson Correlation	Profit	1.00	-0.034	-0.071
	Working Capital	-0.034	1.00	-0.609
	Current Assets Ratio	-0.071	-0.609	1.00
Sig. (1-tailed)	Profit	0.0	0.469	0.434
	Working Capital	0.469	0.0	0.054
	Current Assets Ratio	0.434	0.054	0.0

Table 6 shows that there exists an inverse relationship between the liquidity and performance of OMCs after mergers or acquisitions. This reveals that as the working capital reduces, the performance of the firm improves. Working capital is reduced by decreasing the time needed to sell the inventory in order to free up trapped capital and generate more profit. Similarly, there is a negative linear relationship between the Current Assets Ratio and profits (r=-0.071, p=4.34). This reveals that as the operating current assets ratio reduces by 0.071, the performance increases 1 unit. This is a good indication of the firm's ability to reduce its stock faster after mergers as compared to as before.

The effect of Financial Leverage on Performance of OMC's

Table 7 The relationship between Financial Leverage and Performance of OMCs

		Profit	Debt to Equity Ratio	Debt to Asset Ratio
Pearson Correlation	Profit	1.00	-1.52	-.125
	Debt to Equity Ratio	-0.152	1.0	0.968
	Debt to Asset Ratio	-0.125	0.968	1
Sig. (1-tailed)	Profit	0.0	0.360	0.384
	Debt to Equity Ratio	0.360	0.0	0.0

Debt to Asset Ratio	0.384	0.0	0.0

From the table 7, the study found that the company's financial leverage measured by the Debt to Equity Ratio had a significant inverse relationship with the profit (r=-1.52, p=0.360). There was a noted negative correlation between the Profit and DER suggesting that the companies with higher profits tend to have lower debt levels compared to equity. Furthermore, the study revealed that there is a positive statistically significant linear relationship with the Debt to Asset Ratio with the profit (r=-.125, p=0.384). There was also a negative correlation between the DAR and Profit as the companies had a low asset level compared to the debt levels. This data implies that there is a moderate relationship between the two variables and when the companies increase their debt to equity ratio, the profits would increase.

The effect of Capital Adequacy on Performance of OMC's

Table 8 The relationship between Capital Adequacy and Performance of OMCs

		Profit	**Debt Ratio**	**Long-term debt to capitalization Ratio**
Pearson Correlation	Profit	1.00	0.058	-0.070
	Debt Ratio	-0.058	1.0	-0.553
	Long-term debt to capitalization Ratio	-0.070	-0.553	1
Sig. (1-tailed)	Profit	0.0	0.445	0.435
	Debt Ratio	0.445	0.0	0.077
	Long-term debt to capitalization Ratio	0.435	0.077	0.0

From the Table 8, the study found that the company's capital adequacy measured by the Debt Ratio had a significant linear relationship with the profit (r=0.058, p=0.445). This implies that there is a weak positive relationship between the Debt Ratio and the profit suggesting that as debt increases, profits tend to increase slightly. The relationship is slightly statistically significant at a level of

0.05 where the p-value is 0.445. It was also noted that there was a statistically linear relationship between Long-Term Debt to Capitalization Ratio and profit (r=-0.07, p=0.435). The correlation is weak and negative indicating that for companies with higher proportions of longterm debt there is likelihood for lower profits.

The effect of Customer Satisfaction on Performance of OMC's

Table 9 The relationship between Customer Satisfaction and Performance of OMCs

		Profit	Net Promoter Score	Customer Satisfaction Score
Pearson Correlation	Profit	1.00	0.718	0.143 0.093
	Net Promoter Score	0.718	1.0	
	Customer Satisfaction Score	0.143	0.093	1
Sig. (1-tailed)	Profit	0.0	0.047	0.018
	Net Promoter Score	0.018	0.0	0.421
	Customer Satisfaction Score	0.067	0.421	0.0

From the table 9, there is a robust relationship between the customer experience and firm performance (r=0.143, p=0.018). There is a p-value of 0.018 which is greater than 0.05 meaning that there is great significance in predicting the performance with customer experience. If all other independent factors are held constant and customer experience changes, there is likely to be a 0.067 change in the performance of the OMC.

The effect of Size of the Firm on Performance of OMC's

Table 10 The relationship between Size of the Firm and Performance of OMCs

		Profit	Number of Employees	Number of Service Stations
Pearson Correlation	Profit	1.00	0.323	0.316
	Number of Employees	0.323	1.0	-0.073
	Number of Service Stations	0.316	-0.073	1
Sig. (1-tailed)	Profit	0.0	0.218	0.223
	Number of Employees	0.218	0.0	0.432
	Number of Service Stations	0.223	0.432	0.0

From the table 10, there is a linear relationship between the number of employees and the profit (r=0.323, p=0.218). This suggests that as the number of employees increases, the profit tends to increase slightly but this relationship is not statistically significant at the 0.05 level. There is also a correlation coefficient of 0.316 between the profit and the number of service stations. There is a significant linear relationship between the number of service stations and the profit (r=0.316, p= 0.223). Correspondingly, with the number of employees, the data suggests that as the number of service stations increases, so does the profit of the company.

Multiple Regression

Table 11 indicates the R^2 results from the regression model. Firm performance was regressed against liquidity, financial leverage, capital adequacy, customer satisfaction and size of the firm. The regression analysis had a 5% significance level. The model summary is presented in Table 11

Table 11: Model Summary

Model	R	R^2	Adjusted R^2	Std Error of the Estimate
1	.457a	.208	-4.541	960372.57832

From the results in table 11, the value of R^2 was .208 indicating that 20.8% of changes in the performance of a firm are explained by changes in liquidity, financial leverage, capital adequacy, customer satisfaction and size of the firm.

Table 12 ANOVA

Model	Sum of R^2	df	Mean Square	F	Sig.
Regression	2.428	6	4.047	0.44	.003
Residual	9.223	1	9.223		
Total	11.651	7			

The significance level of .003 which is less than p=0.05. The ANOVA results show significant statistical evidence implying that the model was statistically significant when it comes to the relationship between the profitability and the liquidity, financial leverage, capital adequacy, customer satisfaction and size of the firm. The data was ideal for making conclusions on the variables. The F value of 0.44 indicates that the data that was used was linear and is good enough for regression analysis.

Table 13 Model Coefficients

Model	Unstandardized Coefficients	Standard Coefficients	t	Sig

	B	Std. Error	Beta		
(Constant)	.104	.0317		0.38	.03
Liquidity	.402	.0467	.391	.331	.02
Financial Leverage	.514	.302	1.184	.322	.034
Capital Adequacy	.870	.780	.327	.451	.04
Customer Satisfaction	.144	.742	.533	.388	.02
Size of the Firm	.547	.964	.184	1.70	.04

Table 13 shows the relationship between each of the independent variable factors and performance of the firm. All variables presented a significance level of less than 5% therefore considered statistically significant. As the Liquidity index increases by 1 unit of change, the profit increases by .402 units of change. Therefore, the higher the assets and working capital the company acquires, the higher the profits experienced. The variable has a p value of 0.02 making it statistically significant. For every standard deviation of movement within the Liquidity variable there is a similar improvement of the dependent variable by .391 implying that for every increase in the liquidity, there is an increase in profits.

The results also imply that for every one-unit increase in financial leverage, there is an associated 0.514 increase in the profit of the company. The relationship is statistically significant with a pvalue of 0.034. In regards to the relationship between capital adequacy and performance, the regression analysis states that for every one unit change in the Capital Adequacy as measured by the Debt Ratio and Long-term debt to capitalization ratio, there is a 0.870 increase in the dependent variable. This relationship is also statistically significant at a p-value of 0.02. The model also showed a relationship between customer satisfaction as measured by the Net Promoter Score and Performance where a one unit change in the variable led to a 1.44 unit change in profits experienced. The relationship was statistically significant with a p-value of 0.02. A one-unit increase in the size of the firm as measured by the number of employees and number of service station leads to a 0.547 increase in the performance of the company and the p-value is 0.04 making the relationship statistically significant. Overall, the results from the Regression model show that the Liquidity, Financial Leverage, Capital Adequacy, Customer Satisfaction and Size of the Firm are all significant predictors of performance.

CONCLUSIONS

This study delves into the impact of mergers and acquisitions (M&As) on the performance of Oil Marketing Firms (OMCs) in Nairobi County, revealing several key insights critical for strategic financial management and operational effectiveness.

The research highlights a moderate inverse relationship between liquidity and performance. Specifically, as liquidity—measured by working capital and current asset ratios—decreases, firm performance improves. This finding underscores the importance of strategic liquidity management post-M&A. OMCs can enhance profitability by optimizing liquidity levels through careful financial planning and operational adjustments. This insight is particularly relevant for firms aiming to align their financial strategies with market conditions and operational requirements.

The study indicates a limited understanding among senior managers regarding the impact of financial leverage on profitability. The data reveals a moderate inverse relationship between financial leverage ratios (such as the Debt to Equity Ratio) and profit. This suggests that increased debt financing does not necessarily lead to higher profitability. Consequently, OMCs must refine their capital structures and debt management strategies to balance risk and return effectively. A more nuanced understanding of financial leverage can aid firms in making informed decisions that sustain financial stability and performance.

The investigation finds a weak positive relationship between the Debt Ratio and profit, alongside a weak negative correlation between the Long-Term Debt to Capitalization Ratio and profit. This implies that while increasing capital can facilitate service expansion and diversification, excessive long-term debt may not proportionally enhance profits. OMCs need to manage their capital adequacy carefully to avoid diminishing returns and to support sustainable growth.

The research underscores a strong positive relationship between customer satisfaction and overall company performance. Enhanced customer experience post-M&A significantly drives firm performance. This finding highlights the importance of investing in customer satisfaction initiatives and monitoring satisfaction metrics. Firms that prioritize and improve customer experience are better positioned to increase market share and profitability.

The study confirms a positive correlation between firm size—reflected by the number of service stations and employees—and performance. Strategic expansions through M&As contribute to increased market presence and revenue. OMCs that invest in expanding their service networks and human capital can leverage growth opportunities more effectively, thereby enhancing their operational footprint and profitability.

In conclusion, the findings of this study provide crucial insights for OMCs navigating the complexities of M&As. Understanding the interplay between liquidity, financial leverage, capital adequacy, customer satisfaction, and firm size can help firms optimize their M&A strategies, improve performance, and achieve sustained growth in a competitive market. These conclusions align with previous research and offer practical recommendations for enhancing financial and operational strategies in the OMC sector.

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