STRATEGIC MERGERS IN KENYAN ORGANIZATIONS: A CASE OF ICEA LION GROUP

BY

KAMWARO, NELLY RESIAN

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER, 2015
DECLARATION

I, the undersigned declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University Africa in Nairobi for academic credit.

Signed: ___________________________ Date: ___________________________

Kamwaro Nelly Resian (ID: 641681)

The project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Supervisor: Dr. Juliana M. Namada

Signed: ___________________________ Date: ___________________________

Dean, Chandaria School of Business
COPYRIGHT

All rights reserved; no part of this work may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the express written authorization from the author.

Kamwaro Nelly Resian © 2015
ABSTRACT

The general objective of this study was to explore the strategic mergers of business organizations in Kenya. The study was guided by the following specific objectives: To assess the factors that contributed to the successful merger of ICEA LION Group insurance companies in Kenya; to determine the challenges faced by the ICEA LION Group merger of insurance companies in Kenya, and to analyze the benefits of the ICEA LION Group merger of insurance companies in Kenya.

The researcher employed exploratory research design. The target population was limited to two branches, (Kenyatta Avenue and Westlands, Nairobi County) since information from these branches was similar to the rest of the branches. The target population was selected according to the proximity to the researcher, time, cost and availability of the respondents. The target population was composed of both men and women of 22-60 years of age. The researcher carried out a census as it was the most appropriate method considering the number of respondents. Questionnaires were given to all the employees working in the two branches who total 120. Eighty eight percent of the respondents actively participated in filling out the questionnaires.

According to the study, majority of the respondents agreed that at ICEA LION Group merger success was contributed by the human resource, effective communication process and strategic fit. This was confirmed by the mean ranging between 3.2 to 3.7 falling at the neutral to agree on the Likert scale used in the study. This confirms that human resource, communication process and strategic fit are factors that contribute to the success of a strategic merger.

The study further revealed that at ICEA LION Group merger faced the following challenges; turnover of key employees, keeping the new realism and meeting merger objectives. This was confirmed by the mean of the responses ranging from 3.6 to 3.8 with the highest dispersion of 0.76954. The highest percentages of the responses strongly agreed that the above factors were among the challenges faced by the merger. Therefore, the above data confirms that meeting merger objectives, turnover of key employees and keeping the new realism are challenges faced by a strategic merger. Additionally, the research revealed that the respondents agreed that the benefits enjoyed by ICEA LION Group merger were synergistic efficiencies, market development and cost reduction.

In conclusion, the study found out that mergers indeed carried out in the right way, by taking care of human capital, ensuring effective communication process from the start and ensuring
strategic fit, aids in achieving the set merger objectives, retaining key employees and painting the right picture of the new realism leading to success. The success of a strategic merger therefore comes hand in hand with synergistic efficiencies, market development and cost reduction. Strategic mergers are complex activities that should be carried out with effective planning prior to the start, a monitoring and evaluation should be carried out at every stage to ensure the goals are met. This enables the top management to create a clear picture of the expectations that are communicated to the organization. Management should anticipate challenges that affect mergers and stay prepared for any unforeseen circumstances relating to the merger.

The study recommends that organizations should measure the success of a merger in a microeconomic perspective providing a more objective approach to examine the financial statements pre and post-merger, and for a company in the stock market, one can compare the stock prices before and after the merger finalization. The study also recommends the need for organizations to establish a list of the most popular benefits enjoyed by most organizations as part of their goals. This helps an organization to map out effective strategies that leads to the success of strategic mergers, building a competitive advantage that can be sustained in the long run.
ACKNOWLEDGEMENT

The success of this research was attributed to the ones who supported me in every step of the way. I take this opportunity to express my gratitude to the Almighty God, who gave me life, strength, health, knowledge and protection throughout my study. I am grateful to my supervisor, Dr. Juliana Namada, who took her time to direct, guide, and support me in writing this project. I appreciate ICEA LION Group for allowing me to conduct this research on their company. Without their participation this study would not have been possible.

My heartfelt gratitude goes to my parents. Their encouragement, patience, financial and moral support goes along way. I thank Tony Kamwaro who helped me with my data entry, data cleaning and proof reading. To all my friends who understood when I could not spend time with them as I worked on my research, I say thank you and I will make up for that. Finally, Ngaruiya Edwin, we have gone through this research together, encouraging each other, long hours at the library, each working on our individual studies. Thank you for making this experience feel less lonely.
# TABLE OF CONTENT

DECLARATION.............................................................................................................. iii
COPYRIGHT.................................................................................................................. iv
ABSTRACT..................................................................................................................... v
LIST OF TABLES ......................................................................................................... x
LIST OF FIGURES ....................................................................................................... xi
LIST OF ABBREVIATIONS AND ACRONYMS .......................................................... xii

CHAPTER ONE ........................................................................................................... 1
1.0 INTRODUCTION .................................................................................................. 1
1.1 Background of the Study .................................................................................... 1
1.2 Statement of the Problem ................................................................................... 4
1.3 General Objective .............................................................................................. 5
1.4 Specific Objectives ............................................................................................ 5
1.5 Significance of the Study .................................................................................. 6
1.6 Scope of the Study ............................................................................................ 7
1.7 Definition of Terms .......................................................................................... 7
1.8 Chapter Summary ............................................................................................. 8

CHAPTER TWO .......................................................................................................... 9
2.0 LITERATURE REVIEW ......................................................................................... 9
2.1 Introduction ....................................................................................................... 9
2.2 Factors Contributing to the Success of Strategic Mergers ................................ 9
2.3 Challenges Facing Strategic Mergers ............................................................... 12
2.4 Benefits of Strategic Mergers .......................................................................... 16
2.5 Chapter Summary ............................................................................................ 19

CHAPTER THREE .................................................................................................... 21
3.0 RESEARCH METHODOLOGY ........................................................................... 21
3.1 Introduction ..................................................................................................... 21
3.2 Research Design ............................................................................................. 21
3.3 Population and Sampling Design .................................................................... 22
3.4 Data Collection Method .................................................................................. 24
3.5 Research Procedures ....................................................................................... 24
3.6 Data Analysis Method ..................................................................................... 25
LIST OF TABLES

Table 3.1: Population Distribution ................................................................. 22
Table 3.2: Sample Size Distribution ................................................................. 24
Table 4.1: Gender of Respondents ................................................................. 27
Table 4.2: Age of the Respondents ................................................................. 28
Table 4.3: Mean and Standard Deviation of Success Factors ............................... 28
Table 4.4: Mean and Standard Deviation of Challenges ..................................... 31
Table 4.5: Mean and Standard Deviation of Benefits ......................................... 33
LIST OF FIGURES

Figure 4.1: Human Resource Factors................................................................. 29
Figure 4.2: Communication Process................................................................. 30
Figure 4.3: Strategic Fit...................................................................................... 30
Figure 4.4: Meeting Merger Objectives............................................................. 31
Figure 4.5: Turnover of Key Employees............................................................. 32
Figure 4.6: Keeping the New Realism............................................................... 33
Figure 4.7: Synergistic Efficiencies................................................................. 34
Figure 4.8: Market Development................................................................. 34
Figure 4.9: Cost Reduction............................................................................. 35
### LIST OF ABBREVIATIONS AND ACRONYMS

**ICEA LION**: Insurance Company of East Africa; Lion of Kenya Insurance Company  
**US**: United States  
**CEO**: Chief Executive Officer  
**NSN**: Nokia Siemens Networks  
**OECD**: Organization for Economic and Co-operation Development  
**KPMG**: Klynveld Peat Marwick Goerdeler (accounting firm)  
**ISA**: Investments and Securities Act  
**IT**: Information Technology  
**HRM**: Human Resource Management  
**R&D**: Research and Development  
**M & A**: Mergers and Acquisitions  
**IBM SPSS**: International Business Machines; Statistical Package for the Social Sciences
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Strategic mergers have been drawing great attention in the recent years, especially since the phenomenon seems surprising as they yield different results. An analysis carried out on approximately 200 European mergers formed since 2007 found out that, only 9 percent were completely successful in achievement of their objectives (Weber, Tarba & Yedidia, 2012). The consequence of these failures seems to be associated with issues faced during the merger process. Some of the challenges faced include ignoring the differences in corporate culture and structure, integration problems, poor communication, customer dissatisfaction, strategic fit among others. Buono (2005) further explains that it is unfortunate that this failure is detected later and they try to solve it by bringing in merger integration consultants in the last stages of post-merger phase.

Gaughan (2007) defines a merger as the combinations of two corporations where only one survives to form a new entity on its own (Scott, 2003) and (Egle & Rima, 2009). Alistair and Mclean (2010) states that a merger is an integration of two legacy cultures blended from the best attributes each company has to offer. This study focused on the merger of ICEA LION Group which took effect on January 2012. A horizontal merger between two competing insurance companies; Lion of Kenya Insurance Company and Insurance Company of East Africa. The general motive behind the merger as put by Oluoch (2012), the CEO of ICEA LION general insurance was to consolidate the two companies to decrease competition between each other, generate more internal efficiencies and improve customer service.

The inception of mergers was first experienced in the 1900s in United States of America. These mergers occurred in waves where each wave had different characteristics. The first wave occurred in the 1900s while the second wave in the 1920s (Lipton & Michael, 2006). The first wave was distinguished by horizontal mergers for monopolistic purposes where the companies wanted to bring down competition by consolidating their stand-alone market shares into one big monopoly. The second wave was characterized by vertical mergers in manufacturing industry both occurring in the United States, this wave was also referred to as “merging for oligopoly”. Later on, a third wave took place in the 1960s which was mostly conglomerate mergers formed for diversification purposes into new industries. This wave saw many industries involved as compared to the previous waves (Karagiannidis, 2010).
The fourth wave occurred around the 1980s, this was the wave of hostile takeovers which mostly affected the financial services and banking industries. This wave was sometimes called “the wave of disciplinary mergers” (Black, 2000). The fifth wave of mergers in 1990s to 2000, were geared towards increasing the company’s size. The reason towards this wave was technology and the internet revolution. The affected industries were financial, banking industry, telecommunication industry, media and entertainment industry. Studies by Motis (2007) agree that privatization and market deregulation were also factors that contributed to the fifth wave of mergers.

European countries also experienced waves of mergers and acquisitions especially after the coming up of the single European currency, and European Union. An observation by scholars Duso, Neven and Roller (2007) saw cross border mergers across the United Kingdom and other companies from other countries including the US. This was contributed by the United Kingdom’s free economy and the removal of trade walls (Oster, 2009). Due to the fact that industrialization started in the European countries before hitting the United States, the first wave of mergers in the United Kingdom was in the 1800s. Using data collected by Gartner (2008), strong evidence was witnessed concerning waves peaking gradually in the United Kingdom between 1969 to 2003. The first wave started in 1920s, the second one followed in 1960s, third in 1970s while the fourth one, that took place in the 80s was the most prolonged of the previous ones. The fifth wave ended in the early 2000.

Instances of mergers between companies were seen when Vodafone merged with Mannesman in 1999, America Online’s merger with Time Warner in 2000, Nokia’s Networks Business Group and Siemens Communication merged to form NSN in 2006, BHP Billiton’s merger with Rio Tinto in 2008. The driving forces outlined by Organization for Economic Co-operation and Development [OECD], (2010) for the reason behind the mergers in the United Kingdom included: deregulatory changes, technological changes, privatization, economic booms or recessions and liberalization encouraged cross-border mergers and acquisitions. Australia, like France and Netherlands were not as aggressive as the United States and the United Kingdom in terms of mergers and acquisitions. Australian merger activity also happened in waves since the 1950s as seen from the statistics collected by the United Kingdom’s Government in 2008. According to the Trade Practices Legislation Amendment Act in Australian Law, mergers were prohibited if they resulted into the lessening of competition. This was later amended in 2002 by the Dawson Committee which saw a lot of merger activity such as Yancoal in 2011.
The economy of Brazil grew and expanded as a result of economic, structural reforms and trade liberizations that paved way for mergers. Studies by Pampalona and Rotela (2013) indicate that from the year 1994 to 2010, approximately 6,574 mergers and acquisitions occurred Brazilian companies and cross border transactions. An analysis by Pasin and Matias (2001) on mergers in Brazil indicated that most merged companies in Brazil recored a reduction in costs such as administrative costs leading to increased profits. India was characterized by bureaucratic control such as a company needing approval from the central government to embark on a merger. Deregulation and major amendments made to monopolies and restrictive trade policies led to India being a suitable environment with opportunities for mergers (Aditya & Agarwal, 2006).

Recently, the United Arab Emirates introduced its competition law (Federal law No 4. 2012) which was set to regulate anti-competitive behavior of firms. These new regulations would therefore provide clarity on issues such as applications and approvals of mergers and acquisitions, application for exemptions and rules governing restrictive agreements and abusive dominant position. This law acts on merger control, acquisition of assets, joint ventures, proprietary rights and control shares all listed as economic concentrations. This law created a favourable environment and certainty for companies intending to invest using the mentioned economic concentrations in the United Arab Emirates (Milne & Mayer, 2014).

Africa has also had its fair share of mergers. South Africa has relatively more merger notifications compared to Nigeria (Adekunle, Etti & Folosade, 2012). This is due to the fact that it was cited by KPMG (2010) and considered among the world’s best emerging economies. A surge in merger activity in South africa by KPMG (2010) upto 133 percent was a great improvement because of large cap deals. South Africa is responsible for a major portion of merger activity in Africa, this was according to Kamhunga of the Business Day Live. An example of a recent merger in South Africa is the Alpha Pharm group of regional pharmaceutical distributors.

Records from Securities and Exchange Commission of Nigeria show that the first mergers were experienced in the early 1980s and since then they grew drastically in various sectors of the economy such as, insurance, banking, textile, pharmaceutical, food & beverage, oil & gas and other conglomerates. All merging companies formed were listed in the Nigeria Stock exchange (Ali, 2003). Mergers in Nigeria are regulated by the Investments and Securities Act (ISA) that provide provisions and specific legislations in various sectors of the Nigerian Economy. Closer to home, Tanzania has a legal framework governing mergers and acquisition activity regulated by the Fair Competition Act, 2003. There are concerns that the staff in the
regulating board are very few meaning they have very low capacity to fully investigate and deal with the issues associated with proposed merger activity (Mkono, 2009).

Kenya is ranked number four after South Africa, Nigeria and Ghana as the country with the most attractive merger environment in IT and consumer industry with great contribution from its free economy. ICEA LION Group is among the many mergers that have taken place in Kenya in the last five years. Insurance Company of East Africa and Lion Insurance Company limited, which both existed independently as insurance and financial service providers announced officially in January, 2012 that they had officially merged. This activity led to the creation of one of the largest insurance groups in Kenya (Robinson & Zerdin, 2013). The most important aspect of the merger was to separate life assurance from general insurance; ICEA LION Life Assurance Company and ICEA LION General Insurance Company. This separation was for the purpose of specialization in their respective key competencies.

The consolidation of ICEA LION Group was fueled by encouraging intentions by the government advocacy for mergers for the following reasons, economies of scale, diversification, efficiency, increased output capacity and changes in dynamism. The exact reasons according to the chairman of the board, Chris Obura (2012) were enhancement of customer service, internal efficiency, effectiveness in terms of specialization and competitiveness. ICEA LION Group is an example of a successful merger with an increase in assets and profits after the merger. Despite the success, during the merger process, the organization faced challenges which they tackled in the right ways enabling them to attract benefits.

1.2 Statement of the Problem

It has become increasingly difficult for a firm to achieve success entirely on its own (Brannen & Peterson, 2009). The appetite for mergers in any economy has always been on the increase. However, in congruity of this popularity of mergers lies the fact that they do not always appear to bring out positive results; Agrawal (2000) in terms of high rate of failure and dissatisfaction. Bruno et al. (2000) points out that mergers are risky even though they might be undertaken strategically. Management often forgets the human resource aspect after a merger and this results in low productivity. These unsatisfactory results can also be explained by the market imperfections theory. Also, lack of information in the market, contributes to decreased market share and customers preference of other competing firms (Milne, 2014).

There are many studies looking into the success rates of mergers but few looking into failure rates and even fewer into the whole merger in general (Rohe & Bratt, 2010). The assertion
that mergers can also result in abnormal or underperformance in the aftermath, is now shedding some new light to researchers and academicians. Schoenberg (2006) in his research “30 years of mergers and acquisition”, attempts to explain the performance of post-merger situation by identifying that, the merger process and strategic factors are usually the main focus in the merger field. In fact, Bryson (2002) argues that most mergers are unsuccessful with failure rates ranging from 50 percent to 80 percent depending on the industry and measures taken. This is according to her work on managing HRM risk in mergers. Cassiman and Colombo (2006) published a research on mergers and acquisitions where they stated that market imperfections and information asymmetries could contribute to failure. This is explained where buyers of insurance are especially sensitive to insolvency risk, this might lead to loosing of customers to rival companies. Karyn, Wallace and Davidson, (2011), in their study on analysis of failed takeover attempts and merger cancellations explained that there are also those instances when mergers enjoy the benefits but only for a short while during the commencement of a merger then these benefits clear out following failed or cancellation of a merger. Muriithi, Guyo and Muturi, (2014) carried out a research on the effects of performance and reward in the cultural integrated process of post merged organizations in Kenya concluded by stating that success of mergers in Kenya are attributed to efficiency in integration and planning.

In view of the knowledge gap identified, this research focused on finding out what happens when two companies amalgamate. Since little has been done to explore the holistic picture of mergers, the study looked into the factors which led to the success of the merger, the challenges and benefits experienced. It also brought insights as to the contributions behind the subsequent merger failures and successes. An exploration into the merger of two competing insurance firms in Kenya to form ICEA LION Group was the subject of the study. It was an addition to the literature and knowledge on what really happens when two organizations merge.

1.3 General Objective

The main objective of this study was to explore strategic mergers of business organizations in Kenya.

1.4 Specific Objectives

The study was guided by the following specific objectives:

1.4.1 To assess the factors that contributed to the successful merger of ICEA LION Group insurance companies in Kenya.
1.4.2 To determine the challenges faced by the ICEA LION Group merger of insurance companies in Kenya.

1.4.3 To analyze the benefits of the ICEA LION Group merger of insurance companies in Kenya.

1.5 Significance of the Study

The following are the beneficiaries of this study:

1.5.1 Academicians and Researchers

The information that was documented in this study will bring insight to other readers of the academic world. The researcher underwent a rigorous process in conducting this research. This journey made the researcher become more knowledgeable on the topic of mergers in an organization. It will also be an addition to the existing literature on the topic and recommendations for further research in related studies.

1.5.2 Government of Kenya

The government of Kenya stands to benefit from this study as mergers fall under the business law category. For any merger to take place, it has to be in compliance with the specifications spelled out by regulations of the government. As the government is seeking economic growth, knowledge from this study will bring about an understanding of the benefits which will in turn; help the policy makers to come up with policies that encourage organizations to merge.

1.5.3 Insurance Companies

This research is a case study of ICEA LION Group which is an insurance company with operations in East Africa. It will paint a picture to other insurance companies willing to merge with other insurance companies for growth purposes spelling out the risks, challenges and success factors. The insurance companies already merged can learn on what to consider succeeding and identifying possible challenges and how to deal with them. Managers can benefit from this study to put into consideration the change in structure, culture, policies and procedures in making strategic decisions for the success of the merger. The knowledge on what is expected in the entire merger process will help them avoid mistakes and shed light on issues that most managers neglect while in a merger situation. An eye opener, it will be to employees and human resource management working in insurance companies that have merged because they are required to incorporate changes and respond appropriately.
1.6 Scope of the Study

The scope of the study was limited to ICEA LION Group, an insurance company whose headquarters are based in Nairobi but with operations on East Africa. The researcher gave out questionnaires to employees of ICEA LION based in Nairobi at the top level, middle level and support staff employees to get information on the merger. The research was conducted between May to August 2015 while the data collection took approximately two weeks, beginning on the 29th of June to the 10th of July to gather all the information needed for the analysis. The limitation of this study was the delay in getting feedback from the questionnaires distributed to be filled by the respondents and the difficulty in getting information for fear of disclosing private company information or fear of not wanting to be involved in politicking behavior. To counter this, respondents were assured of confidentiality of the information disclosed in the questionnaires, and I also sent a reminder to the employee who was helping the researcher co-ordinate the data collection, to remind the rest of the due date of the collection of the questionnaires.

1.7 Definition of Terms

1.7.1 Mergers

A merger is a mutual amalgamation between two or more companies into one legal entity where the acquiring company then takes over the assets and liabilities of the merged company (Jagersma, 2000).

1.7.2 Strategic

Relating to the identification of long-term or overall goals and interests and the means of achieving them (Mintzberg, Ahlstrand & Lampel, 1998).

1.7.3 Conglomerate

This is a consolidation of unrelated firms, meaning that it is neither vertical nor horizontal. It involves a combination of a parent company owning the biggest controlling share with a number of smaller companies each conducting their businesses independently (Karagiannidis, 2010).
1.7.4 Organization

This is an entity comprising of a body of people, such as institution or an association, which has a collective purpose (mostly business) linked to an external environment (McDonald, Coulthard & Lange, 2005).

1.7.5 Hostile Takeover

This is the acquisition of a company (the target) by another company (the bidder) even though the management of the company being acquired does not agree (Jenkinson & Mayer, 1994).

1.8 Chapter Summary

Chapter one of the study covered background of merger activities globally, regionally and locally. The researcher also identified the knowledge gap behind the purpose of carrying out this research, outlined the general and specific objectives, scope and limitations and listed the key beneficiaries of the study. Chapter two focused on literature review guided by the following objectives: analysis of success factors, challenges faced during mergers and lastly the benefits enjoyed by strategic mergers. Chapter three looked at the methodology used in the research while chapter four focused on data analysis and findings. Lastly, chapter five of this research was an interpretation of the results and findings from the previous chapter.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter focuses on the literature review on the studies done by other researchers in view of the exploration of mergers and other similar studies. The chapter was structured according to the specific research objectives. This chapter is meant to give an overview of the success factors of the merger of ICEA LION Group, the impact of a merger on its resources and the challenges faced and lastly the benefits derived from the merger. It provides a clear understanding of the problem statement under the following specific objectives.

2.2 Factors Contributing to the Success of Strategic Mergers
The recent approaches to measuring success of a merger by many companies, has been the use of external growth as part of their corporate strategy and a way to beat competitors. Firstly, it is important to define the term success. According to Merlin (2012), the term success refers to the accomplishment of a desired purpose or objective, therefore, a merger is considered successful if the merging companies achieve their pursued objectives. This also brings up the importance of measuring the success of a merger and approaching the evidence of success. According to Buckmann (2012), one of the best approaches to measure the success of a merger is the microeconomic perspective.

In this approach, one can interview managers and consultants to get their personal opinion of the success, the change before and after the merger; plus a more objective approach would be to examine the financial statements pre and post- merger, and for a company in the stock market, one can compare the stock prices before and after the merger announcement (Spandau, 2010). The industrial management theory has two schools of thought attempting to explain the reasons behind mergers; the market power approach to penetrate markets deeper and the efficiency approach to increase economies of scale. Analysis by Markovics (2005) in agreement proposed the following factors as crucial to the success of a merger.
2.2.1 Human Resource

Mergers bring about change and employees are usually aware of that. Schweiger (1987) states that resistance to change is considered a normal reaction because every employee thinks the effects of the change impacts them. Layoffs are always unavoidable, so management should ensure the discharged workers are taken care of and this reflects on the image of the company. The management gesture could also motivate the other employees contributing to the success of the merger. Emphasis on people ensures organization culture incorporates fairness orientation where decisions made by management are inclusive of the effects on the employees. Companies that have this aspect in their organization culture ensure their employees are treated with respect and dignity, most of the time their input is included in decision making (McLaughlin, 2007).

Since the success of a merger is greatly contributed by employees, Buono, Bowditch and Lewis (2000) suggested that the human resources department and the rest of the management team needed to apply transformational leadership style, communication of the new to be shared vision, respect of employees and problem solving skills, allow for room for change and flexibility and finally ensure the development of attitudes that foster mutual understanding (Molaro, 2014).

Karami et al. (2008) also came to the conclusion that the human resource capability of the firm is a considerable resource that determines the competitive advantage of the firm. In light of a resource-based view, they assumed that human resource capabilities, including skilled human resources, innovative human resources, human resource effectiveness, human resource commitment, and training competent employees were factors that determined the competitive advantage of the firm. Hayton (2003) in his studies also came to the conclusion that a firm's human capital is an important source of sustained competitive advantage.

2.2.2 Communication Process

Appelbaum, Gandell, Yortis, Proper, and Jobin (2000) stated that “the research literature implies that the communication variable is the most important factor throughout the entire M & A process” (p. 649). The communication process affects the employees, the adaptation of a new culture, the merger process itself, approaches to change, and the stress levels of the employees (Molaro, 2014). An increase in communication channels by management was seen as a large contributor to merger success. Research put emphasis on two-way communication where both management and employees voice their concerns, opinion and access to feedback.
Effective communication has to commence during the preliminary stages so as to set the scene and pave way for internal acceptance. Post-merger phase is when communication needed is intensely but then, would be the wrong time to start. It has to start in phase one during the merger decision and strategy development phase (Alistair & Mclean, 2010). Studies by McKinsey (2010) showed that management of the human side was the key to maximizing the value of the deal and the one way to achieve that was through effective communication. Communication budget should be properly balanced between external communication, which most mergers concentrate on and internal communication, which is a very paramount aspect that management ignores.

Breakdown of the communication plan from pre-merger to post-merger with the intention of building a new corporate culture. Bring about employee engagement by expanding the vision into a shared vision, Incorporation of individual perspectives into a holistic shared vision through internal communication. Robinson, (2013) even goes further to recommend that a communication team be formed by top management to facilitate the role of communication throughout the whole merger process. The communication process should start by getting the timing right, which is at the inception of the merger, get your message and stick to it, work together with your employees but put managers in the lead, and the most important part of this process is to be open to listen to the feedback from your employees (Spandau, 2010).

2.2.3 Strategic Fit

Strategic fit refers to how well a potential merger is in line with common strategy of the organizations (Robert, 2007). Shelton (1988) indicates that a strategic fit is present when two firms have created value that otherwise would no have been reached if they were trying to achieve the goal separately. It is the combination of the firm’s brought together assets that creates this extra value so that the synergistic goals can be achieved. Schein (2005) in his research identified critical tasks that must be performed by managers pre-merger for the success of a merger. One of the tasks is that managers must map the synergies and incompatibilities between the two organizations so as to be able to design a strategic fit. Cartwright and Schoenberg (2006) contend that strategic fit is concerned with the relation between strategic attributes and the performance of the combining organizations.

It is important to emphasize on the strategic direction of the company. In a study conducted by Harding and Rovit (2005), showed the importance of aligning corporate strategies to planning for mergers. They examined about 1700 mergers and interviewed two hundred and fifty CEOs. They found out that a clear strategic rationale and an understanding of the contribution of the deal that the merger brings forth, would help in aligning the strategic fit of the merged
companies hence long term success (Jarrod, Max & Paul, 2005). The parties in the partnership should understand each other’s strategic reasons for forming it and the strategic rationale as well. The reasons must not only conform but should be clear to all involved. Prior to engaging in the partnership, discussions leading to a common understanding should take place. Establishing strategic fit requires not only scrutinization of the prospective partners but also self-examination.

Cartwright and Schoenberg (2006) further state that strategic fit examines the process and strategic issues post-merger such as the acquiring of a relative size knowledge base has a positive impact on innovation output (Ahuja & Katila, 2001). In the decision making process, management should come up with strategic and operational implementation plans complete with transition achievable goals and objectives. Next step should be to align the structure and the new organization strategy so as to clearly define which units to integrate, run parallel and which ones to co-ordinate (Buckmann, 2012). The top management should provide sufficient resources and avoid looking at the merger as a strategy by itself, instead, look at it from a project management perspective so as to act conclusively with time priority in order to realise synergies.

Weber (2012) in his further studies came up with a hypothesis that factors of effectiveness of the integration process included, removal of autonomy from the new team, level of commitment and cultural differences. Put to a test, results showed that success rate was seen highest in mergers with similar cultures then those with congruent cultures. The life within an organization is the constant cultural, structural and personal interaction and the change in one causes the need for change in another (Juuti, 1997, 14). Research done by Markovics (2005) has found out that organization culture has emphasis on people, teamwork, aggressiveness, stability, innovation and emphasis on outcome. Prior to the decision making process, it is therefore important that leaders understand the culture of the other organization for better planning for the integration.

2.3 Challenges Facing Strategic Mergers

Mergers have become increasingly popular but unfortunately, these amalgamations fail to meet expectations. DePamphilis (2001) explains that during a merger process, an organization is usually in high levels of chaos, with factors like new supervisors taking over, description of jobs changing and sometimes being eliminated entirely. The process of mergers with all of the legal and financial issues to deal with, employees are sometimes ignored. Doing so can decrease morale and productivity and lead to an exodus of key talent. Mergers are a big risk
and most of the time management does not anticipate the issues that come with the merger process which in turn fail to come up with plans to handle them.

A Challenge according to Rakoto (2012) is a situation or job that becomes increasingly difficult because one must use a lot of effort and determination to be successful. Statistics by Booz and Hamilton (2001) show that 50 percent to 80 percent of mergers fail as opposed to the benefits foreseen by the strategists during the merger decision making process. They further break it down to 61 percent of mergers fail to earn back equity capital invested within the first three years post-merger McKinsey (2012), 50 percent of mergers erode their share value, 66 percent become financially unsuccessful (Coopers & Lybrand, 2012).

Many business combinations look so good on paper but become a disaster when they materialise. This chapter tries to dig deeper by looking at the major issues faced by mergers, which are: How to meet merger objectives, retaining key employees, and how to keep the new realism. The outlined issues are caused by; lack of risk-taking where management is unable to manage the critical situations and lacks the ability to get away from schematic norms, lack of clear defined vision, and resistance to change where employees see the merger as an act of sabotage. Non-alignment and conflicting of goals in the combined organization tends to exhibit confusion and lack of trust in the leadership (Porvari, 2014).

2.3.1 Meeting Merger Objectives

According to Tarba, Cooper, Wang, Zhang, Ahammaud and Glaister (2015), the biggest mistake in the merger process would be to have an unclear business strategy where the management does not have a proper laid out plan of post-merger and they walk in blindly. This proves difficult to meet the purpose of the merger. Another challenge is having a weak core business, Buckmann (2012) points out that it is important for the management to conduct an analysis of each merging organizations’ core businesses and decide whether the new organization should continue with the new business or abandon the weak and less performing one. The high failure rate is contributed by management being distracted by all the chaos going on and forgetting to deal with the core business in the process.

Aquila (2005), an author and consultant points out that the reason for a merger should be in line with the strategic vision of the firms. Firms that take on the merger path without asking this question “how will this merger help the organization meet its strategic goals?” will therefore experience a hard time in achieving the goals of the merger. Selection of the right candidate for the merger is a major contributor to post-merger integration process and in achieving the set objectives (Estanol, 2011). If the organization chosen to merge with is not
the right one, meeting the goals of the merger becomes highly unlikely. They should think through as to whether the other organization fits into their existing strategy or not.

Ignoring the employees’ needs during the merger process is experienced in most merger events where they focus solely on the synergies, prospects and returns. This eventually turns into a challenge because without the staff support, the vision cannot be achieved since demotivated staff leads to poor performance (Rohe & Bratt, 2010). In a case where elimination of top management may be prudent, in the organizational restructuring for efficiency, problem emanates from the unwillingness of top management to relinquish their power and positions by letting employees below them take their position instead.

During the merger planning phase, most organizations do not include the human resource with the evaluation and screening of the target company’s employees. This in turn results in the new merged company’s management trying to fix problems and bugs that could have been avoided if they had included all members of management sufficiently. Even the talented leaders are not experts in the different stages of the merger process, in this case, to achieve the goals set out for the merger, it would be important to seek out a skilled consultant to guide and advice management on how to go about the merger process to meet the set goals (Markovics, 2005).

2.3.2 Turnover of Key Employees

Considering the amount of changes taking place during the merger process, variety of strategic and practical issues should be tackled under the human resources department or organization issues. There has not been a specific way defined to deal with this but a number of studies strongly agree on dealing with human resource risk applying strategies that stabilize workforce, communication, fairness in procedure and job security (Bryson, 2002). Mergers provide a fertile ground for the growth of job insecurity, unfair treatment and procedural injustice. Some employees might opt to leave the organization if they foresee future problems for themselves resulting from the merger.

Lynch and Lind (2005) in their research on escaping merger madness found that, job security was the most important factor for employees during a merger. Studies show that the changes occurring in an organization during a merger, decisions are tightly controlled by the management and the decisions of retrenching employees is solely driven by the need to reduce numbers and avoid redundancy in the new organization. Mace and Montgomery (2010) however confirm that employees are not only concerned with job security but also with how
selection decisions are made. This is because, perceptions of procedural fairness has a big effect on workers’ attitude who remain in the organization and the whole merger process.

However, merger literature ignores or fails to mention the fact that unions might be involved to assist in managing human resource risk. Although literature by De Pamphilis (2001) and Cratwright and Cooper (2000) are in agreement that mis-managing union involvement can adversely interfere with the merger process through industrial action. It is therefore advisable for management to work co-operatively with unions to reduce the problem of redundancy and ameliorate the negative impacts of unemployment brought by the merger. The management of a merging company also suffers in the process because they are put under a lot of pressure to manage and control activities of the organization. Management becomes frustrated especially if they did not receive any training concerning leadership during a merger.

2.3.3 Keeping the New Realism

Brannen et al. (2009) defines new realism as the new status brought about by the combination of two organizations to form one, with the objective of strategic advantage that brings about major changes in the structure, culture, processes, management styles and job security. Several Authors Barnett et al. (2010) and Havemen (2007) concur that an integration that is extensive results in a much greater disruption of the pre-existing routines and structure in both firms.

Since this disruption is likely to lead to decline in the performance of the combined entity, the employees have to be in line with the new reality, this means accepting and understanding what is expected of them in achieving the new objective. Chartzkel et al. (2009) placed high priority on communication. The management should come up with a communication team to keep everyone informed, through newsletters, faxes, emails, presentations and meetings. Further suggestion was to have senior managers to facilitate it with the motto, “as soon as we know, you'll know”. This would be a strategy to manage resistance to change and drive employees to have a better perception of the merger.

If some employees loose their jobs due to downsizing of the workforce, the remaining employees are usually affected by that and they become de-motivated (Yu, 2008). Change in management combined with new regulations and expectations usually results in employees feeling uncomfortable in the new working environment where this attitude reflects in their work performance (Leana & Feldman 2009). Weber et al. (2012) contends that higher wages might have less appeal if they are accompanied by fear of job losses.
Mergers usually have to experience cultural changes as the unique and different cultural background from the merging companies have to be integrated into one. It becomes the new management’s duty to harmonize the former organizations’ cultures. Success of the integration is greatly influenced by the differences in the management style and planning. Companies with similarities in their organization cultures, causes fewer conflicts and aid a smoother transition in culture assimilation. Markovics (2005) states that management has to concentrate on the following after the occurrence of a merger: Strategies most suitable for environmental challenges have to be formed, inner integration has to be accomplished and employees have to be made committed to the changes.

2.4 Benefits of Strategic Mergers

The merits associated with a successful merger are usually the fueling factors that bring organizations to merge. Scholars have found out numerous reasons behind mergers each varying with the type of organization in question. Molaro (2014) came up with a list of the most popular benefits enjoyed by most organizations globally, they are; economies of scale, increased output, efficiency, diversification and specialization and increased market share. Greater output brought by specialization in production as the cost per unit production decreases while output increases (Mansfield, 1997). Reserve capacity meaning fewer labor, resources (machine and material) to meet large scale production. Bigger organizations are the expected results of merger activities which means that more advanced technology can be introduced for competitive advantage.

Increased output capacity is one of the major reasons behind mergers by companies, where they spread out fixed costs, bring in specialization while cutting out duplication of tasks. The merged company also experiences increased market power sometimes leading towards monopolistic entities, counteracting power of buyers, suppliers and competitors (Chartzkel & Saint-Onge, 2009). Other studies by Ghosh and Jain (2000) have shown that mergers and Acquisitions are an effective means to secure tax benefits. Diversification as related to the modern portfolio theory where a firm reduced its optimal risk by investing in many unrelated instruments (Motis, 2007). Better managerial skills where firms might undertake a merger activity with the target of improved management in mind. A good and experienced management is paramount in the success of any organization (Gaughan, 2007). A good management team can help bring success to a company even without the benefits of economies of scale.

Changes in dynamism and efficiency is another reason for mergers. It might be hard to bring about the process of change especially in a stable organization, but with mergers it becomes
easier to control (Karagiannidis, 2010). Harford (2005) in his studies has found evidence of positive correlation between mergers and increase in price earning ratios and the share prices. However, studies by Claude, Rakoto and Walid (2012) in Canada have found results consistent with post-merger long term negative long term returns in terms of stock prices of the merged firms. The following are benefits of mergers in the service industry sector.

2.4.1 Synergistic Efficiencies

A firm’s efficiency is dependent on its size and there are two types of efficiencies that a large firm can experience; technical and synergistic efficiencies. Shapiro (2001) identifies synergistic efficiencies as one of the benefits of mergers. He defined it as those efficiencies that could result from merging only and correspond to changes within the joint capabilities that come from the merging companies. One of the major ways a merged company realises efficiency is through economies of scale. Roller, Stennek and Verboven (2006) define economies of scale as when a firm’s output increases while its costs decreases. It is a form of undertaking an investment on a larger scale.

In the short-run, economies of scale results from getting rid of double fixed costs while in the long run, the average costs falls with increasing output. Efficiency through economies of scope, which refers to using a specific set of skills or an asset currently employed in producing a specific product or service to produce related products or services (Kearney, 2014). There is a general recognition that synergies involve either a process of learning, the close integration of specific hard-to-trade assets or technically the transfer of know-how among the merging firms. For instance, when a small firm launches a new product but lacks in terms of marketing and sales techniques, merging with a well established firm enables it to gain that which would have not been possible without the merger (Zerdin, 2013).

A firm can merge with another firm that can dissolve its weak points and also seeking strengths it lacks. The diffusion of know-how, in turn, can be achieved when the merging firms exchange different R&D activities, patents, rights and licenses, human skills, and organizational culture. Since these assets are in general non-tradable, firms can benefit from their combination uniquely by merging (Motis, 2007). Acquiring innovation can lead to efficiency in operations where the capability to renew a company along with the outcomes of innovation, which include the ability to anticipate market needs and lead the market in responding, the ability to bring new products to market rapidly, intellectual assets and intellectual property. Indeed, often merging firms claim that by integrating their R&Ds they introduce new or better quality products faster and innovate in cost reducing processes (Ahuja & Katila, 2001).
2.4.2 Market Development

Pritchett (2010) defines market power as the ability of a firm or group of firms to raise prices above the level that would prevail under competitive conditions. The ability to exclude competitors is also seen as a result of excessive market power. The scope of enhancement of market power is associated with industry concentration, product differentiation, entry barriers and cost advantages. The market power merger motive in horizontal mergers is the most controversial one. Post-merger higher entry barriers may facilitate the enhancement of market power. For instance, collusion cannot be sustained in the absence of entry barriers and it is more difficult to sustain the lower the entry barriers because deviating from collusive equilibrium is less costly. As well, merger unilateral effects on prices are less likely to occur if barriers to entry are low since the merging firm faces the likelihood of tougher competition. Then, raising entry barriers is a mean to enhance market power. Such entry barriers may be attained by merging if for example the merger unifies two potentially competing technologies or facilitates tying strategies (Barney, 2007).

Fridolfsson and Stennek (2005) propose a merger rationale that they call the preemptive or defensive motive. They develop a model that shows that being and insider is better than being and outsider, therefore, firms acquire to prevent the target being acquired by a competitor. The reason is that the merged firm becomes more efficient (providing cost efficiencies) and bigger thus becoming a more difficult competitor. This affects the outsider due to the creation of stiff competition in the market, so to prevent being an outsider, firms preempt the merger by anticipating a takeover.

DeVoge (2005) suggests that other motives in mergers have been interpreted as defensive in the economic literature. The most common of these is the elimination of a significant competitor. Such defensive mergers may be seeking for market power enhancement, or may simply be responding to tougher price competition originated from exogenous factors. Defensive mergers have also been proposed as a result of an endogenous market response to exogenous market shocks such as new technological opportunities that increase the potential for innovation (Gomes, 2013).

2.4.3 Cost Reduction

Karagiannidis (2010) and Fitzsimmons (2003) agree that the main goal of any profit making business organization is reduction of costs while maximizing profits. Cost reduction is therefore sought through many approaches, one of them being through mergers. However, during the merger process, the organizations have to identify which type of cost saving approach they are targeting. First, amalgamation of two companies results in the reduction of
fixed costs by simply elimination or bringing together double or duplicative functions such as administration, public relations department, maintainance, and advertising costs (Mansfield, 1997).

Two companies merge to form one big company. Organizations can use this as an asset where they are ranked as more credit worthy compared to smaller firms. This means that they gain access to credit facilities and borrow at lower rates. Studies by Robinson (2013) found out that bigger companies were targeted more by banks and other financial services providers. Also, those businesses quoted in the stock market made extra capital by issuing of shares at a cheaper rate, they also pay a lower interest rate on new company bonds issued in the capital markets. This is referred to financial economies of scale through interest rates. Mergers before the 1980s were strongly motivated by tax advantages. The reason behind was that at the time when an acquisition premium was paid above the values at which a company’s assets that depreciate were recorded in tax accounts, the acquired assets could benefit of higher depreciation charges, protecting the acquirer from tax liabilities (Roller et al. 2006). Until reforms were passed, acquiring companies making such acquisitions could normally escape immediate capital gains taxation. Such tax advantages had an important role in many merger decisions, but not critical enough to determine whether merger would or would not occur. Today, there is a tax rule that differentiates the tax liability according to the accounting method by which the acquisition is registered that is, the purchase of assets or pooling of interest.

Were (2011) states that the idea that diversification may be a motive to merge is related to the modern portfolio theory. This theory states that the market value of a firm can be increased if it incurs in optimal risk by investing in many uncorrelated instruments. This merger motive is different from the spreading portfolio motive that allows enhancing market power and that is based on the so-called portfolio theory. The common feature between them is that they occur in conglomerate mergers and acquisitions (Mirvis et al. 2000). Here, the idea is that managers assemble a portfolio composed of selected portfolios based on their overall risk-return performance rather than portfolios with securities that have individual high risk-return performance. This is a financial strategy that may reduce the risk of bankruptcy too.

2.5 Chapter Summary

This chapter concentrated on three research objectives. The first one being factors that contribute to the success of a merged organization, the researcher has looked at the the human resource, communication processes, and strategic fit. The second research objective was the challenges faced by merged organizations, which analyzed keeping the new realism, turnover
of key employees and how to meet merger objectives. The third research objective covered the benefits associated with a merger. Chapter three covered the research design of the study. The researcher used exploratory research technique using highly structured questionnaires as the data collection instrument. The sample size was selected from employees of ICEA LION Group (target population).
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used in this study. It starts by looking at the research design of the study. This was then followed by population and sampling design, data collection methods, description of the procedure that was used to carry out the fieldwork activity and finally the data analysis method.

3.2 Research Design

The researcher decided to use a case study because this would enable an in depth investigation of the phenomenon (Were, 2011). A case study, as elaborated by Gall (1996) is an in-depth study of instances of a phenomenon in its natural environment and from the perspective of the participants involved in the phenomenon. The researcher used exploratory research design which addressed the ‘how and why’ (Yin, 2003) and it consists of two distinct phases; the qualitative phase followed by the quantitative phase (Nataliya, John, & Sheldon, 2006). First, the researcher collected and analyzed numeric data, then secondly collected and analyzed text data. The rationale behind this approach was that the quantitative data provided a general understanding of the research problem then the qualitative data explained the statistical results by exploiting the participant’s view in depth (Teddie & Tashakori, 2005).

The qualitative data was obtained from the filled out questionnaires on the phenomenon of interest which in this case was exploration of strategic mergers in Kenyan organizations, the challenges faced, the success factors and the benefits enjoyed by merging organizations. According to Nyambura (2010) and Miles and Huberman (2000), qualitative data is usually in the form of words and have been staple in the fields of social sciences, psychology, history and political science. Miles et al. (2000) further stated that qualitative data is a source of well-grounded, rich descriptions and explanations with chronological flow that are highly likely to lead to new integrations and findings. Quantitative data on the other hand provided a pictorial representation of the organization’s performance and a general idea of the position held by the organization.
3.3 Population and Sampling Design

3.3.1 Population

According to Coopers and Schindler (2003), a population is defined as the total collection of elements about which we wish to make inferences. Mugenda and Mugenda, (1999) also defined population as a complete set of individuals, cases or objects with some common observable characteristics. The population of this study was all business organizations in Kenya which have gone through corporate mergers as registered by the Central Bank of Kenya. However, only the institutions which underwent mergers and acquisition in the last 8 years were considered. This is because the cultural integration process is not an immediate activity but also not a long term activity. This means mergers that were approved from 2008 to present.

The organization with the above characteristics chosen to be researched on was an insurance company in Kenya, ICEA LION Group. The target population was limited to two branches (Kenyatta Avenue and Westlands, Nairobi County) since information from this branch was similar to the rest of the branches. The target population was composed of both men and women of 22-60 years of age who totaled 120 employees. The researcher carried out a census; gave questionnaires to all the employees working in the two branches. The following table demonstrates the population distribution.

**Table 3.1 Population Distribution**

<table>
<thead>
<tr>
<th>ICEA Branches</th>
<th>LION Kenya</th>
<th>Number of employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td></td>
<td>120</td>
<td>35.1</td>
</tr>
<tr>
<td>Nakuru</td>
<td></td>
<td>40</td>
<td>11.7</td>
</tr>
<tr>
<td>Kisumu</td>
<td></td>
<td>36</td>
<td>10.5</td>
</tr>
<tr>
<td>Eldoret</td>
<td></td>
<td>41</td>
<td>12.0</td>
</tr>
<tr>
<td>Nyeri</td>
<td></td>
<td>28</td>
<td>8.9</td>
</tr>
<tr>
<td>Mombasa</td>
<td></td>
<td>76</td>
<td>22.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>341</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (ICEA LION, 2012)

3.3.2 Sampling Design

This is a means of selecting some part of a group to represent the entire group or the population of interest. It helps in the reduction of the length of time needed to complete the study (Mugenda & Mugenda, 1999). It has a higher level of accuracy since one is concentrating on a smaller population. The following has covered the sampling methods that were used.
3.3.2.1 Sampling Frame

Sampling frame, as defined by Mugenda and Mugenda (1999) is a complete listing of all the sampling units. It is a list or directory of or index of cases from which a sample can be selected. It is also a list of element from which the sample is drawn (Ellis & Lamont, 2009). If the intended and available population is too large, then a strategy should be devised to enable the researcher to identify all the members of that population. A sub-population was crafted out of the main one which was representative of the whole population. This representative population made up the sampling frame. It represented a complete and correct list of population of members only (Nicholus, 2011). A sample was drawn from the target population, which in this case were the employees of ICEA LION Group. The sampling frame was obtained from the company’s documents, (ICEA LION Handbook, 2014) from the human resources department. The elements selected from the sampling frame formed the unit of observation in this study. The sample was selected from all senior management staff, unit heads, middle level managers and support staff.

3.3.2.2 Sampling Technique

Cooper and Schindler (2008) defined a sampling technique as the method used to pick out a representative portion from which to carry out a test from the population. The criterion for selecting a sample was first determined by choosing a relevant organization, geographical area and location. This study employed a census survey, defined by Bless and Kathuria 2010 as a complete enumeration of a population or groups at a point in time with respect to well defined characteristics. All the respondents from the two branches were selected as a sample to fill in questionnaires. A census was the most appropriate method considering the fact that some respondents might not answer the questions correctly or not answer at all, plus with the total number of respondents, it is possible to carry out a census (Cooper & Schindler, 2008).

3.3.2.3 Sample Size

A sample size represents a subset (any combination of sampling units that does not include the entire set of sampling units that has been defined as the population) of a sampling unit from a population. This gives the entire number of population elements from which data is to be actually collected. De Vaux (1991) states that there is no specific formulae to determine the sample size but there are general guidelines to help come up with a representative sample size. The choice of sample size is determined by factors such as variance of the population, cost of the research, percentage of confidence level and the number of sub-groups within a sample. This research’s sample size was determined by cost, close proximity of the branches to the
researcher, willingness to provide information, and time. The following table demonstrates the sample size distribution.

Table 3.2 Sample Size Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Sampling Size</th>
<th>Percentage of total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>22</td>
<td>21.6</td>
</tr>
<tr>
<td>Junior associates</td>
<td>98</td>
<td>78.4</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100</td>
</tr>
</tbody>
</table>

3.4 Data Collection Method

This study employed the use of primary data. Primary data was collected using the questionnaires as the main research instrument. Zikmund (2010) agrees that questionnaires and interviews are the most extensively used research instruments in educational research since they also inquire about the feelings, motivations, attitudes, accomplishments and experiences of the respondents. Gall and Borg (1996) define questionnaires as document that asks the same question to the sampled employees. The respondents are required to respond to each and every question in the questionnaire. Questionnaires are very useful and cheaper in terms of time and finances in collecting data.

A research instrument should have validity and reliability as its core components. Validity according to Orodho (2005) refers to the ability of an instrument to measure what it is intended to measure. It is the degree to which the empirical measure or several measures of a concept, accurately measure the concept. In this instance, validity of the questions in the questionnaire was given to independent parties to assess their validity. On the other hand, the reliability of a research instrument refers to the ability of that instrument to produce consistent results (Orodho, 2005). Reliability concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials (Were, 2011).

3.5 Research Procedures

It is important to pre-test the questionnaire with independent parties to find out whether the questions can be answered as required, before the actual data collection (Gall & Borg, 1996). So a pilot test was conducted to ensure the reliability of the questionnaire in addition to checking for clarity with regard to the three research questions of the study.

The questionnaire prepared had four sections. Section one contained questions concerning general information of the respondents. The researcher used both open-ended and closed-ended questions. The open-ended questions permitted the respondents free responses. The
closed-ended ones limited the respondents to enable isolation of the responses from other external influences and also to be able to use an interval scale for nominal and ordinal data. Sections two, three and four mainly used a table with a five-level Likert scale and one open ended question to be able to capture any views that might have been left out in the closed-ended questions. The five-level Likert scale was used because it allows for a middle variable and variance.

Following the success of the pilot test, the human resource department was contacted to request whether they would provide information about the merger for the study and also about the number of its employees to come up with the sample size. The researcher developed questionnaires based on the research questions, objectives and purpose of the study. The questions developed were a guide as to what kind of information the researcher was expecting. The identified participants then received a letter advising them of the purpose of the study and ensuring high level of confidentiality with a questionnaire attached.

They were then requested to complete the questionnaire at their own convenience but within a period of two weeks then deposit the filled questionnaire in a sealed box located in a common area within the ICEA LION Kenyatta Avenue and Westlands branches. The respondents of this study filled in the questionnaires at their own convenience. The questionnaires were then collected on the fourth of July, 2015. The participants were given an option of identifying themselves or not identifying themselves in the questionnaire. Remaining anonymous was an option to help the participants give accurate information. The target respondents were one hundred and twenty (120) where a total of one hundred and five (105) responded which represents 88 percent of the sample size. This response rate was attributed to some of the employees feeling that they were not in a position to comment on the matter.

3.6 Data Analysis Method

Data analysis consists of examining, tabulating, categorizing, and recombining the evidence to address the initial prepositions of the study (Yin, 2003). Upon retrieval of the questionnaires filled by the employees ICEA LION Group, the next step was to prepare the data for analysis. The data that was gathered from the field of study was edited to ensure that the questionnaire was properly completed and contained accurate information. I then proceeded with coding and inputting the data on the computer. IBM SPSS data analysis program was used for data coding, entry and analysis to develop a quantitative inference to the subject of study. The data was analyzed using descriptive statistics for interpretation of findings and inferential statistics such as percentages, frequencies and mean averages for visual representation and easier understanding.
3.7 Chapter Summary

This chapter presented the methodology for the study and gave a detailed overview of the population sampling technique, the research design, research instrument, the data collection procedures and data analysis procedures. It also described the research design which was an exploratory case study. It also provided an analytical framework and the relevant variables that were included in the model to be used in the study. In chapter four, a detailed analysis of the data collected was done and findings presented by the use of tables and figures.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study on the research questions with regards to the data collected from the respondents. The initial section covers the background information with respect to the respondents; consequently the second section covers the findings on factors that contributed to the successful merger of ICEA LION Group insurance companies in Kenya. The third section looks at determine the challenges faced by the ICEA LION Group merger of insurance companies in Kenya and the final section was to analyze the benefits of the ICEA LION Group merger of insurance companies in Kenya.

4.2 Background Information

This section offers the background information with regards to the respondents’ age, gender, position, and the number of years at ICEA LION Group. This was put into consideration because of the meaningful contribution it offers to the study as the variables help to provide the logic behind the responses issued by the respective respondents.

4.2.1 Gender of the Respondents

Table 4.1 shows that male respondents constituted 71 percent of the respondents while the female respondents accounted for 29 percent.

Table 4.1: Gender of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Male</td>
<td>74</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>105</td>
<td>100</td>
</tr>
</tbody>
</table>

The findings in table 4.1 indicated that majority of the respondents were male however the findings affirm that the 30 percent gender consideration as set out in the constitution was observed.

4.2.2 Age Category

The study findings in table 4.2 show that 34 percent of the respondents were between 20-25 years, 40 percent of the respondents between 26-30 years, 16 percent of the respondents between 31-35 years and the remaining 10 percent of the respondents between 36-40 years.
Table 4.2 Age of the Respondents

<table>
<thead>
<tr>
<th>Age of the Respondents</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>20-25 years</td>
<td>35</td>
</tr>
<tr>
<td>26-30 years</td>
<td>40</td>
</tr>
<tr>
<td>31-35 years</td>
<td>20</td>
</tr>
<tr>
<td>36-40 years</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>105</td>
</tr>
</tbody>
</table>

This findings indicate that majority of the respondents were in the right age to comprehend issues to do with mergers. A higher percentage of respondents fell in the 26-30 age bracket, which consisted of individuals with the experience and business knowledge necessary to comprehend a big change such as a merger, while the least being 10 percent fell on the older respondents of ages 36-40 years.

4.3 Factors Affecting Success of Strategic Mergers

The first objective of the study was to examine the factors that contributed to the successful merger of ICEA LION Group insurance companies in Kenya. The following subsection presents findings with regards to how the respondents regarded the various factors influencing successful mergers. Measures of central tendency and dispersion were used to analyze the factors that affected the success of strategic mergers.

Table 4.3 below displays the mean and standard deviations of the success factors of merged organizations.

Table 4.3 Mean and Standard Deviation of Success Factors

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Factors</td>
<td>105</td>
<td>3.3407</td>
<td>.84616</td>
<td>.08870</td>
</tr>
<tr>
<td>Communication Process</td>
<td>105</td>
<td>3.7912</td>
<td>.56797</td>
<td>.05954</td>
</tr>
<tr>
<td>Strategic Fit</td>
<td>105</td>
<td>3.2418</td>
<td>.88620</td>
<td>.09290</td>
</tr>
</tbody>
</table>
As seen in the table 4.3 above, it was evident that all the factors had a mean of 3 and above on a scale of 1 to 5. Ranking the mean on the five point Likert scale shows that most respondents agree that all three factors contribute to the success of a merger with each factor having a mean ranging between three and four; neutral and agree. This means that all the three factors affect strategic mergers. The highest influencing factor however was the communication process with a mean of 3.7912, followed by human resource factors with 3.307 and finally strategic fit with a mean of 3.2418. The standard deviation reveals that the dispersion from the mean was small, the highest being 0.88620 relating to strategic fit, followed by 0.84616 relating to the human resource factors. The least dispersion of 0.5679, is where most employees are of the same opinion regarding the communication process contributing to the success of the merger.

4.3.1 Human Resource Factors

The study sought to examine the various human resource factors that affect success of strategic mergers. Figure 4.1 therefore presents findings regarding the influence of human resource factors on strategic mergers.

![Human Resource Factors Chart](image)

**Figure 4.1: Human Resource Factors**

As seen in the figure 4.1, 70 percent of the respondents strongly agree 20 percent of the respondents agreed, 3 percent of the respondents strongly disagreed, and 2 percent of the respondents disagreed, while 5 percent of the respondents are uncertain on how human resource factors influence success of strategic mergers in Kenyan organizations.

4.3.2 Communication Process

The communication process is considered to have an influence on the success of strategic mergers in Kenya. Figure 4.2, therefore presents findings with regards to how this process plays a role on the success of strategic mergers.
Figure 4.2: Communication Process

As seen in the figure 4.2, 60 percent of the respondents strongly agree, 12 percent of the respondents agreed, none of the respondents strongly disagreed, and 8 percent of the respondents disagreed, while 20 percent of the respondents are uncertain on how communication process influences success in mergers in Kenya.

4.3.3 Strategic Fit

The role of the strategic fit in an organization cannot be ignored, in this regard therefore the study sought to examine how this affects the success of the strategic mergers. The findings of this particular element are presented in figure 4.3.

Figure 4.3: Strategic Fit

As seen in the figure 4.3, 65 percent of the respondents strongly agreed, 25 percent of the respondents agreed, none of the respondents strongly disagreed, and 5 percent of the respondents disagreed, while 5 percent of the respondents are uncertain on how strategic fit factors influences the success of mergers in Kenya.
4.4 Challenges Faced by Strategic Mergers

The second objective of the study was to determine the challenges faced by the ICEA LION Group merger of insurance companies in Kenya. The following subsection presents findings with regards to how the respondents view the challenges to mergers.

Table 4.4: Mean and Standard Deviation of Challenges

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting Merger Objectives</td>
<td>105</td>
<td>3.6593</td>
<td>.425106</td>
<td>.44563</td>
</tr>
<tr>
<td>Turnover of Key Employees</td>
<td>105</td>
<td>3.8681</td>
<td>.52087</td>
<td>.05460</td>
</tr>
<tr>
<td>Keeping the New Realism</td>
<td>105</td>
<td>3.6264</td>
<td>.76954</td>
<td>.08067</td>
</tr>
</tbody>
</table>

The table 4.4 above indicates the mean and standard deviations of the challenges faced by merged organizations. It was evident that all the factors had a mean of 3 and above on a scale of 1 to 5. This means that most of the respondents are of the similar opinion; all agree the three challenges affect strategic mergers. The highest influencing challenges however, was the turnover of key employees with a mean of 3.8681, followed by meeting merger objectives with a mean of 3.6593 and finally keeping up with new realism with a mean of 3.6264.

Looking at the standard deviation, meeting merger objectives had the least dispersion from the mean with a 0.425106 followed by turnover of key employees with a standard deviation of 0.52087 and the most dispersed was keeping the new realism with 0.76954. This means that employees’ opinion regarding keeping the new realism being a challenge had the least consensus.

4.4.1 Meeting Merger Objectives

The study considered the aspect of meeting the objectives of the organization as very key when it comes to strategic mergers in Kenya. Figure 4.4 therefore presents findings with regards to how to meet merger objectives affects the success of strategic mergers.

Figure 4.4: Meeting Merger Objectives
As seen in the table 4.7, 65 percent of the respondents strongly agreed, 25 percent of the respondents agreed, none of the respondents strongly disagreed, and 5 percent of the respondents disagreed, while 5 percent of the respondents are uncertain on mergers are faced with the challenge of meeting merger objectives.

4.4.2 Turnover of Key Employees

In order to establish the role of turnover of key employees on the success of strategic mergers figure 4.5 presents findings relating to how employee turnover affects strategic mergers in Kenya.

![Figure 4.5: Turnover of Key Employees](image)

Figure 4.5: Turnover of Key Employees

As seen in the figure 4.5, 70 percent of the respondents strongly agreed, 23 percent of the respondents agreed, 2 percent of the respondents strongly disagreed, and 2 percent of the respondents disagreed, while 3 percent of the respondents are uncertain on how mergers are faced with the challenge of turnover of key employees. These findings indicate that if employees are assured of their job security then they are likely to be highly motivated to stick with the organizations.

4.4.3 Keeping the New Realism

As seen in the figure 4.6, 60 percent of the respondents strongly agreed, 33 percent of the respondents agreed, 2 percent of the respondents strongly disagreed, and 2 percent of the respondents disagreed while 3 percent of the respondents are uncertain on how mergers are faced with the challenge of keeping the new realism.
This shows that indeed giving employees more responsibility makes them feel somewhat recognized by the employer therefore feeling the sense of duty to live up to the expectations set for them in line with the mergers.

4.5 Benefits of Strategic Mergers
The third and final objective of the study was to analyze the benefits enjoyed by ICEA LION Group merger of insurance companies in Kenya. The following subsection presents findings with regards to how respondents regarded the benefits of mergers in Kenya.

Table 4.5: Mean and Standard Deviation of Benefits

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synergistic Efficiencies</td>
<td>105</td>
<td>4.6264</td>
<td>0.50878</td>
<td>0.05333</td>
</tr>
<tr>
<td>Market Development</td>
<td>105</td>
<td>4.6484</td>
<td>0.48013</td>
<td>0.05033</td>
</tr>
<tr>
<td>Cost Reduction</td>
<td>105</td>
<td>4.6374</td>
<td>0.50589</td>
<td>0.05303</td>
</tr>
</tbody>
</table>

As seen in the table 4.5 above, it was evident that all the strategies had a mean of 4 and above on a scale of 1 to 5. This meant that most respondents strongly agreed that the three strategies affected strategic mergers. The highest influencing strategy however was the market development with a mean of 4.6484, followed by cost reduction’s mean of 4.6374 and finally synergy efficiencies with a mean of 4.6264. The mean revealed that employees agree that the above benefits are experienced by strategic mergers. Looking at the standard deviation, the most dispersed was synergistic efficiencies at 0.50878, followed by cost reduction with 0.50589 and the least, market development at 0.48013. The standard deviation also shows that the factors had the least dispersion from the mean, also indicating that most respondents agreed.

4.5.1 Synergistic Efficiencies
Figure 4.7 presents findings with regards to how respondents regarded the element of synergistic efficiencies are as a result of mergers in Kenya.
Figure 4.7: Synergistic Efficiencies

From the figure 4.7 it was evident that 52 percent of the respondents strongly agreed, 24 percent agreed, 8 percent strongly disagreed, 4 percent disagreed, while 12 percent are uncertain that synergistic efficiencies are as a result of mergers in Kenya.

4.5.2 Market Development

Figure 4.8 further presents findings with regards to how market development was a key benefit that resulted from the merger.

Figure 4.8: Market Development

As seen in the figure 4.8, 24 percent of the respondents strongly agreed 28 percent of the respondents agreed, 12 percent of the respondents strongly disagreed, and 10 percent of the respondents disagreed while 20 percent of the respondents are uncertain that market development is a key benefit that results from mergers.

4.5.3 Cost Reduction

Figure 4.9 presents findings with regards to how mergers benefit the organization by bringing about cost reduction.
Figure 4.9: Cost Reduction

As shown in figure 4.9, 56 percent of the respondents strongly agreed, 30 percent of the respondents agreed, 4 percent of the respondents strongly disagreed and 6 percent of the respondents disagreed while 4 percent of the respondents are neutral on how cost reduction is a benefit emanating from mergers.

4.6 Chapter Summary

This chapter detailed the results and findings of the success factors, challenges and benefits of ICEA LION Group merger. The results indicated that the human resource of the organization, communication process and strategic fit contributed immensely to the success of the merger. The challenges of meeting merger objectives, turnover of key employees and keeping the new realism affected the merger process. Finally, the results indicated that the merger brought synergistic efficiencies, market development and cost reduction as benefits. Chapter five of this research focused on discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of four sections, namely summary, discussion, conclusions, and recommendations of the study. The first section provides a summary of the important elements of the study which includes the study objectives, methodology and the findings. The second section discusses the major findings of the study with regards to the specific objectives. The next section discusses the conclusions based on the specific objectives, while using the findings and results which were obtained from the study.

5.2 Summary

The main objective of this study was to explore the strategic mergers of business organizations in Kenya. The study was guided by the following specific objectives: To assess the factors that contributed to the successful merger of ICEA LION Group insurance companies in Kenya, to determine the challenges faced by the ICEA LION Group merger of insurance companies in Kenya, and to analyze the benefits of the ICEA LION Group merger of insurance companies in Kenya.

The target population was limited to two branches (Kenyatta Avenue and Westlands, Nairobi County) since information from this branch was similar to the rest of the branches. The target population was composed of both men and women of 22-60 years of age. The researcher carried out a census; give questionnaires to all the employees working in the two branches who total 120. A census was the most appropriate method considering the fact that some respondents might not answer the questions correctly or not answer at all, plus with the total number of respondents, it is possible to carry out a census.

The study revealed that majority of the respondents agreed that at ICEA LION Group employees were affected by to the changes brought by the merger. Management pays attention to employees fostering mutual understanding. Human resource contributes to the success of a merger. It was also revealed that communication is important during the transition process. Communication has to commence during the preliminary stages of a merger. Participation of all employees contributes to the success of a merger. An alignment of internal versus external factors has to be carried out. The two companies were strategically aligned, therefore affirming that strategic fit contributes to the success of the merger.
The study further revealed that at ICEA LION Group the management had a clearly laid out strategy of the merger process. Their strategy was in line with the merger objectives. Management has played a key role in meeting merger objectives. The merger was accompanied by job insecurity. The merger reduced employees to curb redundancies. However, there was turnover of a few key employees and a challenge in keeping the new realism, because the status of the merger was unclear at the beginning. The merger brought about disruption and confusion.

Finally it was revealed that the ICEA LION Group merger had integration of hard-to-trade assets such as knowledge transfer leading to efficiency. Efficiency has resulted from a process of learning. The joining of the two companies has resulted in increased market share through raised barriers of entry in the industry to enhance market power. The new merged firm has become a greater defensive competitor in the industry. The merger created an opportunity to access financing at lower interest rates. The merger has also brought the organization tax advantages helping the organization financially by also spreading risk.

5.3 Discussion

5.3.1 Factors Contributing to Successful Strategic Mergers

The study revealed that majority of the respondents agreed that at ICEA LION Group employees were affected by to the changes brought by the merger. Management pays attention to employees fostering mutual understanding. Human resource contributes to the success of a merger. The findings affirm that mergers bring about change and employees are aware of that. Resistance to change is considered a normal reaction because every employee thinks the effects of the merger impacts them directly. Layoffs are always unavoidable, so management should ensure the discharged workers are taken care of in appropriate ways depending on the nature of their jobs. They can give them good recommendations, provide favourable packages to cater for the lost income for a few months and early retirement packages, this will in turn reflect well on the image of the company. The management gesture could also motivate the other employees contributing to the success of the merger. This proves that human resource is a valuable asset to the success of any organization.

Emphasis on people where organization culture incorporates fairness orientation where decisions made by management are inclusive of the effects it has on the employees. For companies that have this aspect in their organization culture ensure their employees are treated with respect and dignity, most of the time their input is included in decision making (McLaughlin, 2007). Since the success of a merger is greatly contributed by employees,
Buono, Bowditch and Lewis (2000) suggested that the human resources department and the rest of the management team needed to apply transformational leadership style, communication of the new to be shared vision, respect of employees and problem solving skills, allow for room for change and flexibility and finally ensure the development of attitudes that foster mutual understanding (Molaro, 2014).

It was also revealed that communication is important during the transition process. Communication has to commence during the preliminary stages of a merger. Participation of all employees contributed to the success of a merger. An alignment of internal versus external factors has to be carried out. Findings revealed that the two companies were strategically aligned. The findings also affirm that effective communication has to commence during the preliminary stages so as to set the scene and pave way for internal acceptance. Post-merger phase is when communication needed is intensely but then, would be the wrong time to start. It has to start in phase one during the merger decision and strategy development phase (Alistair & Mclean, 2010). Studies by McKinsey (2010) show that management of the human side is the key to maximizing the value of the deal and the one way to achieve that is through effective communication. Communication budget should be properly balanced between external communication, which most mergers concentrate on and internal communication, a very paramount aspect that management ignores.

Finally, the study revealed that strategic fit contributes to the success of mergers. The findings agree with Cartwright and Schoenberg (2006) who state that strategic fit is determined by examination of the merger process and strategic issues pre- and post-merger such that the acquiring of a relative size knowledge base, has a positive impact on innovation and output (Ahuja & Katila, 2001). In the decision making process, management should come up with strategic and operational implementation plans complete with achievable goals and objectives. Next step should be to align the structure and the new organization strategy so as to clearly define which units to integrate, run parallel and which ones to co-ordinate (Buckmann, 2012). The top management should provide sufficient resources and avoid looking at the merger as a strategy by itself, instead, look at it from a project management perspective so as to act conclusively with time priority in order to realise synergies. The findings also agree with Weber (2012) in his study on mergers and acquisition process, came up with a hypothesis that factors of effectiveness of the integration process included, removal of autonomy from the new team, level of commitment and cultural differences.

Put to a test, results showed that success rate was seen highest in mergers with similar cultures than those with congruent cultures. The life within an organization is the constant cultural,
structural and personal interaction and the change in one causes the need for change in another (Juuti, 1997, 14). Research done by Markovics (2005) found out that organization culture emphasises on people, teamwork, aggressiveness, stability, innovation and outcome. Prior to the decision making process, it is therefore important that leaders understand the culture of the other organization for better planning for the integration.

5.3.2 Challenges facing Strategic Mergers

The study further revealed that at ICEA LION Group the management had a clearly laid out strategy of the merger process. The strategy is in line with the merger objectives. Management has played a key role in meeting merger objectives. The findings affirm that indeed mergers are the way to go, but unfortunately, these amalgamations fail to meet expectations. DePamphilis, (2001) explains that during a merger process, an organization is usually in high levels of chaos, with factors like new supervisors taking over, description of jobs changing and sometimes being eliminated entirely.

Mergers are a big risk and most of the time management does not anticipate the issues that come with the merger process which in turn fail to come up with plans to handle them. The findings agree with Zhang, et al. (2015), the biggest mistake in the merger process would be to have an unclear business strategy where the management does not have a proper laid out plan of post-merger and they walk in blindly. This increases difficulty in meeting the purpose of the merger. Another challenge is having a weak core business, Buckmann (2012) points out that it is important for the management to conduct an analysis of each merging organizations’ core businesses and decide whether the new organization should continue with the new business or abandon the weak and less performing one.

Firms that take on the merger path without asking this question “how will the merger help the organization meet its strategic goals?” experiences a hard time in achieving the goals of the merger. Selection of the right candidate for the merger is a major contributor to post-merger integration process and in achieving the set objectives (Estanol, 2011). If the organization chosen to merge with is not the right one, meeting the goals of the merger proves highly unlikely. They should think though as to whether the other organization fits into their existing strategy (Cartwright & Cooper, 2000).

The study further revealed that there was turnover of key employees as a result of strategic mergers. The merger reduced employees to curb redundancies. The findings also agree with Lynch, Lind and Barbara (2005) in their research on escaping merger madness found that, job security was the most important factor for employees during a merger. Studies show that the
changes occurring in an organization during a merger, decisions are tightly controlled by the management and the decisions of retrenching employees is solely driven by the need to reduce numbers and avoid redundancy in the new organization. Mace and Montgomery (2010) however confirm that employees are not only concerned with job security but also with how selection decisions are made. This is because, perceptions of procedural fairness has a big effect on workers’ attitude who remain in the organization and the whole merger process. Finally, the study revealed that keeping the new realism as well as the status of the merger was unclear. The findings affirm that if some employees loose their jobs due to downsizing of the workforce, the remaining employees are usually affected and they become de-motivated (Yu, 2008). Change in management combined with new regulations and expectations usually results in employees feeling uncomfortable in the new working environment where this attitude reflects in their work performance (Leana & Feldman, 2009). Weber et al. (2012) contends that higher wages might have less appeal if they are accompanied by fear of job losses.

5.3.3 Benefits of Strategic Mergers

The final objective revealed that at ICEA Lion Group there has been synergistic efficiencies as a result of mergers. The findings agree with Shapiro et al. (2001) who identifies synergy efficiencies as one of the benefits of mergers. The findings also agrees that diversification as related to the modern portfolio theory where a firm reduced its optimal risk by investing in many unrelated instruments (Motis, 2007). Better managerial skills where firms might undertake a merger activity with the target of improved management in mind. A good and experienced management is paramount in the success of any organization (Gaughan, 2007). The management team was taken for training to equip them with the skill necessary to run the new merged organization in the various stages. This was experienced evidently leading to the success of ICEA LION Group merger.

In the short-run, economies of scale results from getting rid of double fixed costs while in the long run, the average costs falls with increasing output. Efficiency through economies of scope, which refers to using a specific set of skills or an asset currently employed in producing a specific product or service to produce related products or services. There is a general recognition that synergies involve either a process of learning, the close integration of specific hard-to-trade assets or technically the transfer of know-how among the merging firms. For instance, when a small firm launches a new product but lacks in terms of marketing and sales techniques, merging with a well established firm brings gains that would have not been possible without merging (Carleton & Lineberry, 2009).
In the same regard the findings revealed that there was market development as a result of mergers. The findings conclude that a firm can merge with another firm that can dissolve its weak points and also seeking strengths it lacks. The diffusion of know-how, in turn, can be achieved when the merging firms exchange different R&D activities, patents, rights and licenses, human skills, and organizational culture. Since these assets are in general non-tradable, firms can benefit from their combination uniquely by merging (Motis, 2007).

Acquiring innovation can lead to efficiency in operations where the capability to renew a company along with the outcomes of innovation, which include the ability to anticipate market needs and lead the market in responding, the ability to bring new products to market rapidly, intellectual assets and intellectual property.

Indeed, often merging firms claim that by integrating their R&Ds they will faster introduce new or better quality products and innovate in cost reducing processes (Ahuja & Katila, 2001). ICEA LION Group integrated their skills and formed separate general insurance and life assurance so that the company can be able to provide better insurance packages for its customers. Finally, the findings agree with Pritchett (2010) who asserts that post-merger higher entry barriers may facilitate the enhancement of market power. Raising entry barriers is a means of enhancing market power. Such entry barriers may be attained by merging, if the merger unifies two potentially competing technologies or facilitates tying strategies (Barney, 2007).

ICEA LION Group experienced cost savings as a result of the merger. Fridolfsson and Stennek (2005) propose a merger rational that they call the preemptive or defensive motive. For, ICEA LION Group, it was a defensive measure taken to rid the market of its major competitors by forming a bigger company. They developed a model that showed that being an insider is better than being an outsider, where firms prevent the target being acquired by a competitor. The reason is that the merged firm becomes more efficient, resulting in a more difficult competitor. DeVoge and Spreier (2005) suggest that other motives in mergers have been interpreted as defensive in the economic literature. The most common of this is the elimination of a significant competitor. Such defensive mergers may be seeking for market power enhancement, or may simply be responding to tougher price competition originating from exogenous factors. Defensive mergers have also been proposed as a result of an endogenous market response to exogenous market shocks such as new technological opportunities that increase the potential for innovation (Gomes et al. 2013).
5.4 Conclusions

5.4.1 Factors Contributing to Successful Strategic Mergers

The study concludes that at ICEA LION Group employees were affected by changes brought by the merger. Management payed attention to employees fostering mutual understanding and rapport. Human resource contributed to the success of a merger. It was also revealed that communication is important through out the transition process from pre- to post-merger. Communication has to commence during the preliminary stages of a merger. Participation of all employees contributed to the success of a merger. An alignment of internal versus external factors has to be carried out. The two companies were strategically aligned where this strategic fit contributed to the success of the merger.

5.4.2 Challenges of Strategic Mergers

The study further concludes that at ICEA LION Group the management had a clearly laid out strategy of the merger process. The overall strategy was in line with the merger objectives. Management played a key role in meeting merger objectives. Turnover of important employees was unavoidable but redundancies had to be eliminated. This brought about by job insecurity of the remaining employees. Keeping up with the new realism became difficult because the status of the merger was unclear. Communication and response to feedback had to be restructured to be able to meet the merger objectives. The merger brought about disruption and confusion.

5.4.3 Benefits of Strategic Mergers

It was concluded that the ICEA LION Group merger had integration of hard-to-trade assets such as knowledge and innovation leading to efficiency. Efficiency has resulted from a process of learning. The joining of the two companies has resulted in increased market share. The merger has raised barriers of entry in the industry to enhance market power. The new merged firm has become a greater defensive competitor in the industry. The merger created an opportunity to access financing at lower interest rates. The merger has brought the organization tax advantages. The merger has helped the organization financially by spreading risk.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Factors Contributing to Successful Strategic Mergers

The study recommends the for organizations to measure the success of a merger is the microeconomic perspective. In this approach, one can interview managers and consultants to get their personal opinion of the success, the change before and after the merger; plus a more objective approach would be to examine the financial statements pre and post- merger, and for a company in the stock market, one can compare the stock prices before and after the merger announcement.

5.5.1.2 Challenges of Strategic Mergers

The study acknowledges that usually in high levels of chaos, with factors like new supervisors taking over, description of jobs changing and sometimes being eliminated entirely. The study recommends that it is important for organizations not to ignore the process of mergers with all of the legal and financial issues to deal with employees. Doing so can decrease morale and productivity and lead to an exodus of key talent.

5.5.1.3 Benefits of Strategic Mergers

The study recommends the need for organizations to establish a list of the most popular benefits enjoyed by most organizations. This will help an organization to map out effective strategies that will help the success of strategic mergers, which eventually will help in building a competitive advantage that can be sustained in the long run.

5.5.2 Recommendations for Further Studies

The study recommends the need for additional studies that focuses on other industries in Kenya that are separate from the insurance industry and also focusing on the details of merger process from stage one to stage three. Additionally more studies need to be carried out on other forms of integration that are separate from strategic mergers, so as to be able to see if they are faced with the same challenges.
REFERENCES


APPENDICES

APPENDIX 1: INTRODUCTION LETTER

TO WHOM IT MAY CONCERN

Nelly Resian Kamwaro,
United States International University,
P.O BOX 14634, 00800,
Nairobi.
Dear respondent,

RE: MBA RESEARCH STUDY

My name is Nelly Resian and I am carrying out a research on Strategic Mergers in Kenyan Organizations: A Case of ICEA LION Group. This study is part of my course work and is a requirement for the completion of Masters in Business Administration, a degree program at United States International University.

This study uses employees of ICEA LION Group from which you have been selected as respondents. I humbly request for your assistance by availing time to respond to the questionnaires attached. Any information given shall be used for academic purposes only and shall be treated with confidence. Your name and details will also not be disclosed. I highly appreciate your assistance. Thank you.

Yours Sincerely,

Nelly Resian.
Cell: +264710371628
APPENDIX 2: QUESTIONNAIRE

SECTION 1

General Information

Kindly answer all the questions by ticking in the boxes or writing in the spaces provided

1: Indicate your name (Optional)………………………………………………………………………………

2: Indicate your job position

   Management ( ) ........................................... Junior associate ( )

   Support Staff ( )

3: Indicate your department …………………………………………………………………………………

4: Tick your gender:

   Male ( ) .......................................................... Female ( )

5: Indicate your age category in years:

   20 - 25 ( ) ......................................................... 46 - 50 ( )

   26 - 30 ( ) ......................................................... 51 - 55 ( )

   31 - 35 ( ) ......................................................... 56 - 60 ( )

   36 - 40 ( ) ......................................................... 61 and above ( )

   41 - 45 ( )

6: What is your time of service with the company?

   ……………………………………………………………………………………………………………………
### SECTION 2

Factors that contribute to the success of a strategic merger.

In your opinion, please indicate the answer by ticking the appropriate box.

1-Strongly disagree, 2- disagree, 3- Neutral, 4- Agree, 5- Strongly agree

<table>
<thead>
<tr>
<th><strong>Human resource</strong></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Employees were affected by to the changes brought by the merger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Management pays attention to employees fostering mutual understanding.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Human resource contributes to the success of a merger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Communication Process**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Communication is important during the transition process.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Communication has to commence during the preliminary stages of a merger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Participation of all employees contributes to the success of a merger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strategic fit**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 An alignment of internal versus external factors has to be carried out.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 The two companies were strategically aligned.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Strategic fit contributes to the success of the merger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What were the challenges faced by the strategic merger?

In your opinion, please indicate the answer by ticking the appropriate box.

1-Strongly disagree,  2- disagree,  3- Neutral,  4- Agree,  5- Strongly agree

<table>
<thead>
<tr>
<th>Meeting merger objectives</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Management had a clearly laid out strategy of the merger process.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2  The strategy is in line with the merger objectives.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3  Management has played a key role in meeting merger objectives.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Turnover of key employees**

| 4  The merger was accompanied by job insecurity |   |   |   |   |   |
| 5  The merger reduced employees to curb redundancies. |   |   |   |   |   |
| 6  There was turnover of key employees |   |   |   |   |   |

**Keeping the new realism**

| 7  The status of the merger was unclear. |   |   |   |   |   |
| 8  The merger brought about disruption and confusion. |   |   |   |   |   |
| 9  Changes led to demotivation of employees. |   |   |   |   |   |
### SECTION 4

What are the benefits enjoyed by strategic mergers?

In your opinion, please indicate the answer by ticking the appropriate box.

1-Strongly disagree,  2- disagree,  3- Neutral,  4- Agree,  5- Strongly agree

<table>
<thead>
<tr>
<th>Synergy efficiencies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There has been integration of hard-to-trade assets from the merger leading to efficiency.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Knowledge transfer has led to efficiency.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Efficiency has resulted from a process of learning.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Market development**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. The joining of the two companies has resulted in increased market share.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The merger has raised barriers of entry in the industry to enhance market power.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. The new merged firm has become a greater defensive competitor in the industry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cost reduction**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. The merger created an opportunity to access financing at lower interest rates.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The merger has brought the organization tax advantages.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. The merger has helped the organization financially by spreading risk.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*THANK YOU FOR TAKING YOUR TIME TO FILL THIS QUESTIONNAIRE.*