AN ASSESSMENT OF COMPETITIVE ADVANTAGE GAINED THROUGH HORIZONTAL INTEGRATION. A CASE OF INSURANCE COMPANY OF EAST AFRICA -LION GROUP

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters In Business Administration (MBA)

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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 for academic credit.

Signed: ____________________________________________ Date:__________________
Bertha W. Ngaru (ID 642028)

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

Signed: ____________________________________________ Date:__________________
Dr. Zachary Mosoti

Signed: ____________________________________________ Date:__________________
Dean, Chandaria School of Business
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ABSTRACT

The purpose of the study was to assess competitive advantage gains through horizontal integration. This case entirely focused on ICEA LION a merger between Insurance Company of East Africa Limited (ICEA) and Lion of Kenya Insurance Company Limited (LOK) in 2011. The study focused on three main groups; Managers, employees and members of the public. The groups assisted in answering the research questions which were whether mergers lead to reduction of operating costs through horizontal integration. Do mergers results in increased market share through horizontal integration and the effects of mergers on product and services efficiency through horizontal integration?

The research adopted a descriptive research design; the population of this study consisted of the management team and customers of ICEA LION. Stratified random sampling was employed to select 77 representative respondents from the categories of management team and customers. The researcher used questionnaires as a tool for collecting data for this study. Data analysis included both descriptive and inferential statistics by the use of Microsoft Excel.

Various statistical tests were performed against the following elements: The estimation methods to be utilized were financial ratios focusing on operating costs, market share analysis method and in order to determine and test the correlation ratio between the dependent variable (Effect of merger) and independent variables (i.e. operating costs, market share), the Statistic test was calculated as well as the probability associated to each combination of variables. Descriptive statistics include mean, standard deviation, frequencies and percentage which where appropriate and provided in table and figures forms. Different types of descriptive analysis were provided beginning with characteristics of the study’s respondents, their general responses to the operating costs, market share and effects of mergers on product and services efficiency and finally, comparisons on their responses across demographic variables.

The findings were that increased operating cost comes from expanded research and development opportunities or more robust manufacturing operations among merger firms. A merger allows the merging companies to group with the aid of their products in order access
to a bigger set of consumers. Efficiency can alter both fixed and variable costs of the firm, resulting in a change in optimal pricing policy.

From the findings of the study it was recommended that merged companies should focus on cost cutting through economies of scale which is attained at the point of merger. Mergers also strengthen the company’s market position according to the study whereby the markets of each individual company are consolidated and expanded with renewed vigor since the ability to do so will have improved. Mergers come with the advantage of gaining access to new markets, global expansion, gaining a talented workforce, acquiring new knowledge and expertise, gaining a new customer base, and pursuing new technologies. To retain already acquired market as well as increase the market share merged firms should invest more on communication at various levels for instance during a first stages of the merger process. The banks should set up more customer care units to reach out to higher number of customers who need service.
DEDICATION

I dedicate this research project to my family and friends for their encouragement, support, inspiration and motivation in ensuring I pursue my Masters in Business Administration. May God bless the work of my hands.
ACKNOWLEDGEMENT

I wish to sincerely recognize the efforts of my supervisor Dr. Zachary Mosoti for the patience and dedication in ensuring that my thesis is a success. I also recognize the assistance provided to me by my class mates and employees from of ICEA-Lion Group and for their support, May God Bless you all.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

For a firm to stay afloat and achieve its set objectives, it has to always be ahead of the competition. This discipline is referred to as competitive advantage. A firm looking to achieve an upper edge needs to have superior performance compared to its competitors in the same playing field. Attributes such as competitive prices, great customer service, and great brand reputation, unique competence in producing products is what makes a firm stand out and have competitive advantage (Fee, 2004). According to Porters (2009) Generic Strategies developed in 1980, a company can achieve a competitive advantage by adopting Focus, Differentiation or Cost leadership. A firm should be able to achieve superiority in cost or differentiation so as to offer the market products that are priced lower compared to competitors or products with high degree of differentiation. Most importantly, a firm should be able to compete with its rivals and sustain its competitiveness (Barney, 1991).

In order to achieve competitive advantage a firm needs to carry out a SWOT (strength, weakness, opportunity and Strength) and PESTEL (Political, Environmental, Social, Technology, Legal) analysis so as to fully understand the variables within their control as well as ones those not within their control. It is also important for the firm to acknowledge its ability to respond fast to changes, especially to factors beyond their control. On the other hand a firm that chooses to look at its internal operations cannot ignore to look at its VIRO Resources (Value, Imitability, Rarity and Organization), its unique competencies as well as its innovative capabilities (Barney, 1991).

Ansoff (1965) stated that firms operate in two different dimensions; new products and new functions. He further states that products could be made through related technology or unrelated technology. He argues that it is possible to have four types of integration and diversification strategies, among them Vertical and Horizontal integration. The study will look deeper in to horizontal strategy; however there is need of a broad view of what both vertical and horizontal integration means as well as the disparity between the two (Andrade, 2001).
Vertical integration is a strategy that many firms use to gain control over the industry’s value chain. This is one of the light bulbs that a firm should always have while developing corporate level strategy (Amir, 2009). The key question would be whether to pursue one or many industries along the same industry value chain. A firm can either chose to pursue backwards or forward integration. This is entirely pegged on the scope of the firm as well as cost of the venture (Andrade, 2001). Backward and forward integration are strategic initiatives that a companies may perform to reduce risks and interdependencies on external business partners in the supply chain. This may be by performing backward and/or forward integration, and increase their own decision making power over key resources and competencies important to the competitiveness of the organization (Amir, 2009).

Backward integration can involve purchase of supplies in order to reduce the suppliers’ dependency with regard to, timely deliveries, quality concerns, innovation abilities etc while forward integration is a strategy in which companies expand their activities to control the direct distribution of their products. This may be attractive if the firm would benefit from handling the shipping of their own products directly to customers, or the retail selling of own brands in brand stores (Amir, 2009).

Horizontal integration is a type of integration pursued by a company in order to strengthen its position in the industry (Amir, 2009). Many firms that chose this line more often than not merge or acquire another company that is in the same production stage. The intentions of such a strategy are to grow the company size, increase product differentiation, achieve economies of scale, reduce competition or access new market. More often than not horizontal integration occurs in a form of mergers, acquisitions and even in some cases hostile takeovers (Dinc, 2010). While a merger is the joining of two similar sizes, independent companies to make a joint entity, acquisition is the purchase of another company. Hostile takeover is where the government or court intervenes in the acquisition of a company that does not want to be acquired (Amir, 2009).

Horizontal integration is an effective strategy when an organization competes in a growing industry, competitor’s lack of competencies or skills that the firm in question already possesses, Horizontal integration lead to a monopoly that is allowed by the government or the organization has sufficient resources to manage merger and acquisition
(Dinc, 2010). Firms looking at pursuing this venture are keen on lowering their costs through economies of scale and increasing differentiation of their products in the market which is achieved through offering more unique features from the other company. A company would also be looking at increasing their market power; larger companies have more power over its suppliers and distributors (Amir, 2009). In order to gain or achieve a strong competitive strategy a firm would be looking at reducing its competition. The result of industry consolidation is that fewer companies operating in the industry result in less intense competition. Access to new market is also a great bargaining power to a firm that has merged or acquired a company that has distribution channels that produces the same goods but operates in different region or serves different market segments (Barney, 1991).

Having said this, a firm that has ventured into horizontal strategy needs to be careful not to destroy the value of the individual firm involved in the merger or acquisition. More often than not the expected synergies never materialize. This venture may also lead to monopoly which is highly discouraged by many governments due to lack of competition. In order to cub these challenges, the governments usually approve mergers and acquisitions before they happen (Andrade, 2001). The firm should also put in mind that larger organizations are hard to manage, the flexibility on how to operate is dissolved and this may affect innovations in the market (Amir, 2009).

A number of scholars have identified two broad synergy types, collusive synergies and efficiency based strategies. Collusive strategy is based on market power implications of reduced competition where prices and profits go up for all firms in a market. Efficiency based synergies is based on broader set of micro-foundations including the operational, managerial, finance, and resource-sharing opportunities involved with the merging firms (Clougherty, 2009).

More recently attention has shifted to the supply chain as the unit of analysis rather than the firm, with this extended enterprise seen as the unit of competitive advantage with supply chains starting to compete against each other rather than individual organizations as suggested within the traditional strategic literature. The research on diversification and firm value has focused primarily on American and European based companies, without taking the performance effects of vertical and horizontal integration into consideration
(Hubbard, 2008). In addition, there are few studies that have focused on a single country such as Kahloul (2010) who evaluated the performance effects of horizontal integration of the Kenya firms and specifically insurance industry.

The insurance industry is a cut throat playing field and very competitive, every player in the market looks at new ways of not only surviving but growing their market share (Ogolla, 2005). ICEA LION Life Assurance Company Limited is amongst the insurance providers in the Kenyan market. According to the Insurance Regulatory Authority 2015 Report there are a total of 53 licensed companies authorized to transact business for the year. This is a clear indication of how competitive the market is. There is a lot off challenges in this industry especially with the uptake of insurance in Kenya as a whole, which is low with only 3% of the population taking it up (Amir, 2009).

ICEA LION General Insurance Company Limited is a subsidiary of the ICEA LION Insurance Holdings Limited, which was formed as a result of a merger between Insurance Company of East Africa Limited (ICEA) and Lion of Kenya Insurance Company Limited (LOK) in 2011. The two companies were well known insurance and financial services market leaders in Kenya and the wider Eastern Africa Region. The merger resulted in the creation of one of the largest insurance groups in the region, with well established insurance operations in Kenya, Uganda and Tanzania as well as leading subsidiaries in fund management and corporate trusteeship. The key element of this consolidation has been the establishment of separate life and non-life insurance companies in Kenya. ICEA LION Life Assurance Company is a dedicated life assurer while ICEA LION General Insurance Company is a general insurance company with both operating subsidiaries of ICEA LION Insurance Holding Limited (Amir, 2009).

The roots of Lion of Kenya can be traced as far back as 1895 through a company known as Smith Mackenzie & Company. In 1976, the company’s foreign shareholders sold their interests to a group of pioneering local investors, making ICEA the first major privately owned local insurance company. The company was to soon emerge as one of the largest insurance companies in the region. It has also enjoyed good reputation for professionalism and market leadership in a wide range of spheres’ (ICEA, 2015).

As a way of aligning themselves strategically the group has tailor made products to suit both Group and Individuals. Some of the products for the individuals are Anticipated
Endowment plan, Credit Life Assurance, Endowment with Profits Policy, Keyman Assurance, Level Term Life Plan, Mortgage Protection Assurance, Usomi Bora (The children’s Education Policy), Value Added Mortgage (VAM) Protection Assurance; Value added Term (VAT) Assurance, Voluntary Endowment Policy, Whole Life Assurance. As for the group some of the services offered are Group Credit Life, Group Life Assurance, Group Mortgage Protection, Group School Fees Protector, Life Cover for Personal Retirement Schemes and Pumziko Bora (ICEA, 2015).

1.2 Statement of the Problem

Although the number and volume of Mergers and Acquisition broke record in the first decade of the 21st century, this strategy is not a recent phenomenon. According to history this dates back to 1890. Different waves were identified, 1890-1903, 1910-1929, 1950-1973, 1981-1989, 1993-2001 and 2003-2007 (Amir, 2009). Research shows that at the end of each wave coincidentally it coincided with a crisis or a recession. Although what triggers the start of a wave varies across time, three factors clearly come out since end of the 19th century these are industrial and technological shock, regulatory changes, and credit availability (Hit, 2001).

Several scholars have carried out extensive studies on the Insurance Industry in Kenya. Though, these studies have focused on different perspectives. For instance Wanjohi (2002) focused on strategic planning by Insurance companies in Kenya.) A survey on strategic responses to increased competition in the healthcare industry was done by (Lengopito, 2004). Wairegi, (2004) sought to establish the strategic responses by Life Insurance Companies in Kenya to changes in the environment. Ogolla (2005) carried out a study on application of generic strategies by Insurance companies in Kenya. Swalehe (2005) covered strategic issue management in Insurance companies in Kenya, while Kitur (2006) carried out a survey of strategic role of ICT among Insurance Companies in Kenya. Wachira (2008) undertook a study on assessment of attractiveness of the Insurance Industry. It is evident that the researchers have not really narrowed down to focus on the competitive strategies adopted by horizontal integration of insurance firms despite their rapid growth in the past few years (Gadhawe, 2007). All these studies have focused on different areas, other than to establish whether mergers create competitive advantage for insurance firms. To the best of the researcher’s knowledge, no study has
been done on this area. A knowledge gap therefore exists and this study sought to bridge this inherent knowledge gap.

The motivation for mergers is mostly to create synergies; this can be operating synergies, financial synergies and Managerial synergies. But more often than not we see such mergers failing to meet the set objectives. This research critically analyzes if the merger between the two companies was a necessity and if there are any gaps being experienced by the sitting management.

1.3 Purpose of the Study

The purpose of the study was to establish whether mergers create competitive advantage for firms gained through horizontal integration.

1.4 Research Questions

This study endeavored to answer the following research questions.

1.4.1 Do mergers lead to reduction of operating costs through horizontal integration?
1.4.2 Do mergers result in increased market share through horizontal integration?
1.4.3 What are the effects of mergers on product and services efficiency through horizontal integration?

1.5 Importance of the Study

1.5.1 Management

Every day the management is tasked to make continuous improvements to the performance of an organization. As much as stake holders contribute to decisions the task of decision making lies entirely with the management. For the management to make a solid and lasting decision they have to look at the trends in the market as well as borrow from leaders before them. This study will add on to the reference materials that they may use should they want to pursue this journey.

1.5.2 Shareholders

These are an important group in any organization, in as much as they are not involved in the everyday operations, this group holds the power to withdraw or inject more capital to an organization that is struggling or has a future respectively. The shareholders can use this information to predict the outcome of their investment.
1.5.3 Employees

The most important resource in an organization is the employees. This study will equip them to make sound decisions. This will make them aware of changes that mergers bring to an existing operation. The information will assist employees to strategically align themselves in terms of securing their jobs.

1.5.4 Academicians and Researchers

Knowledge is power, with knowledge one is able to make better decisions as well as critically analyze a situation. Through the study academicians will appreciate the challenges experienced following mergers.

1.6 Scope of the Study

The study was conducted in Nairobi. This scope was limited to Nairobi, this included, top management, employees and Customers of ICEA LION. The study was carried out between the months of August and November 2015.

The foreseen limitations were unwillingness to participate in the exercise, lack of quorum as only 3% of Kenyans have taken up insurance, lack of the information required by the research from the participants, limited access to the top management of ICEA LION, untrue information given by participants. In order to put the limitations at bay, measures such as application of triangulation, giving out incentives and introductory statements to explain clearly the purpose of the study was prepared.

1.7 Definition of Terms

1.7.1 Competitive advantage

Competitive advantage is that which distinguishes a company from the competitor in the minds of the consumer. This can be achieved through cost, focus or differentiation (Porter, 2005).

1.7.2 Merger

Merger can be defined as any amalgamation of the undertaking or any part of the undertakings or interest of two or more companies or the undertakings or part of the undertakings of one or more companies and one or more corporate bodies (Bovee, 2001). Merger is the coming together of two companies of roughly equal size pooling their resources into a single business (Coyle, 2000).
1.7.3 Efficiency
This is a state of quality being offered in the market (Besanko, 2007).

1.7.4 Market Share
This refers to a portion of a market controlled by a firm or product (Precha and Sharma, 2010).

1.7.5 Operating Cost
These are expenses which relate to the operation of a firm so as to maintain its existence (Haughey, 2001).

1.8 Chapter Summary
This chapter provided an introduction to the area of study. It outlined the main objectives that the study intends to cover being the to determine the effect of mergers on reduction of operating costs through horizontal integration, whether mergers results in increased market share through horizontal interrogation and to establish the effects of mergers on product and services efficiency through horizontal interrogation. The chapter further gave an introduction on the ICEA and LOK and the forces that influence these firms as a result of business interrogation. In addition it illustrated the existing gaps in the available information to aid decision making. Lastly it outlined the purpose, importance and scope of the study. In Chapter Two, the study endeavoured to conduct literature review of various sources of information. In detail, the chapter explored information available on the study objectives. The research questions guided the literature review chapter. The chapter also introduced chapter three which further assisted in gathering the exact information required in the study. The methodologies that were applied were further elaborated in this chapter. Chapter four covered data analysis and chapter five the summary, recommendations and conclusions on the study respectively.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the research topic and the accompanying objectives. It gives the empirical review of the study which are the specific objectives of the study. The review also centers on the reasons why Mergers take place and their subsequent performances, which according to the scope of this study is to achieve more quick growth of the corporate business which can be assessed by reduction of the operating cost of the firm following the merger, increase in the market share scope of the firm after the merger and at the same time increase in product and service efficiency of the firm. The chapter is arranged as per the research questions yielded from the specific objectives, and these are; do mergers lead to reduction of operating costs? Do mergers results in increased market share? And what are the effects of mergers on product and services efficiency?

2.2 Mergers Effects on Reduction of Operating Costs

Porter’s Model for Competitive Advantage states that when a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its competitor. The goal of much of business strategy is to attain a sustainable competitive advantage over the rivals (Porter, 2009). Porter (2009) identified two fundamental types of competitive advantage which can be achieved through Mergers; cost advantage and differentiation advantage. Both are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. Cost advantage exists when the merged firm is able to deliver the same benefits as competitors but at a lower cost whereas differentiation advantage occurs when the firm is able to deliver benefits that exceed those of competing products. Consequently, a competitive advantage enables the merged firm to create greater value for its customers and larger profits for itself (Chatzkel, 2009).

2.2.1 Cost Reductions Concept in Firm Mergers

Studies of the cost effect of mergers have focused primarily on estimating cost functions and asking whether mergers fit those functions Gibbs, (2007) affirms that, merged firms may operate more efficiently than two separate firms, this is by achieving greater
operating efficiency in several different ways through merger or an acquisition. Reddy (2008) also emphasizes that economies of scale relates to the average cost per unit of producing goods and services, this is because, if the per unit cost of production falls as the level of production increases, thus an economy of scale exists. When companies merge, overheads are reduced and operational efficiency is improved since there is a sharing of central facilities such as corporate headquarters, staff and top management, and computer services among others (Sheen, 2014).

According to Thompson (2008) the key purpose of competitive strategy is to steal the show off rivals companies by doing a better job of satisfying buyer needs and favorites. By adopting a winning strategy a merged firm is able to gain competitive advantage which grows fundamentally out of value a firm is able to create for its customers that exceed the firms cost of operations.

Firms often drive their cost lower through investments in efficient-scale services, tight cost and overhead control, in addition to cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell basic, standardized products to the most typical customers in the industry. Therefore, the primary thing for a merged firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Kimando, 2012).

2.2.2 Rationalization of Output Concept of Mergers

According to Zarandi (2014) the total costs of the merged firms might be reduced when production is re-allocated from one plant to another. Assuming that both plants continue to exist after the merger and both plants are able to produce the same product, the firm might decide to shift outputs of the plants in order to create equal marginal costs. One extreme case is when the marginal costs of one plant are lower at all levels of output than the marginal costs of the other plant. When this happens, it will be optimal to shut down the inefficient plant and to shift all its output to the other one. It is inefficient when one plant produces at higher marginal costs than the other, because shifting production from the plant with the higher marginal costs to the plant with the lower marginal costs will reduce the total amount of financial resources spent on producing the output. This is referred to as output rationalization.
Three possible explanations exist as to why marginal costs of the merging firms differ before a merger (Verboven, 2000). The first and probably most important explanation of output rationalization results from the fact that often marginal costs increase as output increases. Due to the law of diminishing returns (which states that when variable inputs are doubled, output will be less than doubled) and plant capacity being fixed in the short-run, the marginal costs of two merging firms will be different when they produce different quantities of output. Second, when the amounts of capital owned by the plants differ, the cost functions also differ, because firm with more capital are generally more efficient. Finally, workers in a plant might have superior knowledge or another form of competitive advantage (for example, a patent) that allows them to produce at lower costs (Gaughan, 2007).

Until presently, rationalization has only been discussed in the context of mergers between manufacturers. However, rationalization of output could occur in every output-producing sector in order to reduce costs. For instance, customers of one housing corporation can be served by the other corporation after the merger when their head quarter is located closer by. By rationalizing output (service), total transportation costs are reduced and so the corporation is more efficient (Sabbatini, 2006).

2.2.3 Economies of Scale on Mergers

One of the main sources of synergy in the merging entities like insurance firm is the operating synergy, the cost reduction that occurs as a result of a corporate combination. This reduction may occur as a result of economies of scale –decreases in per unit costs that result from an increase in the size or scale of the company operations (Thompson, 2008). Some sources of these gains arise from increased specialization of labor and management as well as the more efficient use of equipment and accesses to lower price input, which may not be possible at low output levels.

A good example of economies of scale arises in the merging of two manufacturing companies (Gaughan, 2007). For example, whereas a small car producer firm might pay a higher price for its inputs, bigger companies buy their inputs in bulks for a lower price than a small firm that buys its inputs in small batches. Moreover, if a small car producer makes only a few hundred cars of a particular type, the producer must use production techniques that are much more labour intensive and much less automated than those
employed to make hundreds of thousands of cars in a particular model produced by bigger firms. That is, costs are high with low production runs and labor intensive production techniques. Thus, firms merge and take advantage of producing larger volumes of outputs in order to obtain lower costs.

2.2.4 Economies of Scope on Mergers

Economies of scope are somewhat related to economies of scale. Economies of scope arise when it is less costly to produce two product lines in one company than when each company separately produces a product (Cummins, 2010). Since a merger leads to pooling of both firms’ assets, all assets can be put to use in their most productive way by one single firm. Note that this is related to the cost reductions resulting from rationalization of output. However, economies of scope result from coordination of inputs and other activities rather than re-allocating output from one company to the other.

It is possible, that two rival firms both have their own marketing and distribution departments, but where it would be more profitable to jointly coordinate these activities (Delens, 2005). Besides the scale economies that could arise, coordination of these activities would result in additional benefits. Also, by having a larger network, a merger can reduce distribution costs, because it increases the scope for logistical improvements (Cummins, 2010).

Firms often have some undesired overcapacity that for some reason cannot be reduced, but would be possible to cut when the firms merge (Cummins, 2010). For instance, when one housing corporation has excess cash while another corporation is in need of cash to finance its activities or investments, the merger would result in an internal capital market, lower interest expenses and more efficiency (Delens, 2005).

2.2.5 Management Efficiency

Betton (2008) suppose that management efficiency is one of the key internal factors that determine a company’s financial performance which is a fundamental issue of consideration in mergers. It is represented by different financial ratios like total asset growth and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems,
organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency (Chatzkel, 2009).

The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou, 2005). Besanko, (2007) indicate that a firm’s horizontal boundaries determine the quantities and varieties of products and services that it produces.

2.2.6 Technological Progress Concept of Cost Reduction in Mergers

Different firms often have different knowledge, technologies, organizations, experience and assets that cannot be easily simulated. When the two firms merge, the combination of these competitive advantages might result in technological advancement and a superior production function that could not be achieved otherwise. These efficiency gains are a type of synergy; “synergies require cooperation and coordination of the two firms (Shapiro, 2000, page 77). Assets that allow a superior production function, as distinct from causing different choices on a fixed production function. Under this definition, economies of scope can also be defined as synergies.

The concept of technological progress is related to scope economies, but scope economies result from the pooling of the assets of both firms whereas technological progress results from a different process used to create output with these assets (Haran, 2011), additionally Makri, (2010) stressed that, a merger could give rise to technological progress by encouraging diffusion of know-how and encouraging innovation.

2.2.7 Diffusion of Know-How in Mergers

Diffusion of know-how might occur when one firm has a better management than the other firm. By substituting the managers that performed poorly of one firm with better performing managers of the other firm, both firms benefit from the skills of one manager
In the literature, this argument is also referred to as the “managerial discipline theory”. Besides, the skills and knowledge of the managers of different organizations might be complementary and so the combination of managers would lead to superior performance (Montazemi, 2012).

Sometimes, firms may have other complementary assets that allow for a superior production function when they are integrated and coordinated (Theingi, 2012). One example of these assets is patents or other intellectual property rights Crane (2011); when one firm has the property rights of using a technology that can only be efficiently used in combination with another technology that is owned by another firm, the merger leads to a more efficient implementation of these technologies and hence lower costs.

D’Anvers, (2005) noted that, when the merger occurs in an industry where firms go down the learning curve as they produce more, the learning process could be shortened for at least one firm. Learning refers to the advantages that can be captured by accumulating experience and know-how (Besanko, 2010).

When there is a learning curve present, cost per unit of output is decreasing when the accumulated total output increases. Note that this is related to economies of scale, but slightly different. When economies of scale are present, average costs and current output are inversely related, whereas average costs and accumulated total output are inversely related in learning economies (Fang, 2012). When one of the merging firms has moved further down the learning curve than the other firm because it has more experience in producing the output, this firm will transfer its knowledge, if possible, after a merger. This will allow the less experienced firm to make a jump down the learning curve without producing the output that is normally required in order to come to these insights. Theingi (2012) noted that, although this is an efficiency resulting from diffusion of know-how, this is not a synergy, because the less efficient firm only jumps down the learning curve, without shifting the production function.

2.2.8 Innovation in Mergers

According to Drucker (2014) developing technologies that lower production costs or increase quality of the products can result in higher future profits. Besides, by innovating a firm might be able to bring a new product to the market, which could give rise to first-mover advantages (Advantages gained by being the first firm that serves a specific market
Since this thesis focuses on the efficiency effects resulting from the merger, the most interesting innovations are those that result in lower production costs.

Crane (2011) suggested four innovation-improving effects that result from a merger. First, when two (or more) firms merge, the firm faces fewer competitors in the marketplace than the competing firms did before the merger. When there are fewer competitors, the benefits resulting from research and development can be more effectively appropriated, because there are fewer rivals that can imitate the innovation (Motta, 2004). This makes investment in research and development more attractive. Second, firms can more easily get a loan to finance research and development when they have more assets. The reason for this is that the capital markets do not work perfectly in the sense that lenders are not always able to identify the creditworthiness of the borrowers. When lenders do not know the borrower’s ability to pay the debt obligations, they will use screening devices in order to identify the “good borrowers” Kanter, (2015). One of these screening devices is the amount of collateral the borrower has. Since a merger leads to larger firms with more collateral assets, the firm will have access to more loans to invest in research and development, mergers also change the values of other screening devices to the benefit of the merged firms. Third, there will be an increased incentive to innovate when the merger results in an increase in market power (Besanko, 2010). By having more market power, a firm is able to increase its prices and profits. With higher profits, the dominant firm has a lot to lose from the entry of another firm, because this entrant will both take business away from the dominant firm and drive down prices. When innovating discourages entry of rival firms, the increase in market power resulting from a merger may give rise to larger incentives to invest in research and development (Motta, 2004). Finally, as the increased incentive to specialize workers in the merged firm might give rise to increased innovation, because workers gain more insights into one specific part of the production process (Kanter, 2015).

2.2.9 Purchasing Economies in Mergers

When firms become larger, their bargaining position improves. As a result of this, the merged firm is able to enforce lower costs without being more productive (Tiwari2014). Herstatt, (2014) noted that this efficiency gain can be seen as a form of scale economy. A better bargaining position can result in lower input prices or lower cost of capital and both
will be treated independently. According to Motta (2004), this can be achieved through; Stronger Bargaining Position for Inputs, whereby, almost every firm requires inputs that need to be bought from an upstream supplier. Often, the upstream supplier charges a mark-up over its costs in order to make a profit and to pay fixed expenses. When a supplier becomes more dependent on one downstream firm, it is more willing to lower its mark-up and accept more favourable terms for the downstream firm in order to retain this customer; this means that the downstream firm has more buyer power. When a firm becomes larger as a result of a merger, a single firm demands more inputs and so its suppliers are more reluctant to lose this firm as a customer. The downstream firm can exploit this position by threatening to move businesses from the current supplier to other firms or potential entrants, or it can threaten to start businesses in the upstream market itself (Motta, 2004). Also, large firms are more able to influence government policy, because they generally have more lobbying power (Delens, 2005). For large firms there is more at stake, because their net worth changes resulting from a specific policy will be larger in absolute terms than for small firms. Oskooee (2015) added that the large firms are willing to spend more financial resources on lobbying in order to influence government policy.

Motta (2004) also noted that a better bargaining position can result in lower input prices or lower cost of capital through Stronger Bargaining Position for Cost of Capital. This normally arises due to the imperfect capital market; lenders are not always able to estimate profitability of a project undertaken by a borrower. Resulting from this, the lender is not able to identify creditworthiness of the borrower. Therefore, the borrower does not pay an interest rate that reflects the riskiness of its projects, but faces an interest rate that reflects the estimated risk of its chance of default on debt repayments. When an enterprise becomes larger as a result of a merger, the values of the following screening devices will change to the benefit of the borrowing merged firm, resulting in a lower risk premium (Valletti, 2014).

With large liquidity, the borrower is more likely to be able to repay its debts, which requires a lower risk premium. Finally, the diversification-effect of the merger lowers the risk of default on debt (D’Anvers, 2005). By merging, the firms reduce the idiosyncratic risk, which leads to less volatile revenues, and so the firm is more likely to be able to meet debt obligations (Oskooee, 2015). Oskooee, (2015) noted that, although these
indicators do tell something about the creditworthiness of a firm, they do not convey any information regarding the profitability of the projects undertaken by the borrower.

Another source of synergy is financial synergy, which refers to the impact of a corporate merger or acquisition on the cost of capital to the acquiring firm or merging partners (Hamaguchi, 2002). This is because a larger company has certain advantages. For example, it enjoys better access to financial markets, tends to experience lower costs of raising capital, probably because it is considered to be less risky than a smaller firm is (Gaughan, 2007).

2.2.10 Re-Establishment of Production Facilities on Merged Firm Operations Cost

Mergers and Acquisitions are undertaken to enable companies to achieve economies of scale by amalgamating production facilities through more intensive utilization of firm’s resources (Kithitu, 2012). In addition, mergers are undertaken to standardize product specifications, quality of product improvement, enlarge markets and focusing at customer’s satisfaction by strengthening after sales services. This allows companies to reduce cost, at the same time, improve quality and produce competitive products to keep and advance their market share. Moreover, companies are able to obtain improved production technology and know-how from the offered company (Ismail, 2010). However, joining two companies is a complex process because it involves every aspect of both two entities. For example, executives have to agree on how the combination will be financed and how power will be transferred and shared. Moreover the companies must deal with transfers, layoffs, job titles changes and work assignments among other issues (Babu, 2011).

2.3 Mergers Effects on Firm Market Share

Mergers are continuously being adopted for progressive company competitiveness by expanding market share. Mergers are used to diversify the company’s portfolio as a risk management strategy. Furthermore, to enable companies penetrate to new geographical markets to support growth by capitalizing on economies of scale and increase on customer base among other reasons the managers are required to develop competitive marketing strategies such as pricing strategies, promotion strategies, distribution strategies and product strategies (Selvam, 2009).
Mishra (2010) substantiate that the reason behind any corporate merger is the synergy effect as two is better than one. Most companies believe that by either merging or acquiring another company, the resultants performance would be better than a single entity. This is credited by the fact that shareholder value would effectively be maximized. The reasons behind mergers and acquisitions are; increased market share and revenues, economies of scale, synergy, taxation, widen geographical areas and among other basis. According to Packalen (2011) earlier empirical studies only offer limited evidence on merger induced changes in market share, and they are generally limited to single industry analyses.

2.3.1 Evidence of Merger and Market Share

While there has been a great deal of published research on the impact of acquisition activity on the firm’s overall performance, as measured by profitability or share price behavior, there exist limited researches about its effects on the proximate drivers of that outcome, including sales and market share. Mergers that cause a significant increase in concentration and result in highly concentrated markets are presumed to be likely to enhance market power (Sheen, 2014). When the Agencies identify a potential competitive concern with a horizontal merger, market definition plays two roles. First, market definition helps specify the line of commerce and section of the country in which the competitive concern arises. In any merger enforcement action, the Agencies will normally identify one or more relevant markets in which the merger may substantially lessen competition. Second, market definition allows the Agencies to identify market participants and measure market shares and market concentration (Sandra, 2014). Chatzkel (2009) noted that where analysis suggests alternative and reasonably plausible candidate markets, and where the resulting market shares lead to very different inferences regarding competitive effects, it is particularly valuable to examine more direct forms of evidence concerning those effects.

Market shares can directly influence firms’ competitive incentives. For example, if a price reduction to gain new customers would also apply to a firm’s existing customers, a firm with a large market share may be more reluctant to implement a price reduction than one with a small share (Crane, 2011). Likewise, a firm with a large market share may not feel pressure to reduce price even if a smaller rival does. Hovakimian and Hutton, (2010) also avowed that market shares can reflect firms’ capabilities. For example, a firm with a large...
market share may be able to expand output rapidly by a larger absolute amount than can a small firm. Similarly, a large market share tends to indicate low costs, an attractive product, or both.

Lipczynski (2005) indicate that the empirical evidence on the increased profitability through increased market power or cost savings of horizontal mergers is rather conflicting and inconclusive. Crane, (2011) emphasizes that mergers may improve profits through the exercise of additional market Power in setting prices. An increase in market concentration or market share may allow the consolidated firm to charge higher rates for the goods or services it produces, raising profits by extracting more surplus from consumers, without any improvement in efficiency.

2.3.2 Market Expansion as a Merger Strategy

Chatzkel (2009) noted that Mergers and Acquisitions enable to eliminate competition and protect existing market by obtaining new market outlets. This is through market power—where by one firm may acquire another to increase its market share and market power. In such mergers, profits can be enhanced through higher prices and reduced competition for customers. Diversifying products or services: Another reason for merging companies is to complement a current product or service. the diversification motive may account more for conglomerate mergers than the motive to increase market share within the industry, which is more important for horizontal mergers (Pepall, 2005). Synergies enable two entities to increase their combined value when brought together in the same firm and are commonly cited as motivation for pursuing acquisition activity. Synergies can take the form of greater revenues through channels such as market power or new product introductions, or cost reductions through product and service efficiency gains from consolidating plants or suppliers (Betton, 2008).

2.3.3 Geographic Diversification Concept on Market Share

Hitt (1997) identified geographic diversification as the firm’s expansion into various geographic locations or markets across the borders of regions and countries. Therefore, a firm’s level of diversification is reflected by the number of different markets in which it operates and their importance to the firm (as measured, for instance, by the percentage of total sales represented by each market). This type of diversification strategy has its motivations as well as downsides.
Denis (2002) identifies several motivations as; global diversification is a mechanism that combines the information based assets of buyers and sellers within the same firm. It generates value by creating flexibility within the firm, by giving the ability to respond to changes in relative prices. In addition, investors’ diversification choices can result as the benefit of geographic diversification. Ravichandran (2009) noted that the scope and scale economies, enhanced market power, and the ability to supply lower-cost factor inputs to the benefits of diversification. Furthermore Mathur (2008) affirm that, increased operational flexibility by diversification reduces the risks across the markets. However as from the downside perspective, a globally diversified entity is more complex compared to a purely domestic firm. The costs of information asymmetry between corporate headquarters and the difficulty of monitoring managerial decision-making may give rise (Denis, 2002).

2.3.4 Geographic Market Definition in Mergers

Horizontal Merger Guideline (2010) states that, the field of competition affected by the merger may be geographically bounded if geography limits some customers’ willingness or ability to substitute to some products, or some suppliers’ willingness or ability to serve some customers. Both supplier and customer locations can affect this. Shapiro (2010) add that the scope of geographic markets often depends on transportation costs. Other factors such as language, regulation, tariff and non-tariff trade barriers, custom and familiarity, reputation, and service availability may impede long-distance or international transactions.

The competitive significance of foreign firms may be assessed at various exchange rates, especially if exchange rates have fluctuated in the recent past. Sheen (2014) argues that in the absence of price discrimination based on customer location, the Agencies normally define geographic markets based on the locations of suppliers which encompass the region from which sales are made. Geographic markets of this type often apply when customers receive goods or services at suppliers’ locations. Competitors in the market are firms with relevant production, sales, or service facilities in that region. Some customers who buy from these firms may be located outside the boundaries of the geographic market.
2.3.5 Measuring Market Share in Horizontal Mergers

Most Agencies normally calculate market shares for all firms that currently produce products in the relevant market, subject to the availability of data. The Agencies also calculate market shares for other market participants if this can be done to reliably reflect their competitive significance (Kemal, 2011).

Kemal (2011) further noted that market concentration and market share data are normally based on historical evidence. Though, recent or ongoing changes in market conditions may indicate that the current market share of a particular firm either understates or overstates the firm’s future competitive significance. The Agencies consider reasonably predictable effects of recent or ongoing changes in market conditions when calculating and interpreting market share data. For example, if a new technology that is important to long-term competitive viability is available to other firms in the market, but is not available to a particular firm, the Agencies may conclude that that firm’s historical market share overstates its future competitive significance. The Agencies may project historical market shares into the foreseeable future when this can be done reliably.

David (2011) contends that agencies measure market shares based on the best available indicator of firms’ future competitive significance in the relevant market. This may depend upon the type of competitive effect being considered, and on the availability of data. Typically, annual data are used, but where individual transactions are large and infrequent so annual data may be unrepresentative, the Agencies may measure market shares over a longer period of time.

Hutton (2010) suggested that measure each firm’s market share should be based on its actual or projected revenues in the relevant market. Revenues in the relevant market tend to be the best measure of attractiveness to customers, since they reflect the real-world ability of firms to surmount all of the obstacles necessary to offer products on terms and conditions that are attractive to customers. In cases where one unit of a low-priced product can substitute for one unit of a higher-priced product, unit sales may measure competitive significance better than revenues. For example, a new, much less expensive product may have great competitive significance if it substantially erodes the revenues earned by older, higher-priced products, even if it earns relatively few revenues. In cases where customers sign long-term contracts, face switching costs, or tend to re-evaluate
their suppliers only occasionally, revenues earned from recently acquired customers may better reflect the competitive significance of suppliers than do total revenues.

Sandra (2014) outlined that in markets for homogeneous products, a firm’s competitive significance may derive principally from its ability and incentive to rapidly expand production in the relevant market in response to a price increase or output reduction by others in that market. As a result, a firm’s competitive significance may depend upon its level of readily available capacity to serve the relevant market if that capacity is efficient enough to make such expansion profitable. In such markets, capacities or reserves may better reflect the future competitive significance of suppliers than revenues, and the Agencies may calculate market shares using those measures.

Lin (2011) also emphasized that, market participants that are not current producers may be assigned positive market shares, but only if a measure of their competitive significance properly comparable to that of current producers is available. When market shares are measured based on firms’ readily available capacities, the Agencies do not include capacity that is committed or so profitably employed outside the relevant market, or so high-cost, that it would not likely be used to respond to a small but significant and non-transitory increase in price (SSNIP) in the relevant market.

2.4 Effects of Mergers on Product and Services Efficiency

Market definition focuses solely on demand substitution factors; this is on customers’ ability and willingness to substitute away from one product to another in response to a price increase or a corresponding non-price change such as a reduction in product quality or service. Insurance Products and services efficiency effects might be achieved in the long-run and in the short-run, which makes them very difficult to estimate (Ivaldi, 2003).

Looking at the impact of mergers on product provision, choice and the cost of products, Mbogo (2010) pointed out that, the number of insurance products on the market has increased significantly in recent years, offering more choice at reduced prices, as most new market entrants are seeking to compete on the basis of price. They are able to do this because new information and communication technology allows them to save costs by operating with fewer branches – or without a traditional branch network. New products and providers are also argued to offer many clients more time flexibility, as they no longer have to rely on branch opening hours to conduct their business. Traditional
providers have responded to this trend – in order to meet consumer need, but also to cut running costs by closing branches. the proliferation of information and communication technology based services (such as Internet banking), a significant minority of individuals are detrimentally affected by this trend as they lack access to the required information and communication technology or the knowledge to use it, while at the same time losing access to local branches (Pollitt, 2010).

It can be argued that this trend has served to increase social exclusion, as the groups detrimentally affected by these developments tend to already suffer from educational, social and economic disadvantage (Kalhoefer, 2009). Research, for example, shows that branch closures tend to be located in the poorer areas. Branch closures and the loss of many other backroom functions as a result of proliferation of information and communication technology have led to significant job losses. While job losses were in evidence prior to the current merger wave, in the majority of cases, a merger accelerates branch closure programmes and the transfer of backroom functions. As a result, the level of physical, local service provision is reduced, requiring consumers to travel greater distances to receive a personal service. While a significant number of consumers welcome the ability to conduct their financial business at any time of day through, for example a call centre or an Internet service, others regret the loss of more personal, local, face-to-face interaction. Such consumers argue that recent developments have lowered the quality of financial service provision by bringing a degradation of the relationship with the financial service provider (Ivaldi, 2003).

As mentioned previously, the increasing technological distance between client and service provider tends to disadvantage those individuals, who are excluded from access to transport or information and communication technology. The paper argues that in some areas the disappearance of mainstream alternatives has opened the door to predatory financial service providers offering lower quality, more expensive services to those most in need (David, 2011)

Hutton (2010) argues that increasing merger activity is serving to restrict competition and will therefore in the long run be not be beneficial to consumers. In fact, it is argued that restriction of competition is very often the main reason of merger activity as it serves to counteract competitive pressure. Another key process noted by Bayraktara (2012), which is currently underway in many countries, is that of demutualization of financial service
providers. While in the short-run this may appear to bring benefits to consumers in the form of windfall payments, studies show that in the long run, demutualised companies offer lower quality services at higher prices.

2.4.1 Merger Effects on Employee and Subsequent Decreased of Standard of Products and Service

A clear motivation for merger and acquisition activity within retail financial services is to reap efficiency savings (Ullah, 2010). The most effective way to do this is to close branches, as firms are able to economies on staff, property and equipment costs. It should be noted that financial services firms have been undertaking extensive branch closure programs from at least the late 1980s onwards. UK banks and building societies closed 20% of their branches between 1989 and 1995, largely independent of merger and acquisition activity. The merger meant that even more branches were closed as the new bank, Lloyds-TSB, began to eradicate branch overlaps. A similar acceleration of branch closures will occur following the merger between NatWest and the Royal Bank of Scotland. However, in some cases the reverse can happen (Phillips, 2010). Bayraktara (2012) also notes that the closure of branches has undoubtedly reduced the level of physical service provision for some customers. Most customers have to travel further to use a branch, and this disproportionately affects those who are less mobile, either for reasons of low income or physical disability.

2.4.2 Merger Effects on the Nature and Quality of Employment in the Financial and Insurance Services Sectors

As mentioned by Makri (2010), the process of automation has led to the disappearance of a number of low-skilled administrative functions. In addition, many labour intensive services have been outsourced to the low wage economies of the African and Indian subcontinent. Outsourcing has been one of the most significant trends in employment not only in the financial services sector, but also in the economy as a whole. Customer services and sales functions are today more likely to be provided by call-centres, which handle high volumes and generally operate with low-skilled, low-paid staff. As a result job satisfaction in call centers is generally low and staff turnover rates are high, which necessarily has an impact on the quality of service provided (Phillips, 2010).
Among employees remaining within the direct employment of financial services companies, demands for the handling of higher workloads, the requirement for higher level skills and greater flexibility are increasing (Albert, 2014). The demands placed on staff for higher skills and greater flexibility is often not matched by a similar commitment among companies for improved in-house training facilities and more flexible working conditions to meet their employees’ requirements for the achievement of a more satisfactory work-life balance. This is particularly true in the case of mergers, where the need to make cost savings often affects expenditure on training (Albert, 2014). There are also examples of companies going back on commitments to introduce more flexible working time arrangements made prior to a merger announcement (Line, 2011).

Bayraktara (2012) emphasize that the closure of branches has undoubtedly reduced the level of physical service provision for some customers. This development has also had negative impacts upon those with low levels of financial literacy, for it makes it more difficult for consumers to be able to engage in face-to-face discussions with branch staff, which can help clarify confusions in financial services publicity material and documentation. While the growth of ‘remote’ service facilities.

2.4.3 Impact of Mergers on Consumer

The ability of firms to contact and discriminate between customers ‘at a distance’ through the use of the technologies that comes with mergers has encouraged extensive branch closure programs and the growth of alternative distribution channels, such as telephone call centres and, more recently, internet-based insurance services (Chen, 2013). This development has delivered short-term benefits for insurance firms, because such delivery systems produce significant efficiency savings in the provision and processing of customer services. Brekke (2010) recognized that horizontal mergers may affect consumer welfare not only through price changes but also through changes in key non-price characteristics such as product quality. In the recent empirical merger literature, several studies show, based on merger simulations, that quality effects of mergers can be hugely important. For example Fan (2013) developed a structural model of newspaper markets and show that ignoring adjustments to product characteristics as a result of a merger substantially affects the simulated merger effects.
Tenn (2010) also realized that the merging firms always reduce quality, the non-merging firm responds by increasing quality. The reason is that the outside firm also responds to the merger by increasing prices, and a higher profit margin makes it profitable to increase quality, thus making qualities net strategic substitutes among firms. In fact, the quality response by the outside firm is sufficiently strong to ensure an increase in average quality (weighted by demand) in the market as a result of the merger. Whereas Willig (2011) points out that the non-merging firm always responds to the merger by increasing prices, the merging firms increase prices only if demand responsiveness to quality is sufficiently low. The possibility that prices of merging firms may decrease for high demand responsiveness is at first glance surprising and results from an intricate strategic relationship between price and quality within and between firms. A quality reduction by the merging firms is met by a quality increase by the non-merging firm, which in turn dampens the merging firms’ incentives to increase prices. If this effect is sufficiently strong which requires sufficiently quality-elastic demand — the overall effect of the merger is a price reduction by the merging firms (Willig, 2011).

Fan (2013) additionally found out that, because of the non-uniform effects of a merger on quality and price, the welfare effects are generally ambiguous. We show that consumer utility is reduced on average, although some consumers may actually be better off: if demand is sufficiently quality-elastic, the utility gain of the quality increase outweighs the utility loss of the price increase for consumers who buy from the non merging firm. It is very difficult to isolate the impact of mergers and acquisitions upon the quality of products. As indicated earlier, the range of products offered by retail financial institutions has increased (Schenk, 2000). Moreover, the industry insists that its move to an ‘at-a-distance’ mode of service provision is demand-led. Maingi (2013) affirm that competition for market share by many players has led to price conflicts with a number of insurers charging unsustainable premiums and this has compromised service delivery as the insurers are not able to fund infrastructure for efficient delivery of services and claims settlement. Attempts by the government to prod the insurers to merge by increasing the minimum capital requirements have not borne fruit.
2.5 Chapter Summary
The chapter outlines literature reviews based on research questions yielded from the specific objectives and these are; do mergers lead to reduction of operating costs? In reviewing this research question, the researcher starts by reviewing the cost reductions concept in Firm Mergers, Economies of Scale and economies of scope is also reviewed in line with mergers and cost reduction. At the end of this chapter, the researcher outlines an in-depth review of impact of mergers on consumers. In the next chapter the researcher expounded on the research methodology used in the study. This included research design to be adopted in the study. Population and sampling design, sampling frame, sampling technique, and sample size will be illustrated. The next chapter captured data collection methods, research procedures and data analysis methods used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter articulates methodology for the research. This chapter discusses the criteria for determining the appropriate methodology for a study. The chapter covers a description of the study design, population of the study, sample design, data collection methods, research procedures and data analysis and presentation. The following sections provide a detailed description of the methodology to be utilized in the survey.

3.2 Research Design

A research design constitutes the collection, measurement and analysis of data (Cooper and Schindler, 2008). A design is used to structure the research, to show how all of the major parts of the project, which include the samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions. The research adopted a descriptive research design. A descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. The goal of descriptive study hence is to offer the researcher a profile or to describe relevant aspects of the phenomena of interest from an individual, organizational, industry oriented or other perspective (Kombo and Tromp, 2006).

In present study, the researcher obtained and described the views of the respondents with regard to establishing whether mergers create competitive advantage for Insurance firms specifically ICEA LION Insurance Holdings Limited, which was formed as a result of a merger between Insurance Company of East Africa Limited (ICEA) and Lion of Kenya Insurance Company Limited (LOK) in 2011. In descriptive research the research variable is examined, as it exists without investigator interference (Yin, 2008).

3.3 Population and Sampling Design

3.3.1 Population

Kothari (2008) defines population as a universal set of the study of all members of real or hypothetical set of people events or objects to which the researcher used to generalize the result. (Mugenda, 2003), defines target population as that population the study studies, and whose findings are used to generalize to the entire population. The purpose of the
population is to show the number of the larger group that the researcher intended to manipulate so as to get the required information on competitive advantage gained through horizontal integration. The population of this study consisted of the management team and customers of ICEA LION. This population of study target customers covered under life insurance and general insurance at ICEA LION Centre, Riverside Park on Chiromo Road, Westlands, Nairobi. The population of 258 customer respondents and 45 Management team was justified for this study considering (Mugenda, O. and Mugenda, G. (2003) that a sample of above 30% as adequate for an academic research. This was represented by 14 from management team and 77 customers of ICEA Lion.

Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management team</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>10</td>
</tr>
<tr>
<td>Finance</td>
<td>6</td>
</tr>
<tr>
<td>Corporate strategy</td>
<td>10</td>
</tr>
<tr>
<td>Business development</td>
<td>6</td>
</tr>
<tr>
<td>Operations/supply chain</td>
<td>13</td>
</tr>
<tr>
<td>Customers</td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>110</td>
</tr>
<tr>
<td>Non-Life insurance</td>
<td>134</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>258</td>
</tr>
</tbody>
</table>

Source: ICEA Lion (2016)

3.3.2 Sampling Design

Sampling is a process used by a researcher to identify people, places or things to study (Kombo and Tromp, 2006).

3.3.2.1 Sampling Frame

The sampling frame describes the list of all population units from which the sample is selected (Cooper and Schindler, 2008).

3.3.2.2 Sampling Technique

Determination of the sample was guided by the need to obtain a sample that is, as far as possible, representative of the population as a whole. Since the population involved
individuals of different cohorts, therefore stratified random sampling was employed to select a representative respondents from the categories of management team and customers. This sample size was used because the population of interest is not homogeneous; in this particular case the population of interest consisted of various management teams from different departments, and different categories of customer groups of ICEA LION. A simple random technique was applied to arrive at the respondents from the Top Management, Employees and Customers of ICEA LION.

The basic idea of sampling is that by selecting some of the elements in a population, conclusions about the entire population can be drawn. The basic idea of sampling is that by selecting some of the elements in a population, conclusions about the entire population can be drawn. According to (Mugenda, 2003) a sample size of between 10% and 30 % is a good representation of the total population and is convenient in a descriptive study.

### 3.3.2.3 Sample Size

The sample size represents a subset of sampling units from a population (Collis and Hussey, 2009). This gives the entire number of population elements from which data is to be collected. Since this research adopted descriptive design, a sample of 30% of the total population was used to obtain the sample from top management, employees and customers of ICEA LION to form the total sample. Orodho (2003) advised that descriptive statistics may be reliable when at least 30% of the targeted population is identified for the sample. A sample size of 77 respondents were picked from the target population. The total figure represents 14 management team and 63 customers.

**Table: 3.2 Sampling Distribution**

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample Size (30% of N)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management team</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>10</td>
<td>3</td>
<td>3.9</td>
</tr>
<tr>
<td>Finance</td>
<td>7</td>
<td>2</td>
<td>2.6</td>
</tr>
<tr>
<td>Corporate strategy</td>
<td>10</td>
<td>3</td>
<td>3.9</td>
</tr>
<tr>
<td>Business development</td>
<td>7</td>
<td>2</td>
<td>2.6</td>
</tr>
<tr>
<td>Operations/supply chain</td>
<td>13</td>
<td>4</td>
<td>5.2</td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>54</td>
<td>16</td>
<td>20.8</td>
</tr>
<tr>
<td>Non-Life insurance</td>
<td>157</td>
<td>47</td>
<td>61</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td><strong>258</strong></td>
<td><strong>77</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods
The study will mainly employ primary sources of data collection sources. The researcher will use questionnaires as a tool for collecting data for this study. Questionnaire is a set of questions that are carefully designed and given in exactly the same form to a group of people in order to gather data about some topic(s) which is of interest to the researcher (McLean, 2006). The questionnaires will be used because they help to collect a large amount of data in a large area within a short time thus saving time on the study (Kombo and Tromp 2006).

Structured questionnaire were developed and utilized in this study. The questionnaire was both open and closed ended items for collection of primary data. The preference for a questionnaire for use was based on the fact that respondents were able to complete them without help, unanimously and it is cheaper and quicker than other methods while reaching out of larger sample (Bryman, 2008).

The design of the questionnaire covered three factors i.e, operating costs, market share and effects of mergers on product and services efficiency that can be directly affected by the merger.

3.5 Research Procedures
The researcher first got an authorization letter from the University. With the document, the researcher then booked appointments with the relevant targeted response base (Management team and customers of ICEA LION). This was followed by visits on the respective appointment dates. The questionnaires were then self-administered to the relevant respondent.

The questionnaires designed were pre-tested to ascertain the validity and reliability of the data collection instrument before actual administering. According to Cooper and Schindler (2000) a pretest is defined as the testing of the questionnaire on a small sample of respondents preferably 10 or more. According to Mugenda O. and Mugenda A. (2003) a pre-test sample of a tenth of the sample respondents is considered adequate for a pilot study. This assisted the researcher in correcting ambiguities in the questionnaire and to establish its validity and reliability. Based on the results of the pre-test; the researcher made necessary adjustments.
The final questionnaire was administered to the management team and customers of ICEA LION by the researcher with assistance of one research assistant. The respondents filled in answers in written form and the researcher collected the forms with the completed information. All questionnaires were coded to ease the analysis of the data collected. After administering the questionnaires, they were systematically organized to facilitate analysis.

The researcher considered validity, reliability and ethical issues: Mugenda O. and Mugenda A. (2003) refer to validity as the accuracy and meaningfulness of inferences, based on the research results. To ensure validity, the instruments to be used in this study were examined by the supervisor and other academic experts in the department. The corrections identified were incorporated in the instruments so as to increase the validity (Mugenda O. and Mugenda A. 2003)). In addition the researcher pre-tests the instruments (questionnaire) so as to enhance data validity. Both construct validity and content validity were used. Construct validity was used in the study to ascertain theoretical framework and content validity was used to ascertain clarity of research instruments through the help of supervisors and expert opinion

Reliability is the degree, to which measures are free from error and therefore yield consistent results (Zikmund, 2003). Reliability of the research instruments refers to the degree to which the instrument gives or yields consistent or the same results on data when repeatedly administered (Mugenda, 2003). It is the consistency of an instrument measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. According to Yin (2008) without the agreement of independent observers to replicate research procedures, or ability to use research tools and procedures that yield consistent measurements, researchers would be unable to satisfactorily draw conclusions, formulate theories, or make claims about the generalizability of their research. There are several commonly used methods of measuring reliability – stability, equivalence, and internal consistency (Cooper, 2008).

The internal consistency approach was used to estimate the reliability of the measurement scales in this study. This approach measured the degree to which instrument items homogeneity and reflects the same underlying constructs (Zikmund, 2003). To test the internal consistency of the instrument, the study used Cronbach’s Alpha, which ranges
between 0 and 1. Thus the closer the value of Alpha to 1, the more reliable the results would be and the more it nears 0, the more unreliable the instrument or tool. The recommended value of 0.7 was used as a cut-off of reliability (Hubbard, 2008).

In regard to ethical issues, proper care was taken to ensure that all information from the respondents was treated with maximum confidentiality. To increase the degree of confidence among the respondents no names or personal identification details were required for the purpose of filling the questionnaires. The researcher did not divulge information used to third parties and the information gathered was only used for academic purposes. Participation by respondents was on voluntary basis and their consent was taken into account. The sources of data and other information for literature review were acknowledged effectively in this study (Yin, 2008).

3.6 Data Analysis Methods

The study made use of the quantitative method of data analysis. To make sure that there was easy analysis, the questionnaires were first coded according to each variable in each of the study questions so as to ensure minimal margin of error and assure the highest levels of accuracy during the data analysis. The data collected from the questionnaire was systematically organized in a manner to facilitate analysis (Cooper, 2008).

The collected data underwent the following procedures as preliminary stages in analysis. The filled questionnaires were checked for completion and cleaning of any existing omissions and irregular entries followed by coding the open ended responses. The questionnaires were then keyed in a data mask or editor prepared against the tool for analysis using Statistical Package for Social Sciences (SPSS) package – version 20.0 (This served as the Database). SPSS was preferred because it is very systematic and covers a wide range of the most common statistical and graphical data analysis (Cooper, 2008).

Various statistical tests were performed against the following elements: The estimation methods was utilized based on financial ratios focusing on operating costs, market share analysis method and in order to determine and test the correlation ratio between the dependent variable (Effect of merger) and independent variables (i.e. operating costs, market share), the Statistic test was calculated as well as the probability associated to each combination of variables. This assisted in estimating parameters and testing the level
of significance. Therefore, by analyzing the results from these findings of the test and level of significance, it was possible to depict the relationship of Merger effect specifically on operating costs, market share based on ICEA LION merger. In order to arrive at a logical conclusion, financial ratios focusing on operating costs, market share in the pre-merger and post-merger was compared. The selected financial ratios of ICEA LION for over a 3-years period before Merging and 3-years after Merging, the Merging exercise was summed up, and the mean for each financial ratio focusing on operating costs, market share was calculated and the study excluded the year the merger took place because it usually includes recognition of a number of a typical event which may distorts comparison (the data was from annual Insurance Regulatory Authority Reports for the years before merger (2008, 2009 and 2010) and after the merger (2012, 2013 and 2014) (ISRA magazine, 2015).

Descriptive statistics included frequencies and percentage where appropriate and was provided in table, charts and graphs forms. Different types of descriptive analysis was provided beginning with characteristics of the study’s respondents, their general responses to the operating costs, market share and effects of mergers on product and services efficiency and finally, comparisons on their responses across demographic variables (Mugenda, 2003).

3.7 Chapter Summary

This chapter discusses the criteria for determining the appropriate methodology for a study. The chapter covers a description of the study design; Data collection methods were clearly outlined whereby the research procedures mainly employed primary sources of data collection as well as secondary sources. This chapter also describes the research procedures used whereby the researcher got an authorization letter from the University. The next chapter four examined the descriptive characteristics of the sample, explaining the respondents’ profile and their responses. This was followed by presenting results as per the study research questions.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the analysis, presentation, discussion and interpretation of the data collected from the administered questionnaires. Descriptive statistics such as frequencies and percentages were used to analyze the data. Questionnaires were used as interview guide instrument. Questionnaires were administered to the respondents for them to fill. A total of 77 questionnaires were administered and the study managed to obtain 52 completed questionnaires representing 68% response rate.

![Response rate](Figure 4.1: Response Rate)

4.2 General Information

The researcher in this study considers the background information to be very meaningful and attaches a lot of importance to it because of the role it plays in laying the foundation for the understanding and interpretation of the responses issued by the respondents in the study.

4.2.1 Gender

It was significant to seek information about gender in order to determine whether gender disparities play a role in business success. The researcher sought and obtained the gender details of respondents who participated in the research. Majority (62%) of the respondents were male while 38% were female.
4.2.2 Ages of Respondents

Data on respondents’ age brackets was important for this study because it was to indicate whether most insurance firms are managed by experienced entrepreneurs in active employment elsewhere. The findings evidence that 29% of the respondents were the majority representing the age brackets of above 45 years followed closely by those of 41-45 years and 30-40 years.

Table 4.1: Ages of Respondents

<table>
<thead>
<tr>
<th>Age in (years)</th>
<th>frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25 years</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>26-30 years</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>31-35 years</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>36-40 years</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>41-45 years</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>above 45 years</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.3 Level of Education

The respondents were further requested to indicate their highest level of education. It is important to consider the level of education of the respondents because it has an impact on the way the respondents interpret the questions. The study found out that 10% of the respondents had doctorate degree, 21% Masters Degree, 21% bachelor’s degree, 33% diploma qualification and 15% with certificate qualification.
4.2.4 Employer

Information about types of employers was important for this study in order to ascertain whether merged firms benefited from horizontal integration given the economies of scale that they know enjoy. The researcher sought to find out that types of employers whereas 54% ICEA and Lion Insurance 46%.

4.2.5 Work Experience

Information on work experience enables the researcher assesses its contribution to efficiency and cost saving among merged firms. The table 4.3.5 shows that there was almost an equal representation of the respondents with different work experience at the
two insurance firms. 23% had below 5 years, 29% at least 5-15 years, 48% more than 15 years.

![Work experience chart]

**Figure 4.5: Work experience**

### 4.2.6 Job Position

It was important to collect information on employee job position so as to establish the degree of involvement in decision making. The study further sought to know the number of employees based on job positions 8% from top management, 35% ICEA employees and 58% ICEA customers.

**Table 4.2: Job Position**

<table>
<thead>
<tr>
<th>Job category</th>
<th>frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICEA top management staff</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>ICEA employees</td>
<td>18</td>
<td>35</td>
</tr>
<tr>
<td>ICEA customers</td>
<td>30</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

### 4.3 Relationship of operation cost in firms through horizontal integration

Information on effect of operation cost merged firm was considered significant for this study. This was because cost advantage exists when firms merge, and are able to deliver the same benefits as competitors but at a lower cost. The researcher wanted to know whether reduction of operation cost affect horizontal mergers. 73% agreed while 27% did not.
4.3.1 The Effect of Reduction of Cost in Firms through Horizontal Integration

The researcher sought to find out how the respondents rated the effect of reduction of cost in firms through horizontal integration. The response was 38% extremely high, 29% high, 21% less extreme, 10% moderate extreme and 2% no effect.

4.3.2 Statement on Effect of Cost Reduction on Mergers

The respondents were asked to respond to a statement on effect of cost reduction on mergers. 44% strongly agreed that mergers leads to cost reduction, another 29% reported agreed that mergers affect cost reduction, 17% were neutral, 6% disagreed and 4% strongly disagreed.
Table 4.3: Statement on Effect of Cost Reduction on Mergers

<table>
<thead>
<tr>
<th>Effect of mergers</th>
<th>percentages</th>
<th>Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>strongly agree</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3.3 Statement on Effect of Cost Reduction on Mergers

The researcher sought to identify the effect of cost reduction on mergers using a Likert (1-5) scale, indicated as 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree. The following sub-section presents a summary of the findings using correlation data.

Table 4.4: Statement on Effect of Cost Reduction on Mergers

<table>
<thead>
<tr>
<th>Correlations</th>
<th>increased capabilities</th>
<th>better distribution network</th>
<th>complement current product</th>
<th>succession</th>
<th>cost reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>increased capabilities</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>better distribution network</td>
<td>.633**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>complement current product</td>
<td>.643**</td>
<td>.688**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>succession</td>
<td>.623**</td>
<td>.526**</td>
<td>.831**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>cost reduction</td>
<td>.465**</td>
<td>.421**</td>
<td>.506**</td>
<td>.638**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

As per the results of the correlation of the independent variables; increased capabilities, better network distribution, complement current product, succession and cost reduction indicated a strong correlation among themselves of above 0.5. Assuming that 0.5 and above correlation is significant, we can conclude that better network distribution, cost reduction and choosing a successor has led to increased capabilities derived from expanded research and development opportunities.
4. 4 The Relationship between Market Share Increase and Horizontal Integration

4.4.1 Increased Market Share

The researcher sought to find out whether mergers influence increased market share for firms through horizontal integration. 77% of the respondents agreed whereas 23% did not agree.

![Response](image)

**Figure 4.8: Increased Market Share**

4.4.2 Level of Influence of Market Share on Mergers

Majority of the respondents represented by 58% reported that a firm's market share has a very high influence on mergers, this was followed closely by 15% high influence, 13% moderate influence, 10% less influence and 4% no influence respectively. Majority of the respondents associated this effect to the fact that market shares can directly influence firms’ competitive incentives. For example, if a price reduction to gain new customers would also apply to a firm’s existing customers, a firm with a large market share may be more reluctant to implement a price reduction than one with a small share.

![Figure 4.9: Level of Influence of Market Share on Mergers](image)
4.4.3 Likely Hood to Increase Market Share

The researcher sought to find out if merged firms are in a better position of increasing their market share. 44% of the respondents were far better, 25% better, 17% somehow, 10% not at all, 4% can’t tell. This implied that revenues in the relevant market tend to be the best measure of attractiveness to customers, since they reflect the real-world ability of firms to surmount all of the obstacles necessary to offer products on terms and conditions that are attractive to customers of which all depends on the firm’s market share.

![Increased Market Share](image)

**Figure 4.10: Likely Hood to Increase Market Share**

4.4.4 Mergers Influence of Market Share

The respondents were asked to respond to a statement on whether mergers influence increased market share for firms through horizontal integration. 38% strongly agreed that mergers leads to cost reduction, another 38% reported agreed that mergers affect cost reduction, 35% were neutral, 13% disagreed and 5% strongly disagreed.

**Table 4.5: If Mergers Influence Market Share**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>
4.4.5 Mergers and Market Share

The findings was that mergers influence the market share of a firm, this was represented by 42% who strongly agreed, 19% agreed, 21% neutral, 13% disagreed and 4% strongly disagreed.

![Bar Chart: Mergers and increased market share](image)

**Figure 4.11: Mergers and Market Share**

4.4.6 Statement on Mergers and Market Share

The respondents were asked to whether the above statement has an effect on mergers. The response was measured using the likert scale where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree. The following sub-section presents a summary of the findings using correlation data.

**Table 4.6: Statement on Mergers and Market Share**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>access huge market</th>
<th>risk of product diversification</th>
<th>improve in liquidity position</th>
<th>elimination of competition</th>
<th>attain economies of scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>access huge market</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>risk of product diversification</td>
<td>.583**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>improve in liquidity position</td>
<td>.651**</td>
<td>.714**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>elimination of competition</td>
<td>.597**</td>
<td>.676**</td>
<td>.820**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>attain economies of scale</td>
<td>.559**</td>
<td>.554**</td>
<td>.601**</td>
<td>.879**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
As seen in the table, there were independent variables with 0.5 and above which indicated a strong correlation. For instance, access to huge market was seen to be correlated with elimination of competition and attaining economies of scale as well as improving the liquidity position. Assuming that 0.5 and above correlation is significant, we can conclude that access to huge market has led to positive impact on all the other independent variables.

4.5 The Effects of Mergers on Product and Services Efficiency through Horizontal Integration

4.5.1 Effect of Performance Efficiency in Merged Firms
The respondents sought to find out whether mergers affect product and services efficiency through horizontal integration. 81% response was positive whereas 19% response was negative.

![Response Chart](image)

**Figure 4.12: Mergers and Services Efficiency**

4.5.2 Product and Service
The researcher sought to find out the level at which mergers affect product and services efficiency through horizontal integration. 35% noted that the influence is very high, 33% high influence, 12% moderate influence, 13% less influence and 8% no influence. The response was in line with the findings of Ivaldi (2003) that when companies enter into a merger their products and services efficiency is be achieved in the long-run and in the short-run, which makes them remain more customer focused thus increasing the level of customer retention and satisfaction.
Figure 4.13: Product and Service

4.5.3 Effect of Mergers on Service Efficiency

The researcher sought to find out the extent effect of mergers on service quality. 77% of the respondent agreed that service quality has an effect while only 23% disagree.

Table 4.7: Effect of Mergers on Service Efficiency

<table>
<thead>
<tr>
<th>Effect of mergers on service quality</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>40</td>
<td>77</td>
</tr>
<tr>
<td>NO</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.4 Effect of Mergers on Service Efficiency

Data on effect of mergers on services was significant because restriction of competition is very often the main reason of merger activity as it serves to counteract competitive pressure. The diagram above shows a response on the effect of mergers on service efficiency on firms in horizontal integration. 48% strongly agreed, 21% agreed, 13% neutral, 10% disagreed and 8% strongly disagreed.
4.5.5 Statements on Market Share

The respondents were asked to whether the above statements have an effect on mergers. The response was measured using the likert scale where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree. The following sub-section presents a summary of the findings using correlation data.

Table 4.8: Statements on Market Share

<table>
<thead>
<tr>
<th></th>
<th>effects of efficiency</th>
<th>positive alliance</th>
<th>reduction in operation cost</th>
<th>identification of creditworthiness</th>
<th>improvement in bargaining power</th>
</tr>
</thead>
<tbody>
<tr>
<td>effects of efficiency</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>positive alliance</td>
<td>.638**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reduction in operation cost</td>
<td>.563**</td>
<td>.764**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>identification of creditworthiness</td>
<td>.456**</td>
<td>.744**</td>
<td>.777**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>improvement in bargaining power</td>
<td>.455**</td>
<td>.399**</td>
<td>.535**</td>
<td>.545**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

As seen in the table, there were independent variables with 0.5 and above which indicated a strong correlation. These include variables such as improvement in bargaining power which can be seen to be attributed to firms’ willingness to increase prices after the merger. Reduction in operation cost was also seen to be correlated to efficiency effects altering both fixed and variable costs of the firm resulting in a change in optimal pricing policy.
4.6 Chapter Summary

This chapter examines and interprets the data collected pegged in relation to the three research objectives; Relationship of operating cost in firms through horizontal integration, The relationship between market share increase and horizontal integration, and Effects of mergers on products and services efficiency through horizontal integration. This is done systematically through presentations and discussions while analyzing data collected through questionnaires. Critical analysis is taken in to play addressing two key groups of ICEA LION, the management and customers. The research further taps in to the different levels of managements so as to bring to light the variables such as work experience, Job position that come to play. The analysis is far from shy as it confronts different types of customers in order to understand the effects of the horizontal integration in ICEA LION. The next chapter will use the findings of chapter four to discuss, conclude and further give viable recommendations on the subject.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, conclusions and recommendations based on the findings. The aim of the study was to explore the effect of competitive advantage gained through horizontal integration. The chapter is organized as follows: Section 5.2 presents a summary of the findings; Section 5.3 presents the discussions; Section 5.3 presents the conclusions and section 5.4 presents the recommendations for policy and 5.5 recommendations for further research.

5.2 Summary

The purpose of the study was to establish whether mergers create competitive advantage for firms. ICEALION was of interest in this study being one of the success stories of merger strategy. The research was guided by three research questions which were developed to ascertain the level of competitive advantages on merged firms, these questions were; whether mergers lead to reduction of operating costs, whether mergers results in increased market share and the effects of mergers on product and services efficiency.

The research adopted a descriptive research design. This methodology was undertaken in order to ascertain and describe the characteristics of the variables of interest in the study which were operating costs, increased market share and services efficiency. Since the population involved individuals of different cohorts, stratified random sampling was employed to select 77 representative respondents from the categories of management team and customers. The researcher used questionnaires as a tool for collecting data for this study. The questionnaire contained both open and closed ended items for collection of primary data. Due to the nature of the data obtained from the respondents, several data analysis techniques were employed in this study. The techniques include; Correlation analysis and descriptive statistics were used where the data was presented in tables and pie-charts.

The researcher found out that reduction of operation cost affect horizontal mergers; this was attributed to by 73% agreed while 27% did not agree. The responses of those who participated in the study as regards to this research question clearly underscored the fact
that with mergers and therefore the consequent increase in the new firm’s size and spectrum then the lower the costs of operation. This is attributed to the effect of economies of scale and the new bigger firm is able to save on much of its overheads because of the merged operations.

On whether mergers influence increased market share for firms through horizontal integration the researcher noted that 77% of the respondents agreed whereas 23% did not agree. This implies that mergers enable companies penetrate to new geographical markets to support growth by capitalizing on economies of scale and increase on customer base among other. Essentially this can be directly attributed to the fact that gaining market share is an expensive undertaking which is highly priced in the business arena. This is because of the advantages that come as byproducts of the same. When the two entities such as ICEA and LION insurance came together they were able to complement each other’s markets and result with a sizeable market under the newly formed entity in the name of ICEALION.

The findings on the extent of the effect of mergers on service quality were that 77% of the respondent agreed that service quality had an effect while only 23% disagreed. The majority 77% attributed this to the reason that today’s customers face a growing range of choices in the products and services they can buy. The findings here go in line with the fact that product and service efficiency require huge resources to implement and by two firms coming together to form one single entity then the resources pooled together allow for the investment in the improvement of service and product quality as observed.

5.3 Discussions

The results obtained from the respondents who took part in the study have been analyzed and discussed in line with the research questions as they appear in 1.4. In essence this section aims to compare and draw relationships from the study’s findings to the theoretical facets captured in the literature review section earlier in chapter two of this research.
5.3.1 Savings of Operating Cost in Merged Companies

It was notably found out that increased operating cost comes from expanded research and development opportunities or more robust manufacturing operations among merger firms, the response was 58% strongly agreed, 23% agreed, 15% natural 2% disagreed and 2% strongly disagreed. The findings on whether companies may decide to merge into order to gain a better distribution or marketing network 50% strongly agreed, 35% agreed, 13% neutral, 2% disagreed and 0% strongly disagreed. While whether reason for merging companies is to complement a current product or service.58% strongly agreed, 23% agreed, 15% neutral, 2% disagreed and 2% strongly disagreed. On whether the company may need to merge or be acquired if the current owners can’t identify someone within the company to succeed them 65% strongly agreed, 27% agreed, 4% neutral, 2% disagreed and 2% strongly disagreed.

This was in line with the literature review by Weber (2015) that by merging, the firms reduce the idiosyncratic risk, which leads to less volatile revenues, and so the firm is more likely to be able to meet debt obligations. Studies of the cost effect of mergers have focused primarily on estimating cost functions and asking whether mergers fit those functions Gibbs, (2007) affirms that, merged firms may operate more efficiently than two separate firms, this is by achieving greater operating efficiency in several different ways through merger or an acquisition.

Thompson (2008) asserts that the key purpose of competitive strategy is to steal the show off rivals companies by doing a better job of satisfying buyer needs and favorites. By adopting a winning strategy a merged firm is able to gain competitive advantage which grows fundamentally out of value a firm is able to create for its customers that exceed the firms cost of operations, thus merged firms does not necessary reduce operation cost. According to the literature by Porter (1980) firms often drive their cost lower through investments in efficient-scale services, tight cost and overhead control, in addition to cost minimizations in such areas as service, selling and advertising.

Weber (2015) added that many mergers and acquisitions are undertaken with the promise of significant cost savings through workforce reduction. However, the issue of whether the projected synergies are achievable is often left for integration teams to tackle. Companies could benefit from using a practical framework that not only validates the
workforce synergies available at the pre-deal stage but also highlights the operational risks associated with closing this type of transaction. He outlined that synergies can aid companies in many ways such as enabling a lower cost structure which is likely to allow a company to shift its priorities to a more price-sensitive segment of the market, such as, generation of new revenue sources. However, Weber maintains that managers should focus on synergies only after dealing intently on marketing, since the urge to bring down redundancies and costs can shift their attention away from the markets and customers where the real worth lies. Mismatch of corporate cultures could result into problems and is often ignored during the decision process of a merger. Workers might also have incentives to exert less effort in a merged firm and this is because exerting effort fails to pay off. They may therefore have more incentives to pursue personal objectives instead of those of the firm.

Thompson (2008) disagreed with these findings and asserted that operational synergies in the context of business combinations can take many forms, ranging from the cross-selling of products to the rationalization of product portfolios. However, pure head-count reduction continues to be one of the most direct approaches in delivering efficiency target.

This contradicts the literature by Sheen, (2014) that removing any duplication through the consolidation of functional areas, re-alignment of resources and optimization of technology can drive immediate improvements to operating margins, with subsequent restructuring costs being recognized below the all-important EBITDA line. For industries that are labor-intensive, significant cuts in the workforce would decrease not only the direct salaries and benefits costs but also other head-count-driven expenses such as travel, training, motor vehicles and offices and computers, all of which can add an additional 10 to 20 per cent to the projected annual cost savings.

5.3.2 Effects of Market Share in a Company that has Merged

It was found out that mergers allow the merging companies to group with the aid of their products in order access to a bigger set of consumers 51% strongly agree, 31% agreed, 10% neutral, 5% disagreed and 3% strongly agree. While 54% strongly agree, 37% agreed, 10% neutral, 5% disagreed and 1% strongly agree that product divisions which do not fit into the company’s main line of business risk being divested has an influence on mergers. The findings on whether mergers and acquisitions improve liquidity and have
direct access to cash resource were 59% strongly agree, 34% agreed, 3% neutral, 1% disagreed and 3% strongly agree. While on the statement that mergers and acquisitions enable to eliminate competition and protect existing market by obtaining new market outlets 35% strongly agree, 36% agreed, 14% neutral, 10% disagreed and 5% strongly agree. Lastly on the statement that mergers enables companies to achieve economies of scale by amalgamating production facilities through more intensive utilization of plant resources 37% strongly agree, 40% agreed, 10% neutral, 10% disagreed and 3% strongly agree.

The literature review by Swaleh (2015) mergers does not necessary lead to increased market share, because a merger may on the other hand, lead to an increase in output, because the merger significantly increases the efficiency of the combined firm thus leading to product improvements and demand shifts. Secondly existing literature by Sheen, (2014) noted that mergers that cause a significant increase in concentration and result in highly concentrated markets are presumed to be likely to enhance market power when the agencies identify a potential competitive concern with a horizontal merger, market definition plays two roles. Chatzkel (2009) noted that where analysis suggests alternative and reasonably plausible candidate markets, and where the resulting market shares lead to very different inferences regarding competitive effects, it is particularly valuable to examine more direct forms of evidence concerning those effects.

Amir (2009) also explored on the impact of mergers on product sales. The findings revealed that generally, there appears to be no significant change in when it comes to market share after an acquisition. Instead, target market share escalates when a firm states specific goals such as sales growth in the merger announcement. Even though diversifying acquisitions may not bring out strong evidence on cost synergies, post-acquisition market share and distinct brand count, they still remain potentially higher in these deals as compared to when two industry participants join. This implies that the cost borne by horizontal mergers is likely to be due to product market overlap which in turn leads to brand pruning. Merger parties also take part in pruning the number of models sold in store within a brand. This eradication of complexity is the likely reason why market share remains constant even after offering better customer value.
Crane (2011) emphasizes that mergers may improve profits through the exercise of additional market power in setting prices. An increase in market concentration or market share may allow the consolidated firm to charge higher rates for the goods or services it produces, raising profits by extracting more surplus from consumers, without any improvement in efficiency. As mentioned in the literature review sections (2010), the process of automation has led to the disappearance of a number of low-skilled administrative functions. In addition, many labour intensive services have been outsourced to the low wage economies of the African and Indian sub-continent. Outsourcing has been one of the most significant trends in employment not only in the financial services sector, but also in the economy as a whole. Customer services and sales functions are today more likely to be provided by call centers, which handle high volumes and generally operate with low-skilled, low-paid staff. As a result job satisfaction in call centers is generally low and staff turnover rates are high, which necessarily has an impact on the quality of service provided (Phillips, 2010).

5.3.3 Relationship of Service Efficiency and Mergers

The findings was that efficiency can alter both fixed and variable costs of the firm, resulting in a change in optimal pricing policy 51% strongly agree, 31% agreed, 10% neutral, 5% disagreed and 3% strongly agree. While 54% strongly agree, 37% agreed, 10% neutral, 5% disagreed and 1% strongly. The statement on whether firms are more willing to increase prices after the merger, was that merged firms takes externalities imposed on the partner-firms into account 59% strongly agree, 34% agreed, 3% neutral, 1% disagreed and 3% strongly agree. The statement that the lender is not able to identify creditworthiness of the borrower35% strongly agree, 36% agreed, 14% neutral, 10% disagreed and 5% strongly agree. While the finding on the statement that when firms become larger, their bargaining position improves, the response was  37% strongly agree, 40% agreed, 10% neutral, 10% disagreed and 3% strongly agree. This agrees to the findings from the literature by Chen (2013) that the ability of firms to contact and discriminate between customers ‘at a distance’ through the use of the technologies that comes with mergers has encouraged extensive branch closure programs and the growth of alternative distribution channels, such as telephone call centers and, more recently, internet-based insurance services.
Literature review by Tenn (2010) also realized that the merging firms always reduce quality, the non-merging firm responds by increasing quality. The reason is that the outside firm also responds to the merger by increasing prices, and a higher profit margin makes it profitable to increase quality, thus making qualities net strategic substitutes among firms. In fact, the quality response by the outside firm is sufficiently strong to ensure an increase in average quality (weighted by demand) in the market as a result of the merger. Whereas Willig (2011) points out that the non-merging firm always responds to the merger by increasing prices, the merging firms increase prices only if demand responsiveness to quality is sufficiently low.

The literature review by Tenn (2010) noted that cutting the workforce may facilitate the economies of scale and scope that come with sharing resources, it is important that the right people are cut and that the more productive, high-performing staff members are retained. Not surprisingly, mergers often trigger unwanted turnover in the top-quartile of performers, as these employees in the target company tend to assume that they would be a part of the layoff, or that they are not compatible with new company organizational direction. On this basis, the most valuable employees that new company can least afford to lose tend to be the first to leave the organization, and they often move to the competition.

The study also identified the rise in job dissatisfaction as merging impact. This in line with the findings of Andrea (2015) where he identifies the fact that mergers make workers not want to exert effort. This is probably as a result of the more formal and impersonal environment resulting from the merger. Problems related to cooperation are also likely to be experienced as a result of the merger. Inefficiencies were also seen to occur from the increased friction and confusion as a result of merging adding to the sources of job dissatisfaction.

Then study also revealed that cost inefficiencies are likely to be experienced as a result of merging. The merging process tends to be very costly and at the same time it is a risky transaction which gives rise to many costs before, during, and even after the merger. This is in line with the findings of Betton (2008) who also added that diseconomies of scale may arise, since the larger firm has a more complex organizational structure, hence it needs to pay higher wages or even spread its specialized resources in the organization. Merger could also
give rise to lower incentives to invest in research and development thus leaving opportunities to lower future costs unexploited.

According to the literature review by Hans (2000) he asserted that some important drivers for merger are not publicly stated. Mergers have a negative effect on delivery of services because of a loss of managerial focus on services. Planned developments in services can be delayed for several months. Larger sizes after mergers may have unintended negative consequences, as well as predicted advantages. The tendency for one trust's management team to dominate over the other may result in tension. Hans (2000) added that perceived differences in organizational culture were an important barrier to bringing together two or more organizations.

In the literature review Fan (2013) additionally found out that, because of the non-uniform effects of a merger on quality and price, the welfare effects are generally ambiguous. We show that consumer utility is reduced on average, although some consumers may actually be better off: if demand is sufficiently quality-elastic, the utility gain of the quality increase outweighs the utility loss of the price increase for consumers who buy from the non-merging firm. It is very difficult to isolate the impact of mergers and acquisitions upon the quality of products. As indicated earlier, the range of products offered by retail financial institutions has increased (Schenk, 2000). Moreover, the industry insists that its move to an ‘at-a-distance’ mode of service provision is demand-led. Maingi (2013) affirm that competition for market share by many players has led to price conflicts with a number of insurers charging unsustainable premiums and this has compromised service delivery as the insurers are not able to fund infrastructure for efficient delivery of services and claims settlement.

5.4 Conclusions

As noted earlier, the overall level of operating cost efficiency was higher than the level of profit efficiency (Figure 4.2.10). This indicates that on the average combined insurance firms did not operate at constant returns to scale and did not efficiently select their input combinations.
5.4.1 Savings of Operating Costs in Merged Companies

This subsection represents the first research question of the study which sought to find out whether mergers lead to the reduction in operating costs through the horizontal integration that occurs. From the study it is clear that ICEALION adopted the strategy when each of the firms then independent was going through turbulent financial regimes then. On realization that something had to be done for the firms to survive they came together to shore up their capabilities and try to assert their space in the lucrative but competitive insurance industry. The study came to the conclusion that by the two firms merging they were able to survive and remain relevant to date.

5.4.2 Effects of Market Share in a Company that has Merged

Theory predicts that horizontal mergers have the potential to increase market share via increased economies of scale. An increase in market power will result in higher profits and reduced sales. The net effect will depend on the trade-off of market power for cost reduction (Gadhawe, 2007). Therefore, it is possible to test whether a merger has increased market power or efficiency by examining whether sales expand by more or less than is expected if the two firms had not merged (Ogolla, 2005). Thus, a reduction in sales of the merging firms relative to the non-merging ones would indicate that the market power effect dominates the efficiency gains. On the other hand, an increase in sales would be consistent with the hypothesis that the efficiency effect dominates over the market power effect.

5.4.3 Relationship of Service Efficiency and Merges

The issue of product and services efficiency is key to the industry that ICEALION is operating in. The findings of the study reveal that by merging ICEA and LION insurance companies were able to improve on this key attribute in this line of business. The study came to the conclusion that by merging ICEA and LION insurance companies into one single entity of ICEALION the two firms made the right decision. This is supported by the positive results and performance the firm has experienced since implementing the strategy fully.
5.5 Recommendations

5.5.1 Recommendations for Improvement

This section presents the research’s findings on the limitations and shortcomings of the study. It goes ahead to suggest on the recommendations for further studies based on the discussions in previous chapters. The section also gives insight on what can be done to guarantee the success of future corporate mergers.

5.5.1.1 Savings of Operating Cost in Merged Companies

The findings on the study on the same reveal that in this age of fierce competition and dynamism in the corporate world, mergers are the best solutions to struggling corporate entities. With the challenges surrounding the execution of mergers notwithstanding corporate should consider mergers as a way to shore up their capabilities and vouch for their survival in the corporate space.

5.5.1.2 Effects of Market Share in a Company that has Merged

The respondents in the study were by a huge majority of the view that mergers such as the case of ICEALION were bound to result in increased market share through horizontal integration. This is literally supported by the obvious reasons of having been able to pool resources together to take on the rivals in the market. With the boost in capabilities as a result of coming together results in an unrivalled corporate might. This is enough reason to bet on mergers as a way of increasing market share in a given industry in the event of highly dynamic business competition. From the study the overall opinion would be a green light to adoption of mergers as a way of improving market share.

5.5.1.3 Relationship of Services Efficiency and Merges

Due to the nature of the industry of interest in this study, product and services efficiency is key to gaining competitive advantage. Corporates such as ICEALION should invest heavily in improving the efficiency of their products and services as well. The study reveals that product and services efficiency can come through well managed mergers which result in success.
Merged companies should focus on cost cutting through economies of scale, strengthening the company’s market position, gaining access to new markets, global expansion, gaining a talented workforce, acquiring new knowledge and expertise, gaining a new customer base, and pursuing new technologies. However, although mergers and acquisitions are being aggressively pursued by companies, recent studies have indicated that 60-80% of all mergers are financial failures when measured by their ability to deliver profit increases (Hamaguchi 2012).

5.5.2 Recommendations for Further Studies

The study focused largely on the competitive advantages gained through corporate mergers and specifically in the case of ICEALION group. The findings of this study are laden with lots of useful information on how to tackle the increasingly dynamic corporate business environment. The case of ICEALION group as analyzed in this study is a corporate success story where two struggling firms came together to shore up each other and emerged successful.

It is hoped that this research will contribute greatly to the existing body of knowledge and form the basis for future researches. The following areas of further research are thus suggested: Whereas the current study focused on the competitive advantages gained through mergers, future studies should seek to establish the challenges encountered in mergers and acquisitions, possible interventions that may be used to address the challenges and the effect of mergers and acquisitions on firm performance.
REFERENCES


APPENDIX I: COVER LETTER

RE: Survey Questionnaire

Dear Respondent,

I am a graduate student studying for a Degree in Master of Business Administration (MBA) at the United States International University. The Purpose of the study is to establish the effect of competitive advantage gained through horizontal integration. You are part of the selected sample of respondents whose views I seek on the above-mentioned matter. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in this research. All the information you provide will be treated with strict confidentiality and used for the purpose of completing this study only. Please answer the questions as accurately as possible. **Tick the appropriate answer for each question and answer all questions please.**

I **guarantee that all information will be handled with the Strict Confidentiality.**

Thank you for your cooperation

Bertha W. Ngaru
APPENDIX II: QUESTIONNAIRE

The Questionnaire has been designed for gathering information among employees in the Insurance Company of East Africa -Lion Group. It is purely for academic purposes only. (Please tick (✓) appropriately)

SECTION I

GENERAL INFORMATION

Personal Details

1. Gender
   a) Male [  ]
   b) Female [  ]

2. Age
   a) 25-30 [  ]
   b) 31-35 [  ]
   c) 36-40 [  ]
   d) 41-45 [  ]
   e) 46-50 [  ]
   f) Above 51 [  ]

3. Level of Education
   a) Doctorate [  ]
   b) Masters [  ]
   c) Bachelors [  ]
   d) Diploma [  ]
   e) Certificate [  ]

4. Who was your previous employer before the merger?
   ______ ICEA
   ______ Lion Insurance

5. Indicate your years of experience
   a) 1-5 years [  ]
   b) 5-10 years [  ]
c) 11-15 years [  ]
   d) Over 20 years [  ]

6   Indicate your category
   a. ICEA Top management staff
   b. ICEA Employees
   c. ICEA Customers

SECTION II

Question One: Reduction of Operating Cost

1   Do mergers lead to the reduction of operation cost in firms through horizontal integration?

   a) Yes         b) No

2   How would rate the effect of reduction of cost in firms through horizontal integration

   a) Extremely high
   b) High
   c) Less extreme
   d) Moderate extreme
   e) No effect

4   Using the scale 1-5 as shown below, do you agree that mergers leads to reduction of cost in firms through horizontal integration?

   1      2      3      4      5
   Strongly agree  Agree  neutral  disagree  strongly disagree
To what extent do the following statements affect firms which are in merger using a likert (1-5) scale, indicated as 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree,

<table>
<thead>
<tr>
<th>Statement</th>
<th>response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased capabilities may come from expanded research and development opportunities or more robust manufacturing operations</td>
<td></td>
</tr>
<tr>
<td>Companies may decide to merge into order to gain a better distribution or marketing network</td>
<td></td>
</tr>
<tr>
<td>Another reason for merging companies is to complement a current product or service.</td>
<td></td>
</tr>
<tr>
<td>the company may need to merge or be acquired if the current owners can’t identify someone within the company to succeed them</td>
<td></td>
</tr>
<tr>
<td>When two companies have similar products or services, combining can create a large opportunity to reduce costs.</td>
<td></td>
</tr>
</tbody>
</table>

**Question Two: Increased Market Share**

1. Do mergers influence increased market share for firms through horizontal integration?
   a) Yes    b) No

2. What level does mergers influence increased market share for firms through horizontal integration?
   a) Very high effect
3. In terms of mergers, do you feel that merged firms are in a better position to increase their market share through horizontal integration?

   a) Far better
   b) Better
   c) Somehow
   d) Not at all
   e) Can’t tell

4. Using the scale 1-5 as shown below, do you agree that mergers influence increased market share for firms through horizontal integration??

   
   1  2  3  4  5

   Strongly agree        Agree        neutral       disagree     strongly disagree

Please explain
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

5. To what extent do the following statements affect market share for firms which are in a merger using a likert (1-5) scale, indicated as 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree,
<table>
<thead>
<tr>
<th>Statement</th>
<th>response</th>
</tr>
</thead>
<tbody>
<tr>
<td>merger allows the merging companies to group together their products and get access to a bigger set of consumers</td>
<td></td>
</tr>
<tr>
<td>Product divisions which do not fit into the company’s main line of business risk being divested.</td>
<td></td>
</tr>
<tr>
<td>Mergers and Acquisitions improve liquidity and have direct access to cash resource</td>
<td></td>
</tr>
<tr>
<td>Mergers and Acquisitions enable to eliminate competition and protect existing market by obtaining new market outlets</td>
<td></td>
</tr>
<tr>
<td>Enables companies to achieve economies of scale by amalgamating production facilities through more intensive utilization of plant resources</td>
<td></td>
</tr>
</tbody>
</table>

**Question three: Service efficiency**

1. Does mergers effect product and services efficiency through horizontal integration?
   a) Yes  b) No

2. What level does mergers affect product and services efficiency through horizontal integration?
   a) Very high effect
   b) High influence
   c) Moderate influence
   d) Less influence
   e) No influence

3. How would rate the effect of mergers on service efficiency on firms in horizontal integration?
   a) Very high effect
   b) High effect
   c) Moderate effect
4 Using the scale 1-5 as shown below, do you agree that mergers influence service efficiency of firms in horizontal integration??

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>Agree</td>
<td>neutral</td>
<td>disagree</td>
<td>strongly disagree</td>
</tr>
</tbody>
</table>

Please explain

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

5 To what extent do the following statements affect market share for firms which are in a merger using a likert (1-5) scale, indicated as 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree,

<table>
<thead>
<tr>
<th>Statement</th>
<th>response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency effects can alter both fixed and variable costs of the firm, resulting in a change in optimal pricing policy when the efficiency effect affects variable costs</td>
<td></td>
</tr>
<tr>
<td>Firms are more willing to increase prices after the merger, because then they take the externalities imposed on the partner-firms into account</td>
<td></td>
</tr>
<tr>
<td>When companies merge, overheads are reduced and operational efficiency is improved since there is a sharing of central facilities such as corporate headquarters</td>
<td></td>
</tr>
<tr>
<td>the lender is not able to identify creditworthiness of the borrower</td>
<td></td>
</tr>
<tr>
<td>When firms become larger, their bargaining position improves</td>
<td></td>
</tr>
</tbody>
</table>