INVESTIGATING ACQUISITION AS A STRATEGY FOR Firms’ Expansion in Kenya

BY
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UNITED STATES INTERNATIONAL UNIVERSITY
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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY
SPRING 2015
**Student’s 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 in Nairobi for academic credit.

Signed: __________________________  Date: __________________________

Winnie Wambui Njuguna (ID 628409)

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

Signed: __________________________  Date: __________________________

Fred Newa

Signed: __________________________  Date: __________________________

Dean, School of Business
Abstract

With the rising number of acquisitions in different sectors of Kenya’s economy, different foreign companies have been able to expand their businesses in the market. More and more investors are choosing to go down this road instead of starting afresh in their quest to gain a greater presence in Kenya. The purpose of the study is to examine and explain the main factors fueling the use of acquisitions as a major form of entry and expansion in the Kenyan market by different foreign companies. This was to be realized by the proper investigation of the research questions; what is the rationale for acquisition strategy, the challenges faced by the acquirers in the acquisition strategy and the suggested strategies to remedy the challenges faced. The companies under study were those that acquired financial institutions in the Kenyan market between January 2012 and September 2014.

The study used both a qualitative and quantitative approach. The design chosen for the study was Explanatory design. Questionnaires and interviews were used for data collection. From a population of 10 foreign firms that had used acquisitions as an entry strategy into the Kenyan market. The study had a sample size of 40 as a result of picking two persons from each acquired company and acquiring company. The interviews were administered to 10 persons from the acquiring companies. For data analysis, the study applied both inferential statistics and descriptive statistics in order to make valid conclusions from the data collected.

Majority of the respondents from the acquiring companies leaned towards the fact that the acquisitions were fueled by both strategic reasons and the attractive growth rates and return rates in the market whereas those from the acquired companies’ respondents cited mainly the attractive growth rates and return rates in the market and the effects of economic liberalization and openness.

For the acquiring companies, majority of the respondents considered their main challenge to be transparency issues whereas the acquired companies’ respondents considered culture clash to be the greatest challenge. The study established that whenever a company faced economic uncertainty as a challenge they were also more likely to face political uncertainty as a challenge. It also established that whenever a company chose to acquire a company as a result of the attractive growth rates and the high rates of returns they were more likely to face economic uncertainty as a challenge.
The respondents from the acquired companies felt that the most effective strategy for mitigating the challenges associated with acquisitions was the possession of adequate management skills. When it came to the acquiring companies, majority of the respondents felt that the mastery of corporate governance was highly critical to address different challenges. The most ideal strategy to deal with different transparency issues as a challenge was the mastery of corporate governance.

The study concluded that the most common reason why the foreign companies chose to acquire in the Kenyan market was the attractive growth rates and high rates of returns in the market. Culture clash was the most common challenge that the acquirers faced in their quest to undertake a successful acquisition and ensure complete integration of the acquired company and the parent company. The study also concluded that the most successful strategy was considered to be the possession of adequate management skills.

The recommendations of the study are the creation of a more favorable environment in order to allow investments to thrive, proper application of change management in the process of the acquisition and regular and consistent training of the personnel. For future studies, it will be very interesting to observe and understand the changes that will occur in relation to acquisitions in the Kenyan market. This is because local companies are now more than ever engaging in acquisitions in the market in their quest to expand. It will be vital to see the reasons motivating the companies to acquire, the challenges faced and what efforts they are making to deviate the effects of the different challenges and thus compare these factors to those concerning the foreign companies undertaking acquisitions in the same market.
Acknowledgement Page

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Dedication

To Dad, still the best motivator, the most loving man and the best father any one could ask for. You are my inspiration.

To Mom, Njau, Esther, Stella, Munene, David and Max, thank you for the immense love and support and for always pushing me to do well and stay motivated.
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List of Abbreviations

ABN AMRO- Algemene Bank Nederland-Amsterdam Roterdam Bank

AT&T- American Telephone and Telegraph

CAK- Competition Authority of Kenya

M&A- Mergers and Acquisitions

UNCTAD- United Nations Congress on Trade and Development
CHAPTER ONE

1.0. INTRODUCTION

1.1. Background of the Problem

Acquisition is one of the major forms of entry and expansion in any market, be it a fully developed market or an emerging market. Other forms of entry include; mergers, joint ventures, strategic alliances, establishing wholly owned subsidiaries, through imports (both direct and indirect), licensing, franchising, through management contracts and through turnkey projects (Twarowska & Kakol, 2013). The use of acquisitions has been on a rise in different markets, including the Kenyan market, in an effort to expand business operations or simply to gain presence in a market in order to improve the acquirer’s financial performance among other business reasons (Ng'ang'a & Muthang’ato, 2013).

An acquisition can create value in various ways such as defending existing businesses, strengthening capabilities, or preparing for future emerging opportunities (Kim, Haleblian, & Finkelstein, 2011; Accenture, 2008). Firms are struggling to attain strategic agility in an organization system due to the fact that it requires the development of the three enabling capacities: to make sense quickly, make decisions nimbly, and redeploy resources rapidly (Brueller, Carmelli, & Drori, 2014). As the topic of strategic agility keeps growing in reference to organizational growth, the benefits that other mechanisms of growth such as mergers and acquisitions bring towards strategic agility remain elusive.

Any acquisition is set to bring about different cultures, orientations and practices in any business setting. These differences bring some sort of tension in the business. Without proper management of these differences, the strategy may not benefit the company (Brueller, Carmelli, & Drori, 2014). It is important to make proper analysis of the value that acquisitions will bring to the overall strategic style. Proper assessment of the value that the acquisition will bring is very necessary; a proper alignment must be made between it and the company strategy. The desired value can be challenged by unexpected integration costs and
the trauma sustained by the acquired organization which can negatively affect its performance (Brueller, Carmelli, & Drori, 2014).

In developed countries, this form of entry and expansion has been active in different sectors of the economy (UNCTAD, 2001). The following are some of the biggest acquisitions of all time; America Online’s acquisition of Time Warner in 2000 which stood at $ 186 billion, Vodafone Airtouch’s acquisition of Mannesmann in 1999 which was worth $ 185 billion, Altria Group’s acquisition of Philip Morris International in 2007 which stood at $107.6 billion, Fortis, Banco Santander, Royal Bank of Scotland’s acquisition of ABN AMRO Holdings which was worth $100 billion in 2007, Pfizer acquisition of Warner-Lambert which was worth $87.3 billion in 1996, AT&T’s acquisition of BellSouth in 2006 worth $83.1 billion and Exxon acquisition of Mobil in 1998 which was valued at $80.3 billion (Bloomberg, 2013). Most of these were domestic acquisitions in efforts to expand business activities.

Recently, cross-border mergers and acquisitions have been seen to be a major driving force behind the growth of global Foreign Direct Investments. This is in comparison to the use of investments through greenfields (UNCTAD, 2013). In the US economy, domestic acquisitions are still very common as different companies search for more avenues for expansion in their local market. However, cross-border acquisitions still remain prominent (Du & Boateng, 2012).

According to a survey done by the Grant Thornton International Business Report, the interest by North American on domestic acquisitions as an important form of business expansion and growth stood at 88% in 2013 (Grant Thornton, 2013). The report also highlighted the fact that cross-border acquisitions are on a sharp increase. In Europe, there was more emphasis on cross-border acquisitions compared to domestic acquisitions. The reliance of domestic acquisitions as an expansion strategy stood at 71% in 2013. Different companies in this region were seen to consider expansion through cross-border transactions. This stood at 44%, with Spain and Germany being more optimistic and more willing to engage in these transactions. Eighty four percent of UK and Irish companies were still more dependent on domestic acquisitions but with 33% of these companies still putting some sort of effort in cross-border acquisitions (Grant Thornton, 2013).
In the Asia-Pacific region, the same survey showed that India had a 59% increase on cross-border acquisitions. Japanese firms showed a 50% increase in cross-border acquisitions, with high expectations still on growth through domestic acquisitions. This stood at 91%. Singapore and United Arab Emirates stood at 86% and 66% respectively in terms of cross-border acquisitions. It is important to note that out of the surveyed nations in terms of Mergers and Acquisitions (M&A), Australia stood at 94% preference in terms of domestic acquisitions for their acquisition strategy (Grant Thornton, 2013).

In Africa, acquisitions have been considered to be important when it comes to investing for both local and global market players (Du & Boateng, 2012). This is because it has created room for business expansion and better returns and more control of the different countries in the African market. Although the rate of acquisitions keep rising day after day, the volume of acquisitions in Africa do not match the rate of acquisitions in other more developed continents (Ncube, 2012). Majority of the deals in Africa were particularly in Southern and Northern Africa. In 2012, South Africa accounted for 57% of the mergers and acquisitions deals in Africa whose total value was $12.2 billion. Uganda came in at second place.

In a report by Deal Drivers Africa which analyzed mergers and acquisitions that took place in the year 2013 in Africa, Kenya ranked fourth in the list of the most sought-after county for mergers and acquisitions in Africa. It came in after South Africa, Nigeria and Ghana which took the first three positions. In just two years Kenya had been able to beat Uganda. The report used interviews to analyze the M&A market in Africa. It interviewed 100 M&A practitioners (Deal Drivers Africa, 2013).

The Chinese, Indians and Malaysians are seen to be major investors in developing nations (Hoyningen-Huene & Rothenbuecher, 2008). They are mostly seen engaging very actively in the energy, mining and utilities sector in different African economies. In 2013, India and China had the highest value of deals. Seven of the top ten deals were by the Chinese. The largest deal in 2013 in Africa was the Emirates Telecommunications’ acquisition of Maroc Telecom of Morocco (Deal Drivers Africa, 2013). This deal was valued at $6 billion. Emirates Telecommunications is a UAE based company.
The report also highlighted the anticipation of the increase of such similar deals in the African economy. It was also anticipated that majority of the interest would come from foreign investors more than African companies looking to expand into other African countries (Deal Drivers Africa, 2013).

The following are some of the acquisition deals that have already taken place in Kenya since the start of 2014 in different sectors; Artcaffé’s acquisition of Dormans, and Tuskys acquisition of Ukwala (However this matter was however under review by the Competition Authority of Kenya as it felt the right procedures were not followed. The court allowed Tuskys to operate the branches acquired from Ukwala on 24th September 2014(Machuhi, 2014)), Brookside’s acquisition of local dairy companies, and South African City Lodge Hotel’s complete acquisition of the Fairview Hotel. There seems to be more of acquisitions by foreign firms of local companies than by other local firms.

In 2013, L’Oreal acquired health and beauty division Interconsumer Limited from the founder, Mr. Paul Kinuthia (Okoth, 2014). Other previous notable deals include ECP Africa Fund’s acquisition of a 90 per cent stake of Nairobi Java House, Dimension Data Holdings acquisition of Access Kenya Group worth $36 million and Altech Kenya Data Network acquisition by Liquid Telecommunications (Okoth, 2014). Others worth noting are Centum Investments’ takeover of Genesis Investment Management, Cavendish Square Holding acquisition of ScanGroup, Tiger Brands 100% acquisition of the Rafiki Mills and the Magic Oven Bakery, the acquisition of CMC by Al-Futtaim and Mercantile Insurance’s acquisition by the Moroccan Saham Group, Britam’s 2013/2014 99% acquisition of Real Insurance (Ng'ang'a&Muthang’ato, 2013; Mutulu, 2014; Kenya Investment Authority, 2014).

Family businesses have been seen as more likely targets for acquisitions over the years. It seems that the more successful they are, the more vulnerable they are to acquisitions. For instance in 2013, South Africa’s Massmart made a bid to acquire Kenya’s Naivas Supermarket. They were attracted to the Kenyan supermarket because of its success and fast growth in the Kenyan retail market. However, they decided to invest via a greenfield (Ciuri, 2014).
The report by Deal Drivers Africa recognized three major hurdles involved in acquisitions; economic uncertainty, political risk and transparency, in terms of limited access to important information (Deal Drivers Africa, 2013). These hurdles have hampered the successful process of takeovers by different interested parties.

1.2. Statement of the Problem

Despite the different benefits that companies accrue when they select entry strategies other than acquisitions, more and more companies are choosing to grow and internationalize through this strategy. Cross-border and domestic acquisitions are very common, and every day is characterized by one company making a bid for another (Du & Boateng, 2012).

The entry of other foreign firms in the Kenyan market seems to be increasing the ownership of firms by different foreigners, as more locals sell out their companies. With the frequent use of acquisitions in the Kenyan market, previous company owners are left without majority control, or any form of control of their business (Okoth, 2014). Some enter the acquisition deal willingly whereas others are forced into such deals. And with the growth of the Kenyan economy, one can assume that the more these local companies rise they will be more vulnerable and susceptible to being acquired.

In the period between January 2012 and September 2014, a number of financial institutions have been acquired. Proper studies of these acquisitions are needed in order to bring more clarity and explanations on the use of this strategy in the Kenyan context. There needs to be more analysis into why local business owners are willing to sell their businesses to interested parties and at the same time, why foreign firms are buying out both public and privately owned business.

1.3. Purpose of the Study

The purpose of the study is to examine and explain the main factors fueling the use of acquisitions as a major form of entry and expansion in the Kenyan market by different foreign and local companies.
1.4. Research Questions

1.4.1. What is the rationale for acquisitions as an entry strategy in Kenya?

1.4.2. What are the challenges associated with acquisitions in Kenya?

1.4.3. What are the suggested strategies for mitigation?

1.5. Importance of the Study

This study is important in that it will be able to bring more information in relation to the use of acquisition as a strategy used in business expansion and business entry options, both in theory and in practice. It will be able to highlight the strengths that come with using it as an expansion strategy. It will also be keen to highlight and analyze the challenges associated with acquisitions and how one can overcome them in order for the acquisition strategy to make sense in each situation. The current trends and the factors supporting and creating room for acquisition deals in the Kenyan market will also be analyzed.

1.5.1. The Beneficiaries of the Study

1.5.1.1. Business Owners

Business owners will benefit in terms of having more information in regards to what elements could make their business attract an acquirer. The study will also shed light on the benefits that one could gain from undertaking an acquisition. This in turn may motivate the business owner to undertake an acquisition that will be a perfect fit for his business. It will also help them in identifying the challenges encountered when seeking to make an acquisition in the Kenyan market and how to possibly overcome them.

1.5.1.2. Potential Investors

Potential investors will be able to benefit from this research because of reasons such as; they will be able to know and understand the appeal that Kenya has as a country and why its financial institutions are being targeted for takeovers. They will be able to also understand the likely challenges that they may face if they decide to invest and expand in Kenya. From
the study, they will also be able to realize strategies to counter the challenges they might face.

1.5.1.3. The Kenyan government

The Kenyan government will be able to benefit from this research because it will bring out the reasons why acquisitions are being preferred as an expansion strategy by both local and foreign investors. In turn, the government can play its role in creating a favorable environment that favors acquisitions and also ensure that fair business practices are taking place in the market.

1.5.1.4. Other Business Scholars

This study will create room for more research to be done by business scholars who seek to find out more about the acquisition trends in Kenya and other targeted industries apart from financial institutions. They will be able to draw information from the results of the research and also be able to think beyond the research and come up with other related areas for investigation.

1.6. Scope of the Study

This study will focus primarily on Kenya so as to analyze the rise of acquisitions in the market. It will analyze the firms that have acquired financial institutions in the Kenyan market between January 2012 and September 2014, and their acquired companies.

One of the major limitations of the study will be the challenge to differentiate between data associated with mergers and that associated with acquisitions. This is because most of the available data combines deals on both mergers and acquisitions, and not purely acquisitions. Another limitation will be the fact that as acquisitions are made public, the value of the deal is not always disclosed. This is very common in the Kenyan market, as well as in other developing markets.
1.7. Definition of Terms

1.7.1. Acquisition
According to Investopedia, an acquisition refers to a corporate decision by a firm to buy majority, if not all of another company’s in order to assume control of the targeted company (Bertrand, 2004).

1.7.2. Cross Border Acquisition
A cross-border acquisition refers to an investment whereby “the control of assets and operations is transferred from a local to a foreign company, the former becoming an affiliate of the latter” (UNCTAD, 2000). The acquired company becomes part of the acquiring company.

1.7.3. Greenfield
A Greenfield refers to a foreign direct investment through which a company invests in a foreign country by establishing operational facilities from scratch (Bertrand, 2004). This is the establishment of a wholly new facility.

1.7.4. Strategic Agility
Strategic agility refers to a company’s ability to continuously adjust and adapt strategic direction in core business (Doz, 2014). It can also be defined as the ability for companies to remain competitive by continuously and consistently fine-tuning and adapting to new innovative ideas and using these new ideas to come up with new products and services as well as facilitate the creation of new business models.

1.7.5. Turnkey Project
According to the Barron’s Business Dictionary, a turnkey project can be defined as a “project in which the builder assumes all risk until a certain point has been reached, usually at completion of the project or where the building is ready for occupancy” (Polyanskaya, 2010). The investor therefore takes up the project in a ready to use condition.
1.8. Chapter Summary

Acquisitions have become very common in both developed and emerging markets. Even as the rate of cross-border acquisitions slowing down in developed nations, there is still a boom in the use of acquisitions as an expansion and entry strategy in other developing countries. Kenya is seen to rise slowly up the ladder as a favorable environment to invest through acquisitions. With the challenges associated with acquisitions in Africa, it is interesting to note that this is not slowing down the rate of takeovers. With proper analysis of the financial institutions that have been taken over in the Kenyan market and their acquirers, more light will be shed on what is firing up the rate of acquisitions in Kenya.

For this research project, Chapter 2 will be an analysis of the research questions; What is the rationale for acquisition entry strategy, what makes the financial institutions in Kenya appealing, and the challenges that acquiring firms face in Kenya during and after the acquisition.

Chapter 3 will cover the topic Research Methodology. The study will rely on purposive sampling in order to better analyze and get conclusive information from the financial institutions that have undergone an acquisition. Data collection will be done through questionnaires and interviews in order to gather maximum information.

Chapter 4 will include the results and findings from the research process. It will note down the results from the research questions. The 5th chapter will be a discussion of the results and findings, and therefore be able to come up with conclusions and recommendations.
CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. Introduction

On the investigation of acquisitions as an entry strategy into Kenya, the study hopes to answer the following research questions; what is the rationale for acquisition strategy, the challenges faced by the acquirers in the acquisition strategy and the suggested strategies to remedy the challenges faced. The decision of an entry strategy is a very critical and important decision that every firm has to make before it ventures in a new market. Their choice affects different functions and strategies of the firm. It also determines how they operate and handle cases under pressure. This chapter will aim to analyze the choices affected when the companies choose to undertake an acquisition as an entry and expansion strategy. It will also analyze the challenges that different companies have faced in different parts of the world in their quest to expand through acquisitions. It will also look at suggested remedies to handle the challenges faced in order to ensure successful transition.

2.2. The Rationale for Acquisition as an Entry Strategy

Acquisitions have been preferred by some companies as a preferred entry and expansion strategy in different country over the years. They have been on the rise in both developing and developed nations. The companies that are seen to undertake acquisitions have the following characteristics; they are able to manage a broad range of risks comfortably, they have been able to master the art of improvisation and they are keen to keep in tune with the importance of culture and localization (Accenture, 2008). Acquisitions as an entry strategy help achieve different levels of organizational effectiveness, diversification and also achieve some level of competitive advantage over its competitors. Operational effectiveness can be simply defined as “assimilating, attaining and extending the best practice (Zahra, 2000). It is simply based on running the same race faster. This can be attained through acquisitions.

In a report published by Mergemarket for the year ended 2013, it was observed that the M&A activity in Africa has remained resilient and this trend looks very likely to continue.
The report also showed that over 80% of its respondents expected an increase in M&A activity in 2014. The most potential active areas for the acquisition were seen to be in the energy, mining and utilities industries. Others included the retail sector, technology, media and telecommunications industries (Deal Drivers Africa, 2013).

### 2.2.1. Attractive Growth Rates and Rate of Returns in the Industry

This has been a key attraction for potential investors. They are seen to favor investing in developing nations as a result of this (Hoyningen-Huene & Rothenbuecher, 2008). They believe they have the capability to take advantage of the favorable conditions and therefore acquire some of the companies in the market (Deal Drivers Africa, 2013). In 2013, IMF estimated the growth for Sub-Saharan Africa to be 5.4% in 2014. This is a great contrast to the Advanced Economies growth to be at 2.2% in the same year. The Advanced Economies in this case includes USA, Germany, France, Italy, Spain, Japan, United Kingdom and Canada (International Monetary Fund, 2014). With the rapid growth of these developing nations, investment through acquisitions is looking more attractive as foreign firms come into the regions ready to take advantage of this rapid rate of growth and maximize their returns (Mutulu, 2014). The Kenyan economy witnessed a growth rate of 5.34% in 2014, 4.7% in 2013 and 4.6% in 2012, and is expected to grow at 6% in 2015 (Ministry of Devolution and Planning, 2014; Mwaniki, 2015; Kenya Institute for Public Policy Research and Analysis, 2013).

Management can sometimes be under pressure to turnaround sluggish growth and profitability. One of the main reasons for the use of acquisitions is the ability and potential of an acquisition giving a company ability to achieve explosive growth overnight. It helps a company increase its size in different ways. From the revenue perspective, a company that acquires another is able to have more revenue at the end of the day if the acquired company is making profits (DePamphilis, 2011). Also in terms of growth, the acquiring company is able to gain more market share with its acquisition. They therefore have a market presence in the economy. One is also able to access, for instance, an entirely new geographic market and new customer segments (Evans, 2000).
2.2.2. Diversification

Many companies are expanding in order to quench their thirst for diversification. Igor Ansoff spoke widely on the importance of diversification to keep the company afloat and to help it grow (Thomson Reuters, 2012). This can be achieved through acquisitions. Diversification can be deemed necessary to achieve more consistent growth and profitability in the long run. In this case, diversification is the expansion in search of either a new market for their existing products, new market for new products or new products for their current market. The main idea behind diversification is to position the firm in higher growth product or markets (Evans, 2000). Different industries are slowly coming up in completely different sectors. As a result, untapped investment opportunities have been created. This serves as a very ideal market for investors and a major driving force for acquisition activities (Deal Drivers Africa, 2013).

This can be very useful to a company that is in a very mature industry and perceives future growth to be unlikely. Diversification reduces an investor’s exposure to a firm-specific risk (New York University Stern School of Business). Through diversification through acquisition, the acquirer is able to reduce their exposure to total risk. However, it is seen that the management of traditional companies oppose expansion through diversification as they realize that running a company specializing in a particular industry will not be the same as running that in another industry (Evans, 2000).

2.2.3. Synergy

Synergy is one of the main reasons of an acquisition. Synergy in this case can be in terms of one company being able to do what it wasn’t able to on its own. With an acquisition, a firm is able to gain synergy. This synergy can take place in two forms; operational or financial. Operational synergy covers economies of scale and economies of scope. This brings about increased efficiency, lower overheads, greater scale and shared resources. Financial synergy brings about lower cost of capital (DePamphilis, 2011). It will help the company achieve what it would have wanted to achieve but could not have done it on its own. It gives the company an opportunity to increase its capabilities in financially and operationally. Synergy
is an important element in ensuring organizational effectiveness as it helps the organization work more efficiently.

2.2.4. Strategic Reasons

The acquiring company can take advantage of future opportunities that can potentially be exploited when it combines with another company. In this case, the company is positioning itself to be able to handle future occurrences (Evans, 2000). It needs to place itself in a position that it can be able to take advantage of the emerging trends (Erel, Liao, & Weisbach, 2012). Michael Porter called for firms to set themselves ahead of all their competitors in the market. They should seek to attain the highest level of competitive advantage over their competitors and thus come up with a sustainable corporate strategy (Porter, 1987). This can be realized with the undertaking of an acquisition in order to stay ahead in the market.

In some cases, a company may have a major disadvantage in a particular area, whereas another company may have a major and important strength that the other company needs. Therefore, by acquiring another company the acquirer is able to fill in an important strategic gap that would be necessary for long-term survival (Evans, 2000). Research has shown that some firms choose to acquire in order to have access to some organizational competencies. These competencies include human resources and intellectual capital. These factors can help improve operations, foster innovative thinking and development within the company (Evans, 2000).

2.2.5. Business Reasons

In some cases, it is cheaper to acquire another company than to invest internally in the new market. It may cost more to construct facilities from the ground compared to simply buying out another company. In this way, they can make a bargain purchase and end up saving a lot of resources in their quest to expand (Parker & van Praag, 2010). This gives the company a great head start and they are therefore able to compete with other existing competitors in the market without having to first concentrate on establishing themselves from scratch.

It sometimes happens that a company in a particular industry is undervalued. This therefore seems like a good investment for an acquiring company as they spend less than what they
would have had the company been priced differently. This is purely for financial reasons as the company is seeking to grow via acquiring a company that has been undervalued and not one that is priced highly. A good example of an acquirer that targets poor performing companies is Kohlberg Kravis & Roberts. After acquiring the company it replaces its entire management team in an effort to increase its depressed values and propel it to quicker and steady growth (Evans, 2000).

2.2.6. Economic Liberalization and Openness

In many economies, acquisitions have been powered to a great extent by the global economic liberalization and openness as nations are embracing a market system (Financier Worldwide, 2008). This makes it possible for both foreign and local companies to expand through acquisitions as different economies have elements that support the acquisition strategy. Therefore, a foreign company is able to invest in another country via acquisitions as long as the market system of that country recognizes and allows (Ncube, 2012).

2.2.7. Determinants of the Mode of Entry

The choice of the mode of entry affects each and every part of the operations of the business. For instance, the marketing strategy and the production strategy have to be affected. The mode of entry is also seen to affect how a firm meets and addresses the challenges that come with entering a new market (Financier Worldwide, 2008). One factor that influences the choice of entry or expansion strategy is the desired degree of control that the foreign firm gets with the choice of a particular entry strategy. Some modes give one minimal control of their investment. The mode of entry is partly determined by the degree of control that the investor wants to exercise (Johnson & Tellis, 2005). If an investor desires to have maximum control of his investment, he has to pick strategies that will enable him to be most involved the running of the business. For instance, with an acquisition the investor has more control over the investment as compared to a strategy such as exporting. The degree of control is dependent on the following factors; market potential, the firm’s capabilities and experiences and different managerial capabilities such as commitment and risk tolerance.

The desired form of contact also determines the entry strategy. When a firm wants to have a high degree of contact with the market, it has to choose a mode that allows him to be as close
as possible to the target market. These modes of entry include wholly owned subsidiaries, acquisitions and foreign direct investments. One mode that gives one minimal contact with the market includes exporting through a local intermediary (Massachusetts Export Center, 2005).

Timing has also proved important when it comes to determining the entry (Claude-Gaudillat & Quelin, 2006). Late entrants into a market are seen to favor modes such as alliances and acquisitions. Early entrants are seen to gravitate towards wholly owned subsidiaries. Therefore when getting into a heavily industrialized market, or a market with many players, the firm must choose simpler modes of entry such as acquisitions in order to save time and resources (Johnson & Tellis, 2005).

Flexibility is also seen to influence the mode of entry chosen by a firm. The more flexible the firm wants to be the more they chose a simpler mode of entry such as through exporting or by using a subsidiary. Flexibility also determines how easily a firm can exist a market if needed. With an investment such a wholly owned subsidiary and a merger, the degree of flexibility is greatly reduced (Brueller, Carmelli, & Drori, 2014).

2.2.8. Types of Acquisitions

Acquisitions can be classified into horizontal acquisitions, vertical acquisitions and conglomerates. Horizontal acquisition refers to the acquisition of a firm by another firm that is in the same line of business. Horizontal acquisitions help a company increase its market share in the company (Evans, 2000). The local acquisition of Real Insurance by Britam in Kenya is a good example of a horizontal acquisition.

Vertical acquisition refers to an acquisition of a firm by another firm that is in the same value chain as it is. In this case a manufacturer can acquire a supplier. This is in an effort to attain competitive advantage in the market. A conglomerate acquisition is whereby a firm in an entirely different industry acquires another in a different industry. Conglomerates are important in smoothing out the wide fluctuations in earnings and help provide more consistency in terms of long-term growth (Evans, 2000).
2.3. The Challenges Associated with Acquisitions

There have been some observable challenges associated with acquisitions. This has been noted despite the considerable increase in the number of acquisitions taking place all over the world. The second research question addresses the challenges that different companies have faced in different parts of the world in their quest to grow and internationalize using acquisitions.

2.3.1. Economic Uncertainty

According to the report for the year 2013, Economic Uncertainty was rated as the top major challenge that comes up with acquisitions. Sixty-eight percent of the respondents in a survey done by Deal Drivers Africa cited it as one of the major hurdles that associated with acquisitions (Deal Drivers Africa, 2013).

Investors are always looking to make an investment where the economy is stable in order to minimize the risks and thus, reap the maximum benefits from their investment. They seek an environment that is more predictable and they can therefore be able to anticipate changes and thus be able to prepare adequately for any occurrences. However as a result of the turbulence that is present in almost every industry, an economy does not always remain stable. Things are constantly changing and this is highly experienced in a company’s efforts to grow internationally. The increasing levels of turbulence increase risks and may end up jeopardizing the investment. Without proper management, the acquisition can fail as a result of one not being able to handle the economic conditions present in one’s operating environment (Financier Worldwide, 2008).

2.3.2. Transparency Issues

Fifty-eight percent of the respondents in the report conducted by Deal Drivers Africa were more concerned with different transparency issues affecting acquisitions. Transparency is key to successful due diligence when it comes to acquisitions, as well as delivery of reliable data (Deal Drivers Africa, 2013). This is important when it comes to identifying challenges and benefits that will accrue from an acquisition. With proper transparency, a firm is able to make better informed decisions. However, this is not always the case when it comes to
acquisitions as some important information may not be disclosed. Also, the reliability of data and information seems to be a major concern as it affects the entire acquisition process.

Due diligence has been highlighted as important factor in Mergers and Acquisitions. All the elements of the company being targeted for an acquisition have to be exposed. The acquiring company has to be able to establish a fit between itself and the target. The fit has to be financial, strategic, managerial, operational and in terms of marketing. A fit has to be established in all areas for a successful acquisition (Evans, 2000). With due diligence, the firm must carry out a thorough analysis of the “assets, liabilities, revenues, and expenses and evaluation of culture, organizational fit, and other nonfinancial elements”(Hoang & Lapumnuaypon, 2008). The main reasons for due diligence include; creating room for identification of potential deal breakers, getting information that will be necessary in the valuation, gathering information needed for negotiation, identification of areas that will need immediate addressing once the acquisition takes place. Due diligence also allows the company to identify different synergies it will attain with an acquisition (Downey, 2008)

However, it has been highlighted that due diligence may fail in some cases. Some companies can decide to act differently when they know that they are being targeted for an acquisition. Others may not reveal some information that would have been necessary for the acquirer to know about (McDonald, Coulthard, & de Lange, 2005).

2.3.3. Political Uncertainty

Political uncertainty has also been listed as one of the top factors affecting successful acquisitions. The survey published by Mergemarket showed that 55% of the respondents felt that political issues were their biggest concern. This has been attributed to the number of high-profile terrorist incidents in different regions, and the constant outbreak of violence.

For instance, there have been over 20 incidents of terror attacks in Kenya as at July 2014 (Mukinda, 2014). This definitely dampened the growth of the economy, and has greatly decreased the number of investments in the country. It has increased operational risk and heightened the risk of social unrest (Deal Drivers Africa, 2013).
2.3.4. Regulatory Issues

Regulatory issues have also been seen to hamper acquisition deals (Coeurdacier, De Santis, & Aviat, 2009). Sometimes the market regulator can interfere with an acquisition deal if they feel that it negatively affects the competition in the market. It can also stop a deal from taking place if the set down procedures were not followed, or if they were not informed of the deal before it took place.

This was seen with the local attempted acquisition of Ukwala Supermarket by Tuskys. The deal was stopped by the Competition Authority of Kenya because they felt that both parties had engaged in unfair trade practices (Anyanzwa, 2014). The regulator also stopped the 2012/013 planned acquisition of Synovate by Ipsos because it happened without authorization from CAK (Competition Authority of Kenya, 2013).

2.3.5. Poor Foundation

There is a proper foundation that has to be in place to facilitate successful acquisitions. The foundation has to include proper workers that possess the necessary and needed knowledge and skills. This ensures that they have a proper understanding of the acquisition process. In a survey done by GovLoop and Integrity Marketing Consulting in 2013 which had 97 respondents, 62% felt that when the rest of the organization does not have adequate information on the acquisition the strategy is likely to fail (GovLoop, 2013). Sixty-one percent of the respondents felt that lack of training and inadequate expertise among the acquisition personnel set the acquisition for failure. This meant that sometimes the actions they take concerning the acquisition as they are not well trained to handle such a sensitive case. Forty-seven percent of the respondents felt that poor management skills in all the stages of the acquisition process posed as a great challenge in the acquisition process. In summary, inadequate skills are seen as a major challenge to the acquisition strategy (GovLoop, 2013).

2.3.6. Culture Clash

Another potential drawback of an acquisition can be attributed to the cultures of the two companies. Culture clashes can create room for failure of the acquisition as the other
company is swallowed up by the other (Fenwick & West LLP, 2002). In the 2013 Deal Drivers report, 50% of the respondents felt that the differences in culture posed as a threat to a successful acquisition (Deal Drivers Africa, 2013). This culture can be both internal and external.

In most cases if a company decides to invest in a new market it will encounter a different culture than what it was used to back at home. Proper adaptation will be required in order to sustain the acquisition (Deloitte, 2009). Also, if the management decides to retain some of the staff member of the acquired company challenges may arise as a result of the clashing cultures. The acquired company might have been used to doing things a particular way, and this may pose as a challenge to the acquirer (Price, 2012).

2.3.7. Overpayment of the Acquisition

Overpaying for an acquisition can pose as a challenge to successful acquisitions in that it increases the hurdles that the acquirer must overcome to earn its cost of capital. When the purchase premium is higher than the combined synergies of the acquirer and the target company, it takes a longer time to eventually feel the benefits of undertaking the acquisition (Downey, 2008). The negative thing is that the legacy of an overpayment is long lasting in that the acquirers now have to focus solely on profitability to earn back the financial returns that they require (DePamphilis, 2011). This basically means that they lose sight of the reason why they undertook the acquisition in the first place as they struggle to regain their investment.

2.3.8. Focusing on Particular Areas

According to a report done in 2007 of over 200 major M&A deals in Europe by Hay Group, one of the reasons of acquisition failure was seen to be the preoccupation of the performance of the acquisition’s finances and systems at the expense of important intangible assets such as human resources, culture and corporate governance (Downey, 2008). When the acquirer ceases to focus on the company as a whole and simply looks at specific elements, cracks eventually start to appear. It may start lagging behind in an area, and thus lead to a major drawback in the integration of the acquired company with the bigger company.
2.4. The Suggested Strategies for Mitigation

2.4.1. Mastering Corporate Governance

One of the key remedies for handing the challenges associated with acquisitions is through mastering corporate governance (Du & Boateng, 2012). It is important that board members be well versed with the conditions of their company, and that of the potential company to be acquired beforehand. They must ask questions, and be able to answer them, such as how will the new company look like financially and competitively and what will be the fit between the two firms (Shaw, 2009). Therefore, it’s critical to perform due diligence before moving ahead with an acquisition.

If corporate governance is mastered, challenges to do with issue such as culture clashes can be addressed beforehand. Also, corporate governance will ensure that the company not only focus on integration and cost-cutting, but also look at the daily running of the business. It will seek to ensure that all elements of the business are in sync and that no part is lagging behind. It is important to know all elements of the target business in order to be able to foresee any challenges and handling them before they pose a challenge to the acquisition process.

2.4.2. Adequate Skills

It is important that the acquirer amass adequate skills to enable him to manage the acquisition in order to increase its success rate. This is because it will enable them to dilute different surprises that may come up with acquisitions. The management and workers need to know how to integrate any acquisition into their firm and also to understand the people, culture, strengths and weaknesses (GovLoop, 2013). Investors should choose to acquire mostly firms in the same line of business that they are in, in order to be able to fully understand the acquisition.

In this case, the board members and all the staff members must have the adequate desired skills that will be necessary for successful integration of the acquisition. Internally, the company must be well structured with the best staff identified to handle the acquisition. Different departments must be adequately represented in the process so that the best input can be used to achieve a smoother process. Experts suggest that the company should also
include skilled experienced professionals to act as independent consultants in order to help with the process (Brown, 2010). Different persons must be charged with different roles in order to ensure that everyone feels part of the process.

More training may be needed in order to facilitate a takeover. It is an important aspect of the acquisition process as it sets out to impart skills necessary for the process (GovLoop, 2013). Training should not only be limited to junior staff, but also to management. Leadership and project management will be critical in ensuring that staff members get adequate technical knowledge.

2.4.3. Proper Understanding of the Acquisition

One of the main challenges highlighted in the report by GovLoop which analyzed 97 responses from different was lack of proper understanding by the rest of the organization of the acquisition. This means that the organization does not have enough knowledge at hand to properly address the acquisition process. This will be a major setback despite of the management’s expertise and knowledge of the acquisition taking place because the success of the integration process lies in the hands of the staff. The result of this is workers being part of something that they do not fully understand and the management not having proper insight to handle any arising issues. This can be handled by the management ensuring that all of the workers are in the loop of what is going on and feel part of the new project. Also, the management should take time to understand fully what they bare undertaking and should seek to know the details of the acquisition.

2.4.4. Tackling Economic and Political Uncertainty

When it comes to handling challenges that arise with economic and political uncertainty is very tricky as it is an external factor of the environment, and therefore cannot be controlled by the management of the acquiring firm. These factors simply dictate how a company will run its business. This kind of turbulence, both economic and political, is not easily predictable (UNCTAD, 2001). For instance, a number of companies had invested in Egypt before the breakout of violence in 2011. The political uncertainty reduced the level of confidence that the investors had in the economy because this also led to the weakening of the economic system. Many investors lost their investments as a result of the increased risk.
In order to handle these challenges, a foreign firm should constantly survey the market and identify any weaknesses and act on them as soon as they come up. It would also be important to maintain some level of flexibility in order to ensure proper adjustment to the prevailing conditions (DePamphilis, 2011).

### 2.4.5. Proper Financing

Sometimes smaller companies do not have enough liquid cash on hand to successfully complete an acquisition, they can decide to finance it though stock and hence reduce the control they have over the acquisition. This can be avoided by a company that desires full control by planning in advance how they will finance the acquisition. They have to be willing to accept that they will have less control if they decide to finance the deal via issuing stocks. If they do not wish to do that, they may have to wait till they are financially stable in order to fully finance the acquisition deal (DePamphilis, 2011). Several companies have had to use this route in their quest to make an acquisition, thus leaving them with very little control of the company they acquired.

### 2.4.6. Defensive Measures

Having defensive measures in place is very important in that it gives the acquirer options to cope with challenges that arise with acquisitions (Bailey, 2012). They need to fortify themselves in the market and defend their position in the market by integrating the acquired company with theirs in order to fully take advantage of the different competencies and come up with different forms of competitive advantage (Yannopoulos Dr., 2011). Also, it will be important to maintain a level of flexibility in case the acquisition does not work out.

The study conducted by GovLoop showed that companies are seeking back up plans to cushion any unwanted and negative changes that arise in the process of undertaking an acquisition. Companies are doing this first by constantly monitoring the acquired company and dealing with small complications as they arise. They are also seen to invest in other markets in order to cushion them from any losses they would incur if the acquisition does not work out as planned. They are simply spreading and monitoring their risks (GovLoop, 2013).
It seems that though challenges are expected, companies are constantly looking at different ways and means to manage the conflicts that arise both internally and externally in their struggle to make and run a successful acquisition. They are desperate to make the acquisition work and they are thus seen to think outside the box and come up with different ways to make their investment pay off, and thus be able to fully enjoy the intended benefits of the acquisition.

2.5. Chapter Summary

Acquisitions are being chosen over other modes of entry because of the benefits that come up with the use of this strategy. It brings about certain benefits such as positioning in the market and filling the strategic gaps. It is necessary to analyze both the internal conditions of the company and determine the main motive of expansion and the external conditions of the target market before settling on an expansion strategy. Management has to play a constant role to help manage the challenges that come up with the choice of the acquisition strategy in order to ensure success of the business. It will be critical to analyze the specific threats that come up in the Kenyan market with the choice of using acquisitions to expand into the market. Chapter 3 will analyze how the study will collect its information in order to come up with information that will be vital in answering the research questions and fulfilling the objectives of the study.
CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1. Introduction

This chapter will examine the research process that was undertaken to complete the study. The study adopted explanatory design in its effort to answer the research questions. With a population of 10 foreign firms, the study used 40 respondents as its sample size as a result of getting information from two persons per company, both the acquirer and acquired, in order to ensure preciseness and accuracy. The study relied on questionnaires and interviews for data collection. For data analysis, descriptive statistics was used in order to be able to organize and summarize the data collected. Inferential statistics was also be used in order to make valid conclusions from the data collected.

3.2. Research Design

The research design that was adopted in this study was Explanatory Research. Explanatory Research goes a step further than Descriptive research in that it attempts to connect the ideas under study after taking time to describe them. Descriptive Research design tries to describe, explain and interpret conditions that are currently happening (Marczyk, DeMatteo, & Festinger, 2005). It mostly answers “what is’. It tries to examine a phenomenon that is occurring at a specific place and time (Cresswell, 2002). It is concerned with describing a population with respect to important variables. It answers; who, where, when, what and why (Collis & Hussey, 2003). Explanatory Research aims to give an explanation, and not just describe the phenomenon that is taking place (Collis & Hussey, 2003). It aims to come up with conclusions on the phenomenon under investigation.

In this case, the design was chosen to explain why acquisitions are increasing in Kenya with time despite the challenges associated with acquisitions. It aimed to explain the benefits accrued with choosing acquisitions as an entry and expansion strategy in the financial specific to the Kenyan market. It will summarize the current conditions and explain what is
happening. It seeks to come up with a hypothesis and looks at how things come together and interact (Marczyk, DeMatteo, & Festinger, 2005; Cresswell, 2002). It will also be able to analyze the challenges that foreign firms face when they choose to use acquisition as a mode of expansion into Kenya. It will enable the creation of patterns pertaining to acquisitions and the factors that fuel it over the other modes of entry.

3.3. Population and Sampling Design

3.3.1. Population

The population of the study is the 10 foreign firms that have expanded into the Kenyan financial market through acquisitions between January 2012 and September 2014. A number of 10 firms have used this mode to gain entry into Kenya and expand their operations (Competition Authority of Kenya, 2013; Kenya Investment Authority, 2014; Ncube, 2012; Ng'ang'a & Muthang'ato, 2013; Okoth, 2014).

3.3.2. Sampling Design

3.3.2.1. Sampling Frame

A sampling frame can be defined as actual set of units from which a sample has been drawn. It can also be defined as a list or other device used to define a researcher's population of interest (Garson, 2012; Currivan, 2004; Lehman, O'Rourke, Hatcher, & Stepanski, 2005).

The listing of the population came from the Kenya Investment Authority (KenInvest) reports and The Competition Authority of Kenya (CAK) reports. This will cover the acquisitions that took place between January 2012 and September 2014. The two bodies keep track of the investments and regulate competition in the Kenyan market. The rest of the population list was constructed from websites such as the Central Bank of Kenya, local Kenyan newspaper (The Business Daily) and the UNCTAD World Investment Reports. This is because of the lack of KenInvest and CAK reports that cover some of the acquisitions that have taken place.
3.3.2.2. Sampling Technique

The study adopted population census technique. This technique is defined as “a sampling technique whereby the process includes the collection, compilation, and publishing data pertaining to a specific time to all subjects under study” (Marczyk, DeMatteo, & Festinger, 2005)(SAS Institute Inc., 2003). The study then picked 40 respondents from both the acquiring company and the acquired company. The respondents were management level workers who were at either at the acquiring company or the acquired company at the time the acquisition was taking place. This was in order to help bring better understanding of the regular patterns associated with acquisitions when it came to particular companies.

The study attempted to create a fit for a specific purpose, which in this case had to do with the surge of the use of acquisitions in the Kenyan market. It looked at the motives behind acquisitions through the insight of specific persons that have experience in acquisitions and possess certain analysis skills that are important in the acquisition process. This was very useful in the investigations into acquisitions in Kenya, because it was able to reach the entire population and reduce cases of biasness as it is a small population under study.

3.3.2.3. Sample Size

The sample size in this study was 40. This was as a result of getting information from 4 persons per each company, both the acquired and the acquirer, under analysis. It was important to use at least 4 persons per company to get information from in order to ensure more accuracy and reduce biasness. Also, the sample size was ideal in this case as there is a small population under study. The following tables show a brief summary of the characteristics of the firms that are in the sample size in terms of the acquirer, the acquired and the year the acquisition took place (Competition Authority of Kenya, 2013; Kenya Investment Authority, 2014; Ncube, 2012; Ng'ang'a & Muthang’ato, 2013; Okoth, 2014);
Table 1: List of Acquiring Companies, Acquired Companies and Year of Acquisition

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Acquired</th>
<th>Year of Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKF Kenya</td>
<td>Grant Thornton Kenya</td>
<td>2013</td>
</tr>
<tr>
<td>GTBank</td>
<td>Fina Bank</td>
<td>2014</td>
</tr>
<tr>
<td>Prudential PLC</td>
<td>Blue Shield</td>
<td>2014</td>
</tr>
<tr>
<td>Saham Assurance</td>
<td>Mercantile Insurance</td>
<td>2012</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>Faulu</td>
<td>2013</td>
</tr>
<tr>
<td>Abraaj Capital</td>
<td>Aureos Capital Limited</td>
<td>2012</td>
</tr>
<tr>
<td>Ecobank Development Corporation</td>
<td>Iroko Securities(Kenya) Limited</td>
<td>2013</td>
</tr>
<tr>
<td>Letshego Holdings</td>
<td>Micro Africa</td>
<td>2013</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>Canon Assurance</td>
<td>2014</td>
</tr>
<tr>
<td>Transunion Netherlands</td>
<td>Credit Reference Bureau</td>
<td>2013</td>
</tr>
</tbody>
</table>

3.4. Data Collection Methods

The study relied on questionnaires and interviews for data collection. A questionnaire can be defined as a ‘tool designed to collect and record information about a particular issue of interest (Kirklees Council, 2003). The use of questionnaires in this research was vital as it helped to analyze whether the same issues experienced by other firms in their expansion quest applied in the Kenyan market. They were essential in collecting information to answer the research questions, what are the challenges associated with acquisitions, the strategies for mitigation and the rationale for acquisition strategy. This is because they allowed the respondents to choose from the list of challenges affecting acquisitions in Africa and other regions, and if those challenges are also experienced in Kenya. It was also able to bring up remedies for challenges that come up with acquisitions. It also created more room for comparison and allowed better conclusions. The questionnaires were administered to both respondents from the acquiring and acquired company. A total of 40 respondents were expected to fill in the questionnaires.
Interviews came particularly in handy when answering the research question: ‘What is the rationale for acquisition strategy?’ Interviews can be defined as a formal or informal discussion between in an effort to gain more information or one’s perspective on particular issues. It is simply a conversation with a purpose (International Competition Network, 2008). Interviews are particularly useful when it comes to getting the background story behind a respondent’s experiences (Mcnamara, 1999). This is because it will bring out particular issues and the ideas behind the use of acquisition as an entry and expansion strategy. It helped to yield richer data and brought more insight into acquisitions in Kenya. Interviews also gave the study expert opinion on the different trends and problems associated with the entry and expansion strategy. The interviews were administered to 10 respondents from the acquiring company.

3.5. Research Procedures

The first part of the data collection was to schedule interviews with different experts in the foreign companies operating in Kenya. The interviews were open ended to allow collection of more information and more insight on different issues to do with acquisitions in Kenya. It also allowed more questions to be raised in an effort to answer the research questions based on acquisitions as an entry and expansion strategy.

Designing the questionnaires was the next step. The questionnaires had to capture the specific research questions and frame them in the best way to come up with the best results. The questionnaire was both open and closed to allow more answers and more information on specific areas, particularly the challenges associated with acquisitions and the mitigation strategies and to allow easier summary of the results. The questionnaires were sent via email to majority of the respondents.

The study benefited a great deal from the constant review of the data collection tools to make adjustments if necessary. This applied particularly to the questionnaires. It also needed constant recording of information as soon as it was received in order to make proper generalizations and conclusions. It also allowed better adjustment of the data collection tools to ensure that they captured the required information and answered any pending questions.
The study first concentrated on collecting data from local companies i.e. the acquired companies. It then moved to the foreign companies which were the acquiring companies. This required proper planning as it also had to leave room for later consultation if necessary. It is important to note that all of the companies are located in Nairobi.

3.6. Data Analysis Methods

The study used descriptive statistics for calculation of the data. It was important as it allowed the use of mode and mean measurement in order to allow the creation of relationships between the different observations associated with acquisitions (SAS Institute Inc., 1999). Percentages were also essential to show the frequency of occurrences. The study evaluated the frequencies of acquisitions relative to the frequencies of the rationale behind it, the challenges that were faced, and the strategies for mitigation.

Both univariate and bivariate analysis methods were used to analyze the information collected. Univariate was necessary to describe the nature of the set data (Academy for Educational Development, 2006). It was essential in describing the nature of the data that was collected in reference to acquisitions and the motives for the acquisition, the challenges faced and the suggested remedies to tackle the challenges. This analysis then opened a door for the application of descriptive statistics. The study used mean and mode to analyze the data, and thus be able to summarize the data collected.

Bivariate analysis was needed to explain the causes and relationships between different variables, and was used for inferential statistics. The study used correlation to see how one factor affected another variable (SAS Institute Inc., 2003). It helped to test the strength of the relationship between two different variables, such as the use of acquisition as an entry strategy and the motive for the acquisition, and the challenges faced as a result of choosing acquisition to expand and the remedy applied to tackle the situation.

3.7. Chapter Summary

The study relied on simple random sampling in order to come up with the best possible results. Questionnaires and interviews enabled maximum collection of information and made
it possible to answer other questions that came up in the data collection process. It also created room for better analysis of information for better conclusions. With the application of descriptive statistics, ideal relationships were created and therefore better conclusions were made.

The next chapter will focus on the Results and Findings of the study. This will be possible after the collection of data and proper analysis. It will highlight all the issues that were brought up in the research process as it finds information on the research questions which focus on the Kenyan market. It will report the observations from the field and set the stage for discussion of the findings.
CHAPTER FOUR

4.0. RESULTS AND FINDINGS

4.1. Introduction

This chapter seeks to present the results gotten from the administration of the various survey instruments applied in the study in order to get information specific to the Kenyan market as provided by the population under study on the topic under research. It will present the results gotten from the acquirers and the acquired and also present their views regarding the different matters under study. The study had a 100% response rate with all of the respondents participating in the study. There were 40 respondents as a result of selecting 2 persons per company, both the acquired and acquirer, from its population of 10. This chapter will be able to see how the different parties, the acquirer and the acquired, look at acquisitions in the Kenyan market. This chapter will rely heavily on the use of charts, tables and figures to present and summarize the findings. It will also include both descriptive statistics and inferential statistics for proper analysis of the findings.

4.2. General Information

Out of the total respondents, 72.5% of the respondents were male. Eighty percent of the respondents from the acquiring firms were male. On the other hand, 65% of the respondents from the acquired companies were male. Also in order to find out more about the respondents, the study also sought to find out the ages of the respondents. The following table shows a summary of the ages of the respondents;

**Table 2: Ages of Respondents from the Acquiring Companies and Acquired Companies**

<table>
<thead>
<tr>
<th>Age</th>
<th>Number of Respondents from the Acquiring Companies</th>
<th>Percentage</th>
<th>Number of Respondents from the Acquired Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 and Below</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26-35 Years</td>
<td>7</td>
<td>35</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>36-45 Years</td>
<td>10</td>
<td>50</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Over 45 Years</td>
<td>3</td>
<td>15</td>
<td>11</td>
<td>55</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20</td>
<td>100</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>
The study also requested the different respondents to indicate the number of years that they had worked with the acquiring company and also with the acquired company. The following table shows a summary of the number of years each respondent had been at the company;

Table 3: Number of Years worked at the Company by the Respondents from the Acquired and Acquiring Companies

<table>
<thead>
<tr>
<th>Number of Years at the Company</th>
<th>Number of Respondents from the Acquiring Companies</th>
<th>Percentage</th>
<th>Number of Respondents from Acquired Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 Year</td>
<td>2</td>
<td>10</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>2-4 Years</td>
<td>9</td>
<td>45</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>5-7 Years</td>
<td>6</td>
<td>30</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>8-10 Years</td>
<td>3</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10+ Years</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20</td>
<td>100</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

In order to also get a better insight to the role that the respondents would have played in the acquisition process, the questionnaire sought to find out the current positions that the respondents held when the acquisition was taking place. The following table summarizes the information pertaining to the respondents’ ages;

Table 4: Positions held by the Respondents during the Acquisition

<table>
<thead>
<tr>
<th>Previous Position</th>
<th>Number of Respondents from the Acquiring Companies</th>
<th>Percentage</th>
<th>Number of Respondents from the Acquired Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle Level</td>
<td>14</td>
<td>70</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>Senior Management</td>
<td>6</td>
<td>30</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20</td>
<td>100</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Out of the 10 acquiring companies, 50% of them had engaged in different acquisitions outside Kenya between 2012 and 2014. However, none of the companies acquired more than one company in Kenya during the period under study. Also, 50% of them had other operations in Kenya before they undertook their acquisitions that are under study.
4.3. The Rationale for Acquisition as an Entry Strategy in Kenya

4.3.1. Attractive Growth Rates and Rate of Returns in the Industry
The study was able to show that an average of 80% of the respondents from both the acquiring companies and the acquired companies strongly felt that the undertaking the acquisition in the Kenyan market could be based on the current high growth rates and rate of returns in the financial services industry. The mean of both of the respondents from the acquiring companies and acquired companies stood at 4.8.

The following shows a summary of the opinions of the respondents from the two different camps;

![Figure 1: Attractive Growth Rates and Rate of Return in the Industry as a Rationale for Acquisition (Acquiring Companies and Acquired Companies)](image-url)

Out of the 10 interviewed respondents, two respondents cited that their move to expand into Kenya was greatly motivated by the attractive growth rates and the high rates of returns in the financial services industry in Kenya. They believed that this move would enable them to take advantage of this factor and thus be able to maximize their returns. They also felt that the current growth rates would keep rising as Kenya’s economy rapidly expands.
4.3.2. Search for Diversification

Seventy-five percent of the respondents agreed that the company undertook the acquisition as a result of a quest for diversification. This is in contrast to the respondents from the acquired companies as 50% strongly agreed that the move was simply based on an effort to diversify. Forty percent of the respondents were neutral on the matter. The acquired respondents mean stood at 4.1, whereas that of the acquirers stood at 4.25. The following chart summarizes the findings in relation to the acquisition being in search for diversification;

![The Need for Diversification](chart.png)

**Figure 2: Diversification as a Rationale for Acquisition (Acquiring Companies and Acquired Companies)**

One of the interviewed respondents considered that the move to acquire a company in the Kenyan financial services industry was highly as a result for the search of diversification. The respondent felt that the company was able to increase to their portfolio through the acquisition of the company. The respondent was keen to point out that the acquiring company was after massive growth and this could be achieved through acquiring a company as a result of being motivated by the need to diversify.

4.3.3. Creation of Synergy

Fifty-five percent of the respondents from the acquiring companies strongly felt that the move to acquire the target company was as a result of a desire to create synergy. This can be compared to the 20% of the respondents from the acquired companies strongly agreeing that the move can be attributed to the search for synergy in different business operations. The
mean of the acquired respondents stood at 4.35 whereas that of the acquiring companies stood at 4.5. The following charts summarize the findings;

![Creation of Synergy Chart](image1)

**Figure 3: Creation of Synergy as a Rationale for Acquisition (Acquiring and Acquired Companies)**

**4.3.4. Strategic Reasons**

Eighty-five percent of the total respondents from the acquiring companies strongly felt that the move to acquire could be based purely on strategic reasons. Also, 65% of the total respondents from the acquired companies strongly agreed that the move was based on strategic reasons. The mean of the findings from the respondents from the acquiring companies stood at 4.8 whereas that of the acquired companies was 4.5. Below is a summary;

![Strategic Reasons Chart](image2)

**Figure 4: Strategic Reasons as a Rationale for Acquisition (Acquiring and Acquired Companies)**
Five out of the interviewed respondents considered that the move to undertake an acquisition in the Kenyan market was greatly attributed to the need to position itself strategically in the market. They believed that this would help place themselves in the market way ahead of the other existing competitors and thus be able to take advantage of future opportunities. This would also ensure that they exploit any opportunities that would accrue to them as a result of combining with another company that they have acquired.

**4.3.5. Business Reasons**

Sixty percent of the respondents from the acquiring companies agreed that the move was purely for business reasons. This is in contrast with the respondents from the acquired firm whereby 45% strongly sided with the fact that the acquisition was mainly based on purely business reasons. The mean in this case is 4.65 and 4.05 for the acquirer respondents and acquired respondents respectively. The following chart is a summary of these findings;

![Business Reasons Chart](image)

**Figure 5: Business Reasons as a Rationale for Acquisition (Acquiring and Acquired Companies)**

Two of the respondents cited that their move was greatly as a result of purely business reasons. They felt that it made perfect business sense to invest in the economy through acquisitions. These companies did not have to spend more to construct facilities from the ground. They were able to have a head start in the market compared to those who would have chosen to start from scratch.
4.3.6. Economic Liberalization and Openness

Seventy-five percent of the respondents from the acquired companies felt that the recent changes in the economy in terms of economic liberalization and openness in the Kenyan market influenced their choice to make an acquisition in the market. Sixty-five percent of the respondents from the acquired company strongly agreed with the same statement. The mean of the data from the acquired respondents stood at 4.6 whereas that of the respondents from the acquiring companies was at 4.2. The following is a summary of the information;

Figure 6: Recent Developments in Economic Liberalization as a Rationale for Acquisition (Acquiring Companies)

4.3.7. Summary of the Rationales for Acquisition as an Entry Strategy and Expansion Strategy

The data from the findings of the study in this first Research Question is negatively skewed. This is because the distribution of the findings has more of higher scores than lower scores. The following summarizes the cases of correlations in the study in regards to the rationales for acquisitions in the Kenyan market.

a) Correlation between Diversification and Business Reasons as Rationales for Acquisition

The correlation (R) is -0.753 and the significance (P value) was 0.000. In this case, 0.00<P<0.01. Therefore, there is a significant negative correlation between diversification as a rationale of acquisition and purely business reasons as a rationale for acquisitions for the acquired companies.
### Table 5: Table showing the Correlation between Business Reasons and Diversification

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Business Reasons</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td><strong>1.000</strong></td>
<td><strong>-.753</strong></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Diversification</td>
<td><strong>-.753</strong></td>
<td><strong>1.000</strong></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

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

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

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

b) **Correlation between Growth Rates and the Rate of Returns and Diversification as Rationales for Acquisitions**

The correlation (R) is -0.481 and the significance (P value) is 0.032. In this case, 0.032<P<0.05. There was also a significant negative correlation between growth rates and the rate of returns as a rationale of acquisition and diversification as a rationale for acquisitions for the acquired companies.

### Table 6: The Correlation between Growth Rates and Diversification

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Growth Rates</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td><strong>1.000</strong></td>
<td><strong>-.481</strong></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.032</td>
<td>.032</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Diversification</td>
<td><strong>-.481</strong></td>
<td><strong>1.000</strong></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.032</td>
<td>.032</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

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

c) **Correlation between the Realization of the Intention of the Acquisition and the Search for Synergy as a Rationale**
The correlation (R) was -0.491 and the significance (P value) was 0.028. Therefore, 0.028<P<0.05. This means that there is a significant negative correlation between whether the intention of the acquisition was realized and the search for synergy as a rationale for acquisitions for acquiring companies.

**Table 7: Correlation between whether the Intention was Realized and the Search for Synergy**

<table>
<thead>
<tr>
<th></th>
<th>Intention Realized</th>
<th>Search for Synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intention Realized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>-.491*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.028</td>
</tr>
<tr>
<td>N</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Search for Synergy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>-.491*</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.028</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

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

The following charts are a summary on the findings on the rationales for acquisition;
Figure 8: Summary of the opinions held by the acquired companies’ respondents regarding the rationale for Acquisition as an Entry Strategy in the Kenyan market - Acquiring Companies
4.4. Challenges associated with the Acquisition

4.4.1. Transparency Issues

Sixty five of the respondents from the acquiring companies strongly agreed that the acquisition was dealt a huge blow as a result of transparency issues complicating the matter. Forty five percent of the respondents from the acquired companies strongly felt that various transparency issues interfered with the smooth process of the acquisition. The mean for the acquired respondents stood at 4.2 whereas that of the acquiring companies’ respondents stood at 4.6. The following chart shows the summarized findings;

![Figure 9: Transparency Issues as a Challenge to Acquisitions (Acquiring and Acquired Companies)](chart)

Six of the interviewed respondents agreed that the biggest challenge that they faced in the acquisition process in the Kenyan context. They felt that they it was quite difficult to find out all of the matters concerning their targeted acquisition. This delayed the speed at which they undertook an acquisition and integrated it with the parent company.

4.4.2. Political Uncertainty

It is important to note that 50% of the respondents from the acquiring companies strongly disagreed that political uncertainty in the Kenyan market affected the takeover process. Forty percent of the respondents from the acquired companies disagreed that political matters were a challenge in the acquisition. The mean for the acquiring respondents stood at 1.65 whereas that of the acquired respondents was at 2.1. Below is a summary of the information;
4.4.3. Economic Uncertainty

Fifty five percent of the respondents from the acquiring company agreed that economic uncertainty posed some sort of challenge in the acquisition process. This is in slight contrast to 40% of the respondents from the acquired company who agreed that the process was hampered to some extent by the economic uncertainty of the Kenyan market. The acquiring companies’ respondents mean was at 4.05 whereas that of the acquired companies’ respondents was 3.75. The following is a summary;

Figure 11: Economic Uncertainty as a Challenge to Acquisitions (Acquiring and Acquired Companies)
Three of the interviewed respondents considered economic uncertainty to be one of the major challenges they faced during the acquisition. They considered this element to be very hard to predict and thus determine how it will influence the acquisition. They felt that it undermined the acquisition in that they might get less than what they bargained for.

4.4.4. Poor Foundation

Forty five percent of the respondents from the acquiring company were neutral to the fact that having a poor foundation to guide the acquisition posed as a challenge to the takeover. This is in great contrast to the acquired company respondents whereby 60% felt that the acquirers had a poor foundation when it came to taking over the company. The mean or the respondents from the acquired companies stood at 4.45 whereas that of the acquiring companies stood at 3.30. The following is a summary of the information;

![Poor Foundation Chart]

Figure 12: Poor Foundation as a Challenge to the Acquisition Process (Acquiring and Acquired Companies)

4.4.5. Culture Clash

Sixty five percent of the respondents from the acquiring company agreed that the process was complicated by the presence of culture clashes with the new company under its wing. On the other hand, 75% of the respondents from the acquired company felt that the culture clash was a big challenge to the smooth acquisition process. The acquiring companies mean stood at
4.25 whereas that of the acquired companies was at 4.65. Next is a summary of this information;

**Figure 13: Culture Clashes as a Challenge to Acquisitions (Acquiring and Acquired Companies)**

Two of the interviewed respondents considered culture clashes to be one of the major issues that they had to deal with during the acquisition process. It sometimes proved to be a challenge to integrate the acquired company and the parent company because the two had very different cultures. The acquired company’s workers sometimes resisted the change and this proved to be a major setback as it derailed the process.

**4.4.6. Overpayment of the Acquisition**

Forty five percent of the respondents from the acquired companies were neutral in terms of the fact that overpaying for the acquisition posed a challenge in the acquisition process whereas 25% of the respondents disagreed on the same matter. This is contrasted by the 40% of respondents who agreed that this was a challenge to the acquisition process. The acquiring companies’ respondents mean was at 3.10 whereas that of the acquired companies was 2.45. The following is a summary of the findings;
4.4.7. Regulatory Issues

Fifty percent of the respondents from the acquiring companies agreed that the process was flawed by different regulatory issues in the Kenyan market whereas 40% strongly agreed on the challenge brought up by different regulations. When it came to the acquired companies, 45% of the respondents strongly agreed that the process was hampered by different regulatory issues. The acquiring companies’ respondents’ means was at 4.30 and that of the acquired companies was at 4.25. The following charts summarize the information:

![Figure 14: Overpayment of the Acquisition as a Challenge to the Acquisition Process (Acquiring and Acquired Companies)](chart1)

![Figure 15: Regulatory Issues as a Challenge to Acquisitions (Acquiring and Acquired Companies)](chart2)
4.4.8. Focusing on Particular Areas

When it came to the acquirer focusing more on particular areas and neglecting others, 40% of the respondents from the acquired companies strongly agreed that the process faced a major challenge as a result of the acquirer tending to focus on particular areas and forgetting about other sectors of the company. Forty percent of the respondent from the acquiring companies felt that it was a challenge in the acquisition process. The acquiring companies’ respondents’ means was at 3.30 and that of the acquired companies was at 4.05. The following charts show a quick summary of the findings;

![Figure 16: Focusing on Specific Areas and Neglecting Others as a Challenge in the Acquisition Process (Acquiring and Acquired Companies)](image)

4.4.9. Summary of the Challenges Associated with Acquisitions

One of the interviewees from the acquiring companies brought up the issue of customers from the acquired company moving on to other companies after the acquisition as a challenge to the acquisition process. The respondent felt that it was hard to maintain customer loyalty especially when the deal has been announced to the public and the customer considers it necessary to move on to another company.

The following shows a summary on the correlation between different elements regarding the challenges associated with acquisitions;
a) Correlation between Economic Uncertainty and Political Uncertainty as Challenges in the Acquisition process

The correlation (R) in this case was 0.634 and the significance (P value) was 0.003. This means that 0.003<P< 0.01. This means that there is a significant positive correlation between economic uncertainty and political uncertainty as challenges in the acquisition process for the acquired companies. The following shows the correlation table;

Table 8: Correlation between Economic Uncertainty and Political Uncertainty

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Economic Uncertainty</th>
<th>Political Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Political Uncertainty</td>
<td>Correlation Coefficient</td>
<td>.634**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

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

b) Correlation between Economic Uncertainty and Growth Rates and High Rates of Returns

Table 9: Correlation between Growth Rates and Economic Uncertainty

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Growth Rates</th>
<th>Economic Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Economic Uncertainty</td>
<td>Correlation Coefficient</td>
<td>.589**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

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

The correlation (R) is 0.589 and the significance (P value) is 0.006. This means that 0.006<P< 0.01. Therefore, there is a significant positive correlation between
economic uncertainty as a challenge in the acquisition process and growth rates and high rates of return as a rationale for acquisition for the acquired companies.

c) Correlation between Focusing on Specific Areas and Poor Foundation as Challenges in the Acquisition Process

The correlation was 0.539 and the significance (P value) was 0.014. This means that 0.003<P<0.01. This means that there is a significant positive correlation between focusing on specific areas as a challenge in the acquisition process and having a poor foundation as a challenge in the acquisition process for the acquiring companies.

Table 10: Correlation between Focusing on Specific Areas and Poor Foundation

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Poor Foundation</th>
<th>Focusing on Specific Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Poor Foundation</td>
<td>Correlation Coefficient 1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.014</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Focusing on Specific Areas</td>
<td>Correlation Coefficient</td>
<td>.539*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.014</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

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

d) Correlation between Growth Rates as a Rationale for Acquisitions and Culture Clash as a Challenge to Acquisitions

Table 11: Correlation between Growth Rates and Culture Clashes

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Growth Rates</th>
<th>Culture Clashes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Growth Rates as a Rationale</td>
<td>Correlation Coefficient 1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.032</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Culture Clash as a Challenge</td>
<td>Correlation Coefficient</td>
<td>-.479*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.032</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed).
The correlation is -0.479 and the significance (P value) is 0.032. This means that 0.032<P<0.05. Therefore, there is a significant negative correlation between growth rates as a rationale for acquisitions and culture clash as a challenge in the acquisition process for the acquiring companies.

The following is a summary of the findings of the challenges faced in the acquisition process by both the acquiring and acquired companies:

**Summary of the Challenges Faced in the Acquisition Process**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1-strongly disagree</th>
<th>2-disagree</th>
<th>3-neutral</th>
<th>4-agree</th>
<th>5-strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focusing on particular areas</td>
<td>10%</td>
<td>30%</td>
<td>40%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>Different Regulatory Issues</td>
<td>10%</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Overpayment of the Acquisition</td>
<td>15%</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Culture Clashes</td>
<td>5%</td>
<td>30%</td>
<td>65%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Poor Foundation to guide the acquisition</td>
<td>15%</td>
<td>20%</td>
<td>40%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Economic Uncertainty</td>
<td>20%</td>
<td>20%</td>
<td>55%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Political Uncertainty</td>
<td>50%</td>
<td>15%</td>
<td>35%</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Various Transparency Issues</td>
<td>5%</td>
<td>30%</td>
<td>65%</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Figure 17: Summary of the Challenges faced in the Acquisition Process (Acquiring Companies)**
The Challenges Faced in the Acquisition Process

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1-strongly disagree</th>
<th>2-disagree</th>
<th>3-neutral</th>
<th>4-agree</th>
<th>5-strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focusing on particular areas and overlooking others</td>
<td>5%</td>
<td>25%</td>
<td>30%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Different Regulatory Issues</td>
<td>5%</td>
<td>10%</td>
<td>40%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Overpayment of the Acquisition</td>
<td>20%</td>
<td>25%</td>
<td>45%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Culture Clashes within the company</td>
<td>5%</td>
<td>25%</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor Foundation to guide the acquisition</td>
<td>15%</td>
<td>25%</td>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Uncertainty in the Market</td>
<td>15%</td>
<td>20%</td>
<td>40%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Political Uncertainty in the Market</td>
<td>25%</td>
<td>40%</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Various Transparency Issues</td>
<td>5%</td>
<td>15%</td>
<td>35%</td>
<td>45%</td>
<td></td>
</tr>
</tbody>
</table>

Figure 18: Summary of the Challenges faced in the Acquisition Process (Acquired Companies)
4.5. The Suggested Strategies for Mitigation

4.5.1. Mastering Corporate Governance

As a solution to remedy the challenges associated with acquisitions, 90% of the respondents from the acquiring companies strongly agreed that this would be a really effective way to remedy the different challenges faced by acquiring companies. Eighty-five percent of the respondents from the acquired company also strongly supported this remedy. The mean for the acquiring companies’ respondents was at 4.90 whereas that of the acquired companies was at 4.85. Next is a summary of the findings;

Figure 19: Corporate Governance as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Acquired Companies)

Seven interviewees stated that corporate governance proved to be an effective strategy to deal with different challenges that arose in the acquisition. They believed that the proper mastery of this strategy helped to solve many of the issues that came up as it helped them stay on top of their game. They also saw that this helped to increase the process of successful integration of the parent and acquired company.

4.5.2. Adequate Management Skills

Ninety percent of the respondents from both the acquired and acquiring companies felt that it was crucial for the acquiring company to possess better and adequate management skills in
order to make the takeover process more efficient and effective. The mean for both the acquiring and acquired companies’ respondents was at 4.90. The following charts show the opinions of the respondents;

![Management Skills Chart](image)

**Figure 20: Adequate Management Skills as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Acquired Companies)**

Five of the interviewed respondents considered the possession of adequate management skills very critical in dealing with the challenges associated with acquisitions. They believed that this helped them a great deal in dealing with the different issues that arose from time to time during the acquisition. They considered this important as it helped the acquirer make sound decisions and therefore reduce the impact of different challenges.

**4.5.3. Proper Understanding of the Acquisition**

When it came to having a proper understanding of the acquisition in order to make the process smoother, 80% of the respondents’ from the acquiring companies strongly agreed that this was an essential element. On the other hand, 90% of the respondents from the acquired companies strongly felt that the proper understanding is a very important factor to ease out the transition process. The mean for the acquiring companies’ respondents was at 4.75 whereas that of the acquired companies was at 4.90. The following is a summary of the information;
Figure 21: Proper Understanding of the Acquisition as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Acquired Companies)

4.5.4. Tackling Economic and Political Uncertainty

As far as addressing political and economic issues in an effort to make the acquisition much easier, 60% of the respondents from the acquiring company found it very important in tackling the challenge. Seventy-five percent of the respondents from the acquired companies categorized the strategy as very important as a successful mitigation strategy. The mean for the acquiring companies’ respondents was at 4.30 whereas that of the acquired companies was at 4.60,

Figure 22: Proper Handling of Economic and Political Issues as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Companies)
4.5.5. Proper Financing

Forty-five percent of the respondents from the acquiring companies agreed to some extent the importance of proper financing when it came to averting the different challenges associated with acquisitions in contrast to 30% of the same respondents who felt strongly about the issue. Fifty percent of the respondents from the acquired company strongly agreed the role that proper financing would play in minimizing different challenges faced during the acquisition process. The mean for the acquiring companies’ respondents was at 4.05 whereas that of the acquired companies was at 4.20. The following charts summarize the findings of the issue at hand;

![Proper Financing of the Acquisition](chart)

**Figure 23: Proper Financing of the Acquisition as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Acquired Companies)**

4.5.6. Taking up Proper Defensive Measures

Forty percent of the respondents from the acquiring companies strongly felt that it was very essential to have adequate backup plans for the business in an effort to be able to handle the different challenges that would arise in the acquisition process. Forty-five percent of the respondents from the acquired companies also strongly agreed with this statement. The mean for the acquiring companies’ respondents was at 4.15 whereas that of the acquired companies was at 4.25. The following chart summarizes the findings when it comes to putting in place adequate backup plans;
Figure 24: Having Backup Plans as a Strategy to Mitigate the Challenges Associated with Acquisitions (Acquiring and Acquired Companies)

4.5.7. Summary of the Suggested Strategies for Mitigation

Just as it was in the first Research Question, the distribution in this section is also negatively skewed for both the acquiring companies and acquired companies as majority of the data was on the higher end. The following shows the different correlations regarding strategies for mitigation and other elements in the study

a) Correlation between the Mastery of Corporate Governance as a Strategy for Mitigation and Transparency Issues

Table 12: Correlation between Transparency Issues and Corporate Governance

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Transparency Issues</th>
<th>Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>Correlation Coefficient</td>
<td>.535*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.015</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
The correlation (R) is 0.535 and the significance (P value) is 0.015. This means that 0.015<P< 0.05. Therefore, there is a significant positive correlation between transparency issues and corporate governance as a strategy for mitigation for the acquiring companies.

b) Correlation between Political Issues and Maintaining Flexibility in the Acquisition Process

Table 13: Correlation between Political Issues and Maintaining Flexibility

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Political Uncertainty</th>
<th>Maintaining Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Political Uncertainty</td>
<td>Correlation Coefficient</td>
<td>-.588**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
<tr>
<td>Maintaining Flexibility</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>20</td>
</tr>
</tbody>
</table>

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

The correlation in this case is -0.588 and the significance (P value) is 0.006. This means that 0.006<P< 0.01. This means that there is a significant negative correlation between political issues as a challenge to the acquisition process and being more flexible in the acquisition process in order to avert the challenges associated with acquisitions.

c) Correlation between Overpayment of an Acquisition and Proper Handling of Economic and Political Issues

In this case the correlation is -0.676 and the significance (P value) is 0.001. Therefore, 0.001<P< 0.01. This means that there is a significant negative correlation between overpayment of an acquisition as a challenge to the acquisition process and the proper handling of economic and political issues in order to mitigate the challenges associated with acquisitions.
Table 14: Correlation between Overpayment of an Acquisition and Handling of Economic and Political Issues

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Overpayment of an Acquisition</th>
<th>Handling Economic and Political Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's rho</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overpayment of an Acquisition</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>-.676**</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Handling Economic and Political Issues</td>
<td>Correlation Coefficient</td>
<td>-.676**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.001</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

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

The following charts summarize the findings for the suggested strategies for mitigation for the acquiring companies and acquired companies;

Figure 25: Summary of the Strategies of Mitigation to the Challenges Associated with Acquisitions (Acquiring Companies)
Figure 26: Summary of the Strategies of Mitigation to the Challenges Associated with Acquisitions (Acquired Companies)

The following is a summary of the findings on whether the respondents would be willing to undertake another acquisition/be part of another acquisition. The acquiring companies’ respondents mean was at 4.75 whereas that of the acquired companies was at 3.25;

Figure 27: Desire to Participate in another Acquisition (Acquiring Companies)
4.6. Chapter Summary

In most cases, the respondents from the acquiring companies and those from the acquired companies held roughly the same opinions regarding similar issues. The respondents from the acquiring companies leaned towards the fact that the acquisitions were fueled by both strategic reasons and the attractive growth rates and return rates in the market. This was at a mean of 4.80. The acquired companies’ respondents cited the attractive growth rates and return rates in the market which also had a mean of 4.80. For the acquiring companies, their main challenge was transparency issues whereas the acquired companies’ respondents considered culture clash to be the greatest challenge. The most favorable strategy for mitigation was seen to be the possession of adequate management skills and having proper understanding of the acquisition when it came to the respondents from the acquired companies. The mastery of corporate governance and the adoption of adequate management skills were considered highly critical in the aversion of different challenges faced during the acquisition process according to the acquiring companies’ respondents.

The next chapter will keen to discuss and explain the findings of the study. It will then conclude on the use of acquisitions as an entry and expansion strategy in this study. It will finally come up with several recommendations suitable for the topic under research specific to the Kenyan market.
CHAPTER FIVE

5.0. DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction
This chapter will focus on bringing out a clear discussion of the use of acquisitions as an entry and expansion strategy in Kenya. It will focus on linking the findings of the study with the literature review previously undertaken and thus be able to point out any similarities and differences with other acquisitions happening in other different parts of the world. It will be important to explain what was actually observed from what was expected. It will also conclude on the three research questions and thus be able to highlight the main influencing factor underneath each question. This chapter will then take the next step and come up with recommendations that will be suitable in the Kenyan situation and also come up with other ideas that can be explored in relation to acquisitions as an expansion strategy in Kenya.

5.2. Summary
Over the years, the choice of acquisitions as an entry and expansion strategy for businesses has become a very common option in very many countries including Kenya. They have been chosen based on different reasons such as expanding business operations, diversification, strategic reasons, business reasons, the search for synergy and taking advantage of high growth rates and rates of return.

The purpose of the study was to examine and explain the main factors fueling the use of acquisitions as a major form of entry and expansion in the Kenyan market by different foreign companies. The study adopted three research questions in order to be able to find out more information from the Kenyan situation. The research questions were; What is the rationale for acquisition strategy, the challenges faced by the acquirers in the acquisition strategy and the suggested strategies to remedy the challenges faced. This was aimed at finding all about the operations of the foreign firms once they decide to invest in Kenya via acquisitions.

The research design that was adopted in this study was Explanatory Research. The study chose this design as it goes a step further to connect different matters and ideas under study
after describing them. Explanatory Research in this case was critical in giving an explanation to the phenomenon that is taking place, which in this case was the rise in the number of acquisitions undertaken as an entry strategy or expansion strategy by foreign firms in the Kenyan market. It is very helpful when it comes to the drawing of conclusions and thus making it more possible to come up with suitable recommendations (Collis & Hussey, 2003; Cresswell, 2002). The design was chosen to help explain why the acquisitions are increasing and the challenges faced in the market.

According to the findings of the study, majority of the respondents felt that the acquisitions were fueled mainly by strategic reasons and the attractive growth rates and return rates in the market. The main challenge was seen to be culture clashes for the acquired companies’ respondents whereas the acquiring companies considered transparency issues as a major challenge in the acquisition process. The most suitable strategy for mitigation was seen to be the possession of adequate management skills and having a proper understanding of the acquisition for the acquired companies. The acquiring companies considered the mastery of corporate governance and the adoption of adequate management skills as important strategies to avert the different challenges brought about by the acquisitions.

It was also seen that the undertaking of an acquisition due to the high growth rates and high rates of returns in the Kenyan market brought about economic uncertainty and political uncertainty as a challenge in the acquisition process to some extent as there was a positive correlation between them in the findings. Also, whenever companies focused on specific areas they were seen to also deal with the challenge of having a poor foundation in the acquisition process, as these issues had a strong positive correlation. Culture clashes were also considered to be more likely whenever a company undertook an acquisition as a result of the undertaking of an acquisition motivated by high growth rates.

Also, there is a positive correlation between the mastery of corporate governance as a strategy for mitigation and both transparency issues as a challenge in the acquisition process, and different regulatory issues as a challenge. This also applied to political issues and the maintenance of some sort of flexibility as strategy for mitigation. This means that many believe that the application of corporate governance would help to tackle the challenge of
transparency issues and regulatory issues, and also that political issues could be handled by ensuring that there was some level of flexibility as a strategy to solve the challenge.

5.3. Discussion

5.3.1. The Rationale for Acquisition as an Entry Strategy
The study was able to show that all of the acquiring companies had experience in undertaking different acquisitions in different markets. They were also keen on seeking ways to improve their businesses and always trying to manage the culture challenges that arise with different acquisitions. The Literature Review chapter showed that the companies that seemed to undertake acquisitions had some certain similar characteristics; having the capability to manage a broad range of risks comfortably, having proper mastery of the art of improvisation and are keen to keep in tune with the importance of culture and localization (Accenture, 2008). This was also the situation when it came to the companies that had chosen to undertake acquisitions in the Kenyan market.

Majority of the respondents in the study felt that the move to acquire was strongly attributed to the rising growth rates and high rates of returns that are characterized in the Kenyan market, and in particular, the financial services industry. In fact, this was the most common rationale for acquisitions in the Kenyan scenario. The Literature Review had shown that the attractive growth rates and the rising rates of return present in different developing markets has been a major attraction for potential investors (Hoyningen-Huene & Rothenbuecher, 2008). It is important to remember that the Kenyan economy has been growing steadily with growth rate of 5.34% in 2014, 4.7% in 2013 and 4.6% in 2012, and is expected to grow at 6% in 2015 (Ministry of Devolution and Planning, 2014; Mwaniki, 2015; Kenya Institute for Public Policy Research and Analysis, 2013)

In this study, the need to diversify was seen somewhat to influence the rate of acquisition in the Kenyan market. The investing companies are seen to reach out to the financial services industry and take advantage of the profitability of the industry and use it to maximize on diversification. As noted previously Igor Ansoff was keen to highlight the benefits accrued by a company choosing to diversify in an effort to keep the company afloat and help with its growth (Thomson Reuters, 2012). Diversification’s main focus is to ensure that a firm is
able to position itself in terms of its products and different markets (Evans, 2000). It was noted that majority of the traditional companies in different markets were seen to oppose expansion through diversification if they realize that there may be some differences in running a company in a particular industry from that in a different industry (Evans, 2000). This was also seen to apply in the Kenyan scenario under study in that all of the companies that chose to undertake an acquisition in the Kenyan market were all in the same industry. It was seen that whenever a company chose to acquire a company in order to diversify, the less likely it was that the same acquisition could have also been influenced by the attractive growth rates and high rates of return in the market.

In the Kenyan case, it was seen the move to undertake an acquisition could be attributed to the search of synergy to some extent. The acquirers were in search of both operational and financial synergy in the Kenyan market as they all hoped and aimed to do so much more that what they would have been able to do on their own in the market. As highlighted earlier, a company is able to attain synergy through an acquisition which can be in two forms; operational or financial. Operational synergy brings about economies of scale and economies of scope whereas financial synergy brings about lower cost of capital (DePamphilis, 2011). However, it was seen in the study that when a company chose to undertake an acquisition in order to attain synergy, the less likely it was to achieve the intention of the acquisition.

The study was able to show that the undertaking of acquisitions due to the motivation from different strategic reasons was very common in the Kenyan market. Many of the companies were seen to set out to undertake an acquisition in order to position themselves strategically in the Kenyan market in order to accrue the different benefits that arise from operating in the financial services industry. By undertaking an acquisition motivated by strategic reasons, a company is simply being keen on ensuring that it positions itself well to handle different future occurrences (Evans, 2000). It analyzes what advantages and what capabilities that it can possess if it decides to combine with another company.

The study showed that the respondents felt that there had been some sort of economic liberalization in the Kenyan market. The Competition Authority of Kenya (CAK) has been keen to create a favorable playing field for foreign companies. It is ensuring that a free and fair market is created by regulating the players in the market. The government has also been
taking time to woo investors into the country in order to ensure that the market is fully exploited. Kenya has undertaken partnerships with different countries in efforts to build the economy. These countries include the other countries in East Africa and China (Ministry of Devolution and Planning, 2014). The recent advancements in the global economic liberalization and openness in many economies all over the world have powered the increased rate of acquisitions taking place. This has enabled different foreign companies to be able to establish themselves in different markets that support acquisitions (Ncube, 2012).

5.3.2. The Challenges Associated with Acquisitions

The study was able to show how many of the respondents felt about transparency issues as a challenge in the acquisition process. The respondents felt that in many cases, important information was not revealed and this undermined different decisions made by the acquiring company. This is seen to affect the entire acquisition process. The Literature Review chapter showed that majority of the participants in acquisitions in different markets considered transparency issues to be a major challenge in the acquisition process. Transparency is very key to successful due diligence when it comes to different acquisitions as it is needed in order to make an acquisition make sense (Evans, 2000).

In the study, it was highlighted that the companies were concerned about the economic uncertainty in the Kenyan market. They considered it a major challenge in the acquisition process. They encountered turbulence which affected their acquisitions and this seemed to undermine their acquisition when it came to particular matters. Economic Uncertainty was seen in the Literature Review to be a major challenge associated with acquisitions all over the world (Deal Drivers Africa, 2013). Investors are in search of stability and predictability in order to minimize risks and thus be able to maximize their returns. However with the increasing levels of turbulence in different emerging and developed economies, this is not the case as they are not able to maintain the predictability of the economic environment.

The study showed that political uncertainty did not dampen the rate of acquisitions in the Kenyan market. This was despite the fact that Kenya had not been spared by terrorist attacks and cases of violence outbreaks in different parts of the country. Majority of the respondents did not feel that this was a major concern for them. Political Uncertainty has been one of the
major challenges when it comes to undertaking a successful acquisition in different parts of the world. In Chapter Two, majority of the companies were seen to be concerned about the high number of high-profile terrorist incidents in different regions, and the constant outbreak of violence. It seemed to increase the operational risk and increased the risk of social unrest (Deal Drivers Africa, 2013).

In this study, it was seen that the Competition Authority of Kenya played a role in enforcing different regulations that were aimed at ensuring that the acquisitions were fair and did not interfere with the operations of the market. This sometimes did not favor the acquirer in that it took them a step back and they had to revise their plans. Different economies have ensured that they put in place market regulators in order to ensure a fair playing field for all of the investors in the market. They also sometimes come up with regulations that do not favor acquisition deals due to different reasons. A regulator can choose to interfere with a deal if it feels that it will negatively impact the other competitors (Coeurdacier, De Santis, & Aviat, 2009).

This study was able to highlight that the lack of a good foundation prior to the acquisition process proved to be a major challenge in the Kenyan scenario. The respondents felt that this undermined the process as a lot of issues could not be handled well. Inadequate skills were seen to be a major challenge in that very weak guidelines were applied in the acquisition process. Also as a result of the poor foundation, the new company was poorly integrated into the parent company. The Literature Review showed that just like any business venture, a proper foundation needs to be put in place in order to ensure the success of any acquisition. This will go a long way in ensuring a smooth transition process (GovLoop, 2013).

Culture clashes pose a major challenge in the acquisition process. This challenge was very common in the Kenyan setup as it greatly affected the transition process. This was seen more when it came to the respondents from the acquired companies as they had the most challenge adapting to the change. This mainly came up in cases whereby the acquirer focused on specific areas and did not take time to set a proper foundation for the takeover. This was also seen to be influenced by the rush to take over a company as a result of the high rates in the economy and disregarding other important external and internal factors that may present any
form of culture clashes in the process. It can create room for failure of the acquisition if not properly managed (Fenwick & West LLP, 2002).

Overpayment of the Acquisition was seen to be a major challenge in the study because once the acquirer pays more than he was supposed to for an acquisition. This challenge had also featured in the Literature Review. It increases the hurdles that he must overcome in order to gain back his cost of capital. It will certainly be awhile before the acquirer realizes the benefits that he hoped to realize with the acquisition (Downey, 2008). The end result of this is that the acquirer will end up focusing mainly on profitability in order and thus lose the vision set to be achieved with the acquisition. This was seen to be a challenge in the study to some extent as some of the companies felt the pressure and had to change their plans as they now lost focus of the main reason of why they undertook the acquisition and now focus on making pure profits.

The study showed that the company’s tendency to focus on specific areas and neglect others was considered to be a major challenge in the acquisition process especially when it came to the respondents from the acquired companies. Many companies recognized that the acquirer had a tendency to focus on particular areas and neglect other areas. This was seen to cause and be caused by various challenges because once a company focuses on specific areas, they tend to lose out on other areas. Also in an effort to solve different challenges, they may focus on the problem areas and neglect other areas and therefore these other once near perfect areas will soon suffer. It has been a common occurrence whereby acquiring companies tend to focus on particular areas such as the performance of the acquisition’s finances an systems and ignoring areas such as human resources, culture and corporate governance (Downey, 2008). This poses a major challenge in the acquisition process as major cracks will eventually appear in the running of the acquisition. Their integration efforts do not pay off.

5.3.3. The Suggested Strategies for Mitigation

The study was able to highlight that the excellent mastery of corporate governance is very key in the Kenyan scenario in solving the different challenges brought about by acquisitions. Many companies favor this remedy as a key strategy in resolving various issues and also using it to handle different issues before they even arise. With this, many of the challenges
associated with acquisitions can be easily averted. It will ensure that various matters concerned with the acquisition are addressed and handled accordingly. Corporate governance ensures that issues are tackled before the cripple any processes and are addressed. It ensures that everyone concerned with the acquisition is acquainted with different occurrences (Du & Boateng, 2012). It handles matters such as due diligence and thus solves the issue to do with transparency concerns.

The possession of adequate and essential management skills was seen to be an effective strategy in the study as many companies considered this to be a very important element in the acquisition process. This is very essential in ensuring the success of an acquisition in that the workers and management are equipped with proper skills to handle any challenges that arise. It enables them to even foresee any future challenges and tackle them before they affect the acquisition (GovLoop, 2013). It is recommended that companies acquire companies in the same industry in order to be able to apply the current management skills that they possess to tackle different challenges and to ensure the success of the acquisition. All of the companies under study acquired companies in the same industry that they operate in. This definitely helped them manage the acquisition better.

Proper understanding of the acquisition was seen to be a very critical factor in the study when it came to averting the different challenges brought about by acquisitions. It was seen to be quite vital to handling the issue of having a poor foundation in place before the undertaking of the acquisition. Without the entire organization properly understanding of the acquisition, the acquirer is simply setting the company out for failure and creating a breeding ground for more challenges. This means that when challenges do occur the acquirer doesn’t have an idea of the first step to take as he doesn’t have enough knowledge at hand of the organization. This will greatly undermine the management’s skills and knowledge as they will not be able to understand the specific issues at hand.

According to the study, the proper tackling of Economic and Political Uncertainty was considered to be a tricky strategy to master as it is a very turbulent characteristic in that it is very difficult to manage. This is because these elements simply dictate how a company undertakes its business (UNCTAD, 2001). The only trick to manage economic and political uncertainty is to properly and constantly survey the environment and be able to predict
changes that may come up and deal with them and position the company to benefit from these changes, and also adapt to the changes. This was also seen to be necessary in the Kenyan situation in that persons found it essential in the aversion of different challenges brought about by political and economic uncertainty. It is necessary in to constantly evaluate the Kenyan market as it is prone to different economic and political issues and address them accordingly in order to avoid negative impacts on the acquisition.

Proper financing beforehand was seen to be important to some extent in the Kenyan scenario. This ensures that the company does not have to resort to other means that would reduce the degree of control that they have on the acquired company at the end of the day. This also ensures that the company is able to have enough resources at its disposal to take care of different arising matters that could complicate the process (DePamphilis, 2011). It is seen to be a successful strategy as it helps to avoid cases of the acquirer having a shortage of finances to enable him to take the acquisition to the next level.

Having in place proper defensive measures was seen to be highly important in the study when it came to the acquirer setting itself up for greater success. It gives the acquirer some sort of backup plans if the acquisition does not go as intended. Some of the companies such as Old Mutual, Prudential PLC and Saham Assurance that acquired companies in Kenya acquired companies in other parts of the world. This was simply in an effort to spread and monitor their risks. The Literature Review had earlier shown that having in place proper defensive measures has been seen to be an ideal strategy for mitigating the challenges associated with acquisitions. This ensures that the acquirer has different options set in place to deal with different challenges that could come up in the acquisition process (Yannopoulos Dr., 2011)

5.4. Conclusions

5.4.1. The Rationale for Acquisition as an Entry Strategy
The findings of the study show that the top reason for companies choosing to use acquisitions as an entry strategy into Kenya was greatly influenced by the attractive growth rates and high rates of return witnessed in the market. With a growth rate of 5.34% in 2014, 4.7% in 2013 and 4.6% in 2012, Kenya is considered to be the most appealing country to invest in in East
Africa. It is also seen to be one of the most attractive countries to invest in in Africa as it is expected to grow at a rate of 6% in the year 2015. Strategic reasons were considered the next highly considered rationale for acquisitions in the Kenyan context. Many chose to position themselves strategically in the Kenyan market in order to take advantage of the benefits that a company is likely to accrue as a result of operating in the market. The study was able to show that when a company chose acquisition as an expansion strategy they were more likely to face political and economic uncertainty as a challenge.

5.4.2. The Challenges Associated with Acquisitions
Culture clashes were considered to be the greatest test when it comes to the acquisition process in the Kenyan situation. Many companies considered this as one of the greatest challenges limiting the success of any successful acquisitions. This could be highly attributed to both external and internal clashes whereby different elements and differences clash in this highly competitive environment. It seems that change management is not employed effectively in order to minimize this reaction to the occurrences. It was also seen that cases of culture clash were more likely whenever the company undertook the acquisition mainly motivated by the growth rates and rates of return. Also, transparency concerns were considered to be very disastrous as matters that were to be disclosed were hidden from the acquirer. This greatly limited effective decision making and thus posed a great challenge in the acquisition. The study also showed that whenever a company had a poor foundation in the acquisition process, they tended to focus on specific areas and thus having two challenges facing their integration efforts.

5.4.3. The Suggested Strategies for Mitigation
The possession of adequate management skills was seen to be the most important and effective strategy to solve the challenges that arise in the acquisition process. This is because the management is expected to be on top of their game before, during and after the acquisition. Also with poor management in place, the other subordinates cannot turnaround sluggish performance in terms of the acquisition. The mastery of corporate governance came in a close second in that it is highly effective when it comes to handling issues such as due diligence and ends up resolving a critical challenge such as transparency issues. Also in order
to handle the challenge of political uncertainty, having in place proper defensive measures proved highly critical to the mitigation of this problem whenever it arises.

5.5. Recommendations

5.5.1. Recommendations for Improvement

5.5.1.1. Creation of a more Favorable Environment for Investments
The government needs to put in place measures that will create an investment friendly environment for businesses and in this case, acquisitions, to thrive. Majority of the companies were influenced to move into Kenya to take advantage of the attractive growth rates and the high rates of returns. Therefore, adequate measures should be put in place in order to maintain the rising growth rates. The government should seek to give more support to businesses and thus continue with its efforts of maintaining the county’s appeal to investors.

5.5.1.2. Proper Application of Change Management
With proper application of change management, many of the challenges associated with acquisitions can be reduced a great deal. The management and the entire staff need to be properly prepared before the acquisition takes place. This should be an ongoing process as it will be necessary to constantly survey and come up with new ways to deal with different matters concerning change. This will also address the issue of culture clash as people will be well prepared for the anticipated changes.

5.5.1.3. Regular Training of Personnel
In an effort to maintain relevant and adequate management skills in the work environment during an acquisition, regular training will be required. This will go a step further in ensuring that persons are kept abreast of the changes taking place in different environments and are therefore able to apply the knowledge back at home. The training will also ensure that the decisions that they decide to apply when it comes to the acquisitions are those that will include all of the workers and thus be able to create a unified company.
5.5.2. Recommendations for Further Studies

It will be very interesting to observe the trend that will emerge with time in regards to acquisitions in the Kenyan market. This is because now more local companies have actually taken an interest in acquisitions and have acquired other companies in the market. It will be quite interesting to see whether or not the foreign companies will still be interested to expand into Kenya through acquisitions. Also, it would be important to see whether the reasons fueling these acquisitions by local companies are the same reasons that fueled the acquisitions by foreign companies. The challenges that they do face in the process will also be quite easy to study as one would be able to determine what unique challenges they face as a result of already having other operations in the same market and what strategies they seem to favor in order to mitigate these challenges.
References


Appendix A: Listing of the Population and the Source of Information

1. PKF Kenya- Competition Authority of Kenya
2. GTBank- Business Daily
3. Prudential PLC- Business Daily
4. Saham Assurance- Business Daily and KenInvest
5. Old Mutual- UNCTAD Reports and Business Daily
6. Abraaj Capital- Competition Authority of Kenya
7. Ecobank Development Corporation- Central Bank of Kenya and Competition Authority of Kenya
8. Letshego Holdings- Business Daily
9. Transunion Netherlands- Business Daily
10. Metropolitan International- Business Daily
Appendix B: Introductory Letter

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

QUESTIONNAIRE

Dear Sir/Madam,

RE: REQUEST FOR INFORMATION

I am a Master of Business Administration (Strategic Management) student at the above named university. In my final fulfillment of my graduate programme, I am conducting research on the analysis of the use of acquisitions as a strategy for firms’ expansion in Kenya.

I therefore hope to collect information from you with the use of a questionnaire in order to give more insight on the topic under study. The information provided will help in examining and explaining the main factors fueling the use of acquisitions as a form of entry and expansion in the Kenyan market.

Your assistance will be highly appreciated and your information confidential by maintaining anonymity.

Yours Sincerely,

WINNIE WAMBUI NJUGUNA.
Appendix C: Survey Instrument (Acquired Companies)

Questionnaire

As part of my graduate research project in United States International University, I intend to issue out questionnaires to help me properly analyze the acquisition trend in Kenya. The questionnaire will only take about 10 minutes to complete. All the information given will be confidential and will only be used in the project for better analysis of acquisitions as an entry and expansion strategy in Kenya.

PART A

This first section seeks to find out more on the respondent. Please fill in the required fields.

i. Current Position in the Company: __________________________________________

ii. Previous Position when the acquisition took place __________________________

iii. Please indicate your sex with an “X” or a tick in the box of your answer

   Male ☐     Female ☐     Prefer not to disclose ☐

iv. Please indicate your age with an “X” or a tick in the box of your answer

   25 and Below ☐    26-35 Years ☐    36-45 Years ☐    Over 45 Years ☐

v. Number of years you have worked with the acquired company: ________________

PART B

The following section seeks to find out more about the company. Please fill in the desired parts as required. Place an "X" or a tick in the box of your answer where required.

i. Industry the acquired company was in _________________________________________

ii. How old was the acquired company? ________________________________

iii. The number of years the acquired company had been in operation in Kenya

   Less than 2 years ☐    2-5 Years ☐    6-10 years ☐    10+Years ☐
PART C

i. Which of the following best describes the reason you feel your company was a target for acquisition? **Place an "X" or a tick in the box of your answer.**

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<td>The need for Diversification</td>
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<td>The recent developments in Economic Liberalization</td>
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Other (Please state any other reason why you feel your company was a target for acquisition)

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ii. Do you feel that the intention of the acquiring company was realized with the acquisition?

1-strongly disagree ☐ 2-disagree ☐ 3-neutral ☐ 4-agree ☐ 5-strongly agree ☐
PART D

i. Which of the following describes the challenges that were witnessed in the work environment following the acquisition? **Place an "X" or a tick in the box of your answer.**

1-strongly disagree  2-disagree  3-neutral  4-agree  5-strongly agree

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<thead>
<tr>
<th>Challenges</th>
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<tr>
<td>Various Transparency Issues, such as lack of due diligence</td>
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<td>Political Uncertainty in the Market</td>
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<td>Economic Uncertainty in the Market</td>
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<td>Poor Foundation to guide the acquisition</td>
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<td>Culture Clashes within the company</td>
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<td>Overpayment of the Acquisition</td>
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<td>Different Regulatory Issues</td>
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<td>Focusing on particular areas and Neglecting Others</td>
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<td>Other (please state other challenges faced)</td>
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PART E

i. Which of the following best describes the company’s suggested strategies for handling the challenges faced during the acquisition process? **Place an "X" or a tick mark in the box of your answer.**
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<tr>
<td>Mastering Corporate Governance</td>
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<td>Better Management Skills</td>
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<td>More Flexibility when handling the acquisition</td>
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<td>Better Planning for the Acquisition</td>
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<td>Having adequate Backup plans for the Business</td>
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<td>Proper Understanding of the Acquisition</td>
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<td>Proper Financing of the Acquisition beforehand</td>
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Other (Please state other strategies for tackling the issues faced)

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________________________________________________________________________

________________________________________________________________________

ii. Would you want to be part of another acquisition?

1-strongly disagree ☐  2-disagree ☐  3-neutral ☐  4-agree ☐  5-strongly agree ☐
Appendix D: Survey Instrument- Acquiring Companies

Questionnaire
As part of my graduate research project in United States International University, I intend to issue out questionnaires to help me properly analyze the acquisition trend in Kenya. The questionnaire will only take about 10 minutes to complete. All the information given will be confidential and will only be used in the project for better analysis of acquisitions as an entry and expansion strategy in Kenya.

PART A
The first section seeks to find out more on the respondent. Please fill in the required fields.

vi. Current Position in the Company: ________________________________

vii. Previous Position when the acquisition took place ______________________

viii. Number of years you have worked with the acquiring company: ________________

ix. Please indicate your sex with an “X” or a tick in the box of your answer

Male ☐ Female ☐ Prefer not to disclose ☐

x. Please indicate your age with an “X” or a tick in the box of your answer

25 and Below ☐ 26-35 Years ☐ 36-45 Years ☐ Over 45 Years ☐

PART B
The following section seeks to find out more about the company. Please fill in the desired parts as required. **Place an "X" or a tick in the box of your answer** where required.

iv. Industry the company is in __________________________________________

v. How old is the acquiring company? _____________________________________

vi. The number of years the acquired company has been in operation in Kenya

Less than 2 ☐ 2-5 years ☐ 6-10 years ☐ 10+ years ☐

vii. Number of Acquisitions undertaken since 2012 in Kenya ________________________

viii. Number of Acquisitions undertaken since 2012 outside Kenya ________________

ix. Equity acquired with the Acquisition in Kenya (please tick the equity acquired)

100% ☐ Over 50% ☐ Less than 50% ☐
**PART C**

iii. Which of the following best describes the reason for the company undertaking the Acquisition? Place an "X" or a tick in the box of your answer.

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<td>Other (Please state other reason for undertaking the acquisition)</td>
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iv. Was the intention of the acquisition realized?

1-strongly disagree □ 2-disagree □ 3-neutral □ 4-agree □ 5-strongly agree □

**PART D**

ii. Which of the following describes the challenges that were faced by the company while and after undertaking the acquisition? Place an "X" or a tick in the box of your answer.
1-strongly disagree ☐ 2-disagree ☐ 3-neutral ☐ 4-agree ☐ 5-strongly agree ☐

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<td>Poor Foundation to guide the acquisition                          ☐</td>
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Other (please state other challenges faced)

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PART E

iii. Which of the following best describes the company’s suggested strategies for handling the challenges faced during the acquisition process? Place an "X" or a tick mark in the box of your answer.
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<td>More Flexibility when handling the acquisition</td>
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<td>Proper Understanding of the Acquisition</td>
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<td>Proper Financing of the Acquisition beforehand</td>
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Other (Please state other strategies for tackling the issues faced)

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Appendix E: Interview (Acquiring Companies)

The following interview was administered to the respondents from the acquiring company;

1. What other options did you consider for the expansion strategy?
2. What was the motivation for the acquisition?
3. What benefits did you actually get from the acquisition?
4. What challenges did you face along the way?
5. How did you address the challenges?
6. How do you see the future of acquisitions in Kenya?