MERGERS AND ACQUISITIONS AS A GROWTH STRATEGY IN THE PRIVATE SECURITY INDUSTRY IN KENYA

BY

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A Research project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2015
DECLARATION

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

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

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Fred O. Newa

Signed: ______________________ Date: ______________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of this study was to examine the mergers and acquisition as a growth strategy in the Kenyan private security industry. The study narrowed down on two Kenyan private security companies registered in the Kenya Security Industry Association (KSIA). The study discussed the reasons for using mergers and acquisition as a growth strategy. The research questions for this study were reason why organizations choose mergers as a growth strategy?, why they choose acquisitions as a growth strategy?, the success factors for mergers and acquisition.

The research design used in this study was a descriptive study and was guided by questionnaires that were prepared online using Google forms. The link was emailed to the target population of 40 where 32 employees filling in the forms. The sample was based on three strata that is, top level managers, middle level management and the subordinates. The data was cleaned then coded and input in the system using computer software. The data was presented in form of tables, figures and graphs.

The following findings were revealed while looking at acquisition as a growth strategy. Looking at the three variables, firstly acquisitions create value the study shows that there was no correlation between growth and value creation. Secondly, acquisition provides access to new channels there was a positive correlation between growth and new channels. This meant that while using acquisition as a growth strategy, the organization would benefit from a creation of new channels. Thirdly, acquisition helps in research & development and innovation this can be a great motivation to participate in an acquisition but for this study there was no link between growth and research, development and innovation.

The findings for the use of mergers as a growth strategy were derived from three variables. The first attribute was mergers bring about economics of scale. The study showed that there was a positive correlation between growth and economics of scale. Secondly mergers help improve the market share, the study did not show any correlation between growth and the market share and although there was some improvement in the market share, it was not sufficient to promote growth. Thirdly, mergers achieve tax relief benefits for the organization, the correlation between tax relief and growth was nonexistent.
The findings for the success factors of mergers and acquisition looked at three attributes, firstly was due diligence performed on the organization. There was a positive correlation between due diligence and the success parameters. The findings showed that the key success factors for mergers and acquisition in the private security industry in Kenya was performing proper due diligence in the intended acquisition company. Secondly was the cultural integration of the two organizations, although the corporate cultures are important, there was no correlation with the success factors. In this case, it is safe to say that cultural integration did not equal a successful merger or acquisition. Thirdly, there was no correlation between the high cost of mergers and acquisition and the success attributes. This means that the cost did not affect the success or any failures of the merger and acquisition.

In conclusion, the main reason for acquisition that promotes growth in the private security industry in Kenya is access to new channels. Meanwhile the main reason for mergers that promotes growth in the private security industry in Kenya is the economics of scale involved in the combination of the two companies. Finally the key success factors for mergers and acquisition in the private security industry in Kenya is performing proper due diligence in the intended acquisition company. These are the points to consider when carrying out a merger or acquisition in the private security industry in Kenya.

Recommendations derived from the study are linked to the research questions. Organizations that use acquisition as a growth strategy need to be surgical and sell off loss making units, and also departments that are duplicated this will help the organization create value that will ensure growth. The study shows a positive correlation between using acquisition to gain new channels and use it as a growth strategy. Organizations using acquisition stand to gain better distribution and increase clientele. Although innovation, research and development allows an organization to keep up with the growing needs of its clientele, the study shows that the private security industry in Kenya has not embraced innovation as a reason to use acquisition as a growth strategy. An international security company can be best suited to meet the gap of innovation and research & development.

There is need to look at merger as a growth strategy as a way to consolidate companies offering similar products, this will reduce the cost and maximize the growth. This can lead to a monopolistic market, and create growth. The use of the BCG Matrix, to position the
product on the depending on its growth against the market share before merging can help anticipate the market share expected. Merging with a loss making organization earns the new organization a tax relief. Although it will not achieve the expected growth, it will protect the profits from the other organization from taxation.

The factors that have determined the success of mergers and acquisitions is clearly illustrated as due diligence. An independent team needs to evaluate the merger and acquisition. Due diligence takes long, thus reducing the effectiveness of the merger and acquisition especially when it is a secret in the industry, it is the key to the success of the merger or acquisition. Cultural integration is essential especially in order to reduce attrition of the top manager and the talented staff. Overpriced organization can reduce the returns expected from the merger or acquisition. Organizations should be willing to walk away from highly priced mergers when the goal is to achieve growth.

A recommendation for further study with a focus exclusively of each reason for merger and acquisition was deduced. The variables do not explain 100% of this relationship. Therefore, it is important that the managers of private security industries to consider that not all intended benefits of mergers and acquisition are predetermined and obvious to begin with. With the struggle to make profits in the industry, and the need to stay competitive, there will be an ever-growing need to merge and acquire to foster fast growth.
ACKNOWLEDGEMENT

I would like to extend my sincere gratitude to Dr. Fred O Newa for his continued guidance in preparation of the research project; I am also grateful for the unlimited support from my family and friends. Their continued support and encouragement has brought me this far.

I am indebted to the G4S and KK Security Staff for their invaluable time to provide feedback that has aided me to conduct an analysis of the mergers and acquisition as a growth strategy in the private security industry. I appreciate their cooperation during period of research.

I Thank the Almighty God for His Mercies & Endless Grace during the learning period. It has been a challenging experience and I am extremely humbled for completing this study.
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ABBREVIATIONS

BCG - Boston Consulting Group
CBK - Central Bank of Kenya
G4S - Group 4 Securicor
KK - Kenya Kazi Ltd
KRA - Kenya Revenue Authority
KSIA - Kenya Security Industry Association
M&A - Mergers and Acquisition
PSC - Private Security Company
PSIA - Protective Services Industry Association
ROI - Return on Investments
SPSS - Statistical Package for Social Scientists
K9 - Canine
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background Of Problem

The purpose of the growth in business is to provide development opportunities of business before their competitors and to help the resistance and give easy struggles in the moment when face to face with difficulties (Akgöbek, 2012). Mergers and acquisitions have been used over years as a way to grow business. Their activities around the world has been booming for the last three decades, but the intense M&A activity is in sharp contrast with the high rate of failure and dissatisfaction with its performance (Weber and Tarba, 2012). Acquisitions and mergers are a national as well as global trend. They occur everywhere – in organizations, administrative units and businesses in all industries and of all sizes (Balle, 2008).

Mergers and Acquisitions are the most effective and efficient ways to enter a new market, add a new product line, or increase distribution reach. This is evident when large firms merge in order to fill the gaps in their production pipeline or due to anticipated patent expirations, while small firms merge as an exit strategy (Hassan, Patro, Tuckman and Wang, 2007).

Mergers and acquisitions have not always been successful, according to Galpin (2008) overall poor M&A results may be attributed to a number of factors – poor strategic fit, incomplete or haphazard due diligence, and ineffective integration efforts. Considering that the motives of private security companies are different from the police, Bodnar (2012) notes that ultimately private security companies are motivated by profits and seek to maximize profits.

Many companies all over the globe consider M&A strategies to meet cost and increase revenue especially in the competitive corporate world, price wars. The banking industry worldwide has been consolidating at a dramatic rate over the past 30 years, and this trend is ongoing (Lambkin and Muzellec, 2008). Over the past few decades, we have seen countless examples of companies, such as General Electric, Google, and Cisco that have grown dramatically and built revenues through aggressive acquisition programs (Sherman, 2011). A
look at Kenya according to the Central bank of Kenya, 33 banks have merged to form new entities since 1989 to date, while four acquisitions have occurred since 2000 to 2008 (CBK, 2013).

Security companies originated during the middle Ages when lords needed to protect their properties. According to Nemeth (2012), there was chaos and circumstances of medieval England and Europe that led to the establishment of private, self-policing force. Regular patrols of Citizens were established to stand watch nightly and to arrest criminals and strangers found wondering at night. Nemeth (2012) continues to state that the expanding trade and transportation of vital goods and services were temptations for criminals. It also demanded the need for protection of private interest, proprietary and contract security. Nemeth (2012) Individual merchants hired men to guard their property, and merchant associations created merchant police to guard shops and warehouses. The essence of private security was born in the chaos of the middle ages, especially that of the "contract" variety, but the standardization of its organization hierarchy duties, and pay was yet to come.

Nemeth (2012) in Colonial America the first night watch was formed in Boston in 1634. Serving as a guard was the duty of every male citizen over the age of 18. The need for security entered on commercial interest, but on fear for fire, vagrants and attacks by the Native Americans. One of the oldest security companies was Pinkerton Company. According to Nemeth (2012) while Pinkerton officers were serving as the protectors of American railroad and as basically, the only uniform system of law in the west, Pinketon was one of the firms hired by business management to disrupt and disband labor activities (Nemeth, 2012). In 2003 Pinkerton was acquired by Swedish security giant Securitas AB, and switched its name to Securitas Critical Infrastructure (Chris, 2014).

According to Perry (2012), Securitas purchased of Burns, in 2000; then went on to make about a dozen other acquisitions. Securitas continues to concentrate most of its recent acquisition activity in the emerging markets. He also states that G4S uses the acquisition strategy to enter new markets. G4S made its initial entry into the U.S. with the purchase of Wackenhut in 2002, since that time, they have divested some of the traditional standing security officer business and has limited its acquisition activity in the U.S. security market to
mostly electronics and high-end investigative type companies. Currently G4S has concentrated most of its acquisition activity in the emerging markets (Perry, 2012).

The private security industry has evolved over the years today, it is responsible not only for protecting many of the nation’s institutions and critical infrastructure systems, but also for protecting intellectual property and sensitive corporate information. U.S. companies also rely heavily on private security for a wide range of functions, including protecting employees and property, conducting investigations, performing pre-employment screening, providing information technology security, and many other functions (Strom, Berzofsky, Shook-Sa, Barrick, Daye, Horstmann, and Kinsey, 2010).

According to Weisbecker (2008), G4S in America has grown by acquisition with its top USA holding being Florida based Wackenhut, a nationwide security firm that continues to operate under its pre-merger name. Formed by the merger of two major European security firms in 2004, G4S, among other things, manages billions in cash for British commercial banks, runs nine juvenile and adult "custody facilities" in the U.K. and U.S., and does risk management consulting for a wide variety of clients. Weisbecker (2008) goes on to say that with the MJM acquisition, G4S added insurance fraud to its already hefty catalog of business lines. As MJM’s growth curve suggests, insurance-fraud investigations could be a lucrative sector. These illustrates that G4S has grown to be the second largest security company in America by acquiring organizations.

Looking at Canada, GardaWorld is a Canadian security firm who’s headquartered is in Montreal, Quebec. It employs around 45,000 people across North America, Europe, Africa, Asia, Latin America and the Middle East (Chris, 2014). GardaWorld secures individuals and resources in at least 140 cities and protects 28 North American airports (Chris, 2014). In August 2013, GardaWorld acquired G4S’ Canadian cash management division in a deal thought to be worth around $110 million (Chris, 2014). This shows that even large security companies result to acquisition to increase their market share and diversify their product portfolio.

In traditional African society, many rich people in various communities often hired the services of private guards in ensuring the security of their lives and property (Kasali, 2008).
Uganda’s Department of Private Securities and Firearms at the police headquarters, by 2002 there were nearly 69 registered Private Security Companies and most had followed the Control of Private Security Organizations Regulations of 1997 to acquire firearms (Mkutu and Sabala, 2007). The Kenyan private security sector has expanded in recent years, and has exported its services to other countries in the region, including the Democratic Republic of Congo, Ethiopia, Rwanda, Sudan, Tanzania and Uganda (Mkutu and Sabala, 2007).

The private security sector in Africa is a reflection of a global trend, by which the post-Cold War victory of neo-liberalism at the turn of the 1990's and its global expansion since then have given thrust to a shift towards privatization (Thuranira and Munanye, 2013). This is clearly seen in the privatization of prisons in Europe, and the outsourcing of prison wardens to security companies like G4S. In more recent times, with the outsourcing of non-core functions to Private Security Companies (PSCs) in the west and the exportation of these privatized services to conflict and post-conflict settings example being Iraq and Afghanistan (Thuranira and Munanye, 2013).

Private security industry in South Africa can be traced to the late 1970s and early 1980s. Its development was encouraged by the governing political party at the time, the National Party, as a way to address the political climate (Bodnar, 2012). The Government ordered that the police engage in political duties and address political unrest, even if this meant they would need to withdraw from traditional policing duties. This left a gap in the security sector for the private security industry to fill (Bodnar, 2012).

There is a lot of competition between South African private security companies. There are many small fly-by-night type security companies that provide a cheap but substandard service, thereby tarnishing the image and reputation of the industry as a whole (Irish, 1999). Through a number of mergers and takeovers, many of the larger private security companies have consolidated their position even further. There is a danger that a few large companies could end up dominating and even monopolizing the South African private security market (Irish, 1999).

Government of South Africa tender procedures tends to favor companies with a racially diverse or non-white racial make-up (Irish, 1999). As a result, the 1990s have witnessed the
formation of partnerships between small black-owned security companies and larger white-dominated companies, or mergers with and buy-outs of white-owned companies by black-owned companies. Examples of this include Fabcos’ merger with Coin, and Khulani Holdings’ purchase of Springbok Patrols (Irish, 1999).

Irish (1999) goes on to say that although such initiatives have worked in a number of cases they have been a failure in some instances. Many smaller black companies complain that they do not benefit fully from partnership agreements, but are being used simply to comply with tender procedures. A number of partnership agreements have collapsed because of these problems (Irish, 1999). Papadakis (2007) drew attention to mistakes that took place before the merger. He argued that the seed of unsuccessful mergers was sown well before the deal was signed. He goes on to point out “Among the main mistakes that usually take place before the merger to be the managerial hubris problem, the lack of thorough due diligence, improper selection of the target, the exceedingly high premiums paid.

The reasons for the drop in mergers and acquisitions were not clear but Mchale (2013) speculated firstly that industry major restructuring from 2009 to 2011, and in the last two years, had paused to consolidate that process. Secondly, lack of confidence and/or interest by the major conglomerates to commit more investment to the industry, thirdly that there were a lack of buyers from outside the business, particularly defense and it (Mchale, 2013).

In Congo, the majority of the 35–45 registered security companies are not operational. Currently, a few security companies dominate the market for residential and commercial clients in Kinshasa. Late in 2006, G4S bought DSA, thereby establishing a market-dominating firm. G4S and DSA are international Private Security Companies, whereas most other companies are Congolese (Goede, 2008).

Kenya has seen an increasing level of crime in recent years (Mkutu, 2007). Both the rise in crime and the growth of the private security sector in Kenya are intimately connected to the erosion of state capacities and services that began in the late 1980s and continued throughout the 1990s (Abrahamsen and Williams, 2005). Between 2002 and January 2005, police records showed 4,467 people killed by criminals (Mkutu, 2007). As a response to the feelings of insecurity, the private security industry is growing fast (Mkutu, 2007).
The capital city of Kenya, Nairobi is home to a number of international organizations and national embassies, including the second largest US embassy on the African continent (Abrahamsen and Williams, 2005). Nairobi is also the regional headquarter for the United Nations, and taken together international clients provide a substantial and particularly lucrative market for private security companies (Abrahamsen and Williams, 2005).

Private security provision has a long history in Kenya, and companies like KK Security, Factory Guards (now Security Group) and Securicor (acquired and renamed by G4S) remained have operated in the country since the 1960s (Abrahamsen and Williams, 2005; G4S, 2013a). The main expansion of the sector can be dated to the late 1980s and early 1990s, and private security continues to be one of the fastest growing sectors of the Kenyan economy (Abrahamsen and Williams, 2005).

There is no special license is required and security companies are registered in the same manner as any other business (Abrahamsen and Williams, 2005). There are currently two rival industry associations in the Private Security industry in Kenya; these are Kenya Security Industry Association (KSIA) and Protective Services Industry Association (PSIA) (Abrahamsen and Williams, 2005). KSIA is the federation of private companies whose core business is the supply of security products and services (KSIA, 2005). According to the KSIA (2005), it has 29 registered members who strive to uphold the standards set by KSIA. This is not the exact number of security companies in Kenya, since there are many security companies not registered. The main reason for this discrepancy is that no special license is required and security companies are registered in the same manner as any other business (Abrahamsen and Williams, 2005).

Abrahamsen and Williams (2005) illustrates that top and second tier security companies in Kenya will undergo a period of consolidation and mergers, since there is a high number of companies’ competing for a relatively stable market. Example being KK Security acquired EARS, and Securicor purchased Falcon Security. There is speculation that mergers of a similar nature will occur in the future, and that a number of owner-mangers are looking to sell their businesses as going concerns.
Mergers and acquisitions (M&A) in Kenya follow the usual paths adopted in other countries. The majority of cases involve private companies, with relatively few transactions involving public listed companies (Harney, and Khan, 2010). Thus the common forms are: acquisitions of control of private companies; acquisitions of businesses as a going concern – asset acquisitions; creation of joint ventures; acquisitions of minority or majority holdings by strategic investors in particular sectors, such as banking or telecommunications; and mergers involving the creation of new holding companies for existing entities (Harney and Khan, 2010).

The security industry in Kenya uses mergers and acquisitions differently. Unlike the “financial play” deals of bygone eras, the reasons for doing M&A’s today are “operational leap” and a “shortcut to growth.” The targets are similar – in the same industry, have similar products, and serve the same customers (Galpin, 2008). All this is aimed at capturing the four c’s which are customer, competencies, channels, and content.

According to Sherman (2011) the sources of debt finance are looking at the M&A market differently today from the way they did until 2006. The value of deals has decreased, with conservative and tight valuation of target companies along with a decrease in the volume of transactions. Due to many failures of M&A, many financers are shying away from such deals.

An outlook of mergers and acquisitions in Kenya is that they are driven by the organization’s need to gain more from a merged organization than what can be gained from an independent organization. Through mergers and acquisitions, companies try to grow and expand their assets, sales and market share, improve their scientific knowledge, technological competences and product portfolio. Therefore, the benefits of consolidation extend beyond pure financial motives, such as creating new market opportunities, building core competences, expanding economies of scale and sustaining long-term competitive advantage (Lodorfos and Boateng, 2006).

Furthermore, firms shift focus into higher value added production through changing the emphasis of their research and development by buying firms that specialize in fields, which
they want to acquire. Therefore, mergers and acquisitions represent a strategic choice (Lodorfos and Boateng, 2006).

Mergers and acquisitions are corporate strategies; corporate strategy is concerned with arranging the business activities of the corporation as a whole, with a view to achieve certain predetermined objectives at the corporate level (Sudarsanam, 2003). Corporate strategy is how a firm creates value through the configuration and coordination of its multi-market activities (Peng, 2009).

Mergers and acquisitions are corporate strategies used as a market entry strategy. The choice for M&A depends on various factors, for example, the competition in a host market could be high and there is excess capacity. Building new capacity is likely to invite retaliation from the existing players thus; it makes more sense to acquire an existing firm to reduce the risk of retaliation.

The main reasons organizations take part in Mergers and Acquisition is to grow the business, this in turn increases revenue and profits while reducing the time it would take to grow through internal growth. M&A brings similar resources that help to foster synergy, which brings growth in revenue. Internal growth is usually slow due to the development of resources needed to foster growth. The Private security industry in Kenya has grown rapidly and almost monopolistic through mergers and acquisition.

Key growth indicators include revenue growth, increased market share, growth in sales, increased employment, more sales, increased profits and innovations all these can be achieved jointly or independently. Depending on the strategic intent of the organization either can be an outcome of the growth strategy. Companies that are experiencing organic growth tend to avoid M&A, but companies suffering from poor organic growth and suffer from a lot of pressure for growth from the shareholders. These managers are more likely to adopt aggressive strategies geared to growth maximization to release the pressure.

The merger or acquisition of two organizations that are servicing a homogenous customer base and has similar customer facing jobs, overlapping distribution, and market is bound to succeed. The combination of knowledge from the two organizations means that the new formed entity has a higher competitive advantage over the rest. The combination with
organizations in the similar field tends to increase the market share and can bring about a monopolistic monetary gain to the newly formed company.

1.2 Statement Of Problem

Mergers and acquisitions in the private security industry in Kenya are rarely documented; it has become the culture of the industry to grow the business via acquisition or mergers. There is a need to understand mergers and acquisitions in the private security industry in Kenya. KK security began its work in Mombasa, moved to Nairobi to increase their market share. It faced stiff competition from EARS security group and approached them for an acquisition in order to gain their huge market share. The acquisition is only documented in a website article from the year 2004. The consolidation in the local security industry escalated last week with the acquisition of the EARS Group by KK Limited. The development creates what is clearly an industry giant with billings expected to hit Sh2 billion a year (Akum, 2004). KK Security acquired Lodgit to grow their cash solutions department and Knight Support to grow their fire and rescue department (KK, 2014).

G4S Kenya has gone through a series of acquisitions and merges to reach the position it is right now. It started in 1969 as Securicor after acquiring three companies K9 Guarding Company, Night security and Guarding Services Company. Between 1991 and 2000, Securicor Security Services Kenya Limited acquired Express Security and thus gained its Cash Services department. Between 2000 to date, Securicor acquired Falcon Security, and Group4 Falck Security merged with Securicor, but maintained the Securicor name. They latter acquired Vera Security (Malindi), Polea Alarms (Kisumu), and Tanara Alarms (Nairobi), increasing their market share in the three towns. Securicor was acquired by G4S and changed its name to G4S. G4S acquired Armor Group, Urban Fire and Archive solutions. From Urban Fire, they gained their fire unit and from Archive solutions, they gained their secure data solution unit (G4S, 2013b).

Globalization has changed the face of business in the world. All organizations realize that they need to grow within the shortest time possible. Merging and acquisition of competing firms is aimed at improving the competitive advantage. Formed by the merger of two major European security firms in 2004, G4S, among other things, manages billions in cash for British commercial banks, runs nine juvenile and adult "custody facilities" in the U.K. and
U.S., and does risk management consulting for a wide variety of clients. The company also provides on-site security for the Kennedy Space Center; a NASA research facility in California; the Wimbledon tennis championships in London; various airports, including those in Oslo and London; and political parties and events (Weisbecker, 2008). Many companies believe that mergers or acquisitions are a key means for growth (Walker and Price, 2000). The combining of resources, increase market share, coupled with a wider product range means that Mergers and Acquisitions are one of the most preferred forms of market entry strategies.

Mchale (2013) in his online article noted that in 2013 there was a 48% drop in the value of mergers and acquisitions with the value in 2013 being approximately $5.0 billion. He goes on to say that, there were 34 deals in 2013 compared to 56 in 2012. While the number of deals and total value of acquisitions had fallen, the average value of a deal had actually increased from $120 million in 2011 to $147 million in 2013 (Mchale, 2013).

Out of the 35 – 45 registered security companies in Congo, few are operational. The ownership of these Congolese companies is in the hands of expatriates from Lebanon, Israel, Belgium and South Africa. It appears that clients prefer to work with internationals rather than Congolese PSCs and it is difficult for Congolese PSCs to acquire a firm footing on the market (Goede, 2008) could this be the reason why many private security companies opt to merger or acquire exsisting companies, in order to have a competitive edge over other companies.

When looking to enter the security industry, an organization can use many entry strategies. With the above illustrations, one can clearly see that security companies favor mergers or acquisitions as their entry and growth strategy. M&A’s are strategies for market entry that are aimed at gaining a competitive advantage. Either what drives the choice for a merger or acquisition is this trend unique to Kenya or is it a winning formula all over the world in the security industry. Many M&A’s has been driven by the need to increase shareholder value more than by sound strategic thinking. Simple momentum, imitative behavior, executive ego or organization stagnation are among the other understandable, but questionable motives that drive M&A activity (Lynch and Lind, 2002). There lies a gap in the choice between mergers, acquisition and the success factor of mergers and acquisitions. This study aims to understand
the reasons why private security companies in Kenya use mergers and acquisitions as a growth strategy.

1.3 Purpose Of The Study
The purpose of the study was to investigate the reason why mergers and acquisitions were used as a growth strategy in the private security industry in Kenya and the success factors of mergers and acquisitions in the private security industry in Kenya.

1.4 Research Questions
The research was guided by the following research questions:

1.4.1 Why Do Private Security Firms In Kenya Use Acquisition As A Growth Strategy?

1.4.2 Why Do Private Security Firms In Kenya Use Mergers As A Growth Strategy?

1.4.3 What Are The Factors That Determine The Success Of Mergers And Acquisitions?

1.5 Importance Of The Study
Key stakeholders to benefit from the study include

1.5.1 Investors
This study aims to be important to investors because they would need to understand what affects the success of mergers and acquisitions in Kenya and especially the security industry.

1.5.2 Regulatory Bodies
This report aims to be beneficial to regulatory bodies that would gain a better understanding on mergers and acquisitions. For them to be able to understand the success factors of M&A and in future help these bodies to come up with regulations to govern M&A’s.

1.5.3 Staff In Merger And Acquisition Companies
This study aims to be important to staff that work in merger and acquisition companies to allow them understand its importance and assist in the successful adoption of mergers and acquisitions in Kenya
1.5.4 Government Of Kenya
This will equip the government especially the Kenyan investment council to educate investors into the Kenyan market via mergers and acquisitions. The results of the studies can benefit the government especially to set up policies on market entry strategies.

1.5.5 Academicians And Researchers
This study aims to help the academic world in future researches on success factors of mergers and acquisitions. This research can one day be furthered by the academic world to fill a knowledge gap.

1.6 Scope Of The Study
The study was carried out on private security companies in Kenya who are members of KSIA, and have their head office in Nairobi. Focus was placed on studying security companies that have used Mergers and Acquisition in Kenya. The two companies that meet the criteria are G4S and KK Security.

The performance of merger and acquisition companies in developing countries especially in Kenya is not well documented. There has been an increase in the use of mergers and acquisitions to increase the market share. The study aimed to cover the performance knowledge gap.

The research area of mergers and acquisitions in general is wide. Looking at Mergers and Acquisitions, one can look at them from various functional disciplines i.e. finance, accounting, management and marketing. This study focuses on the reasons why the private security industry in Kenya chooses mergers or acquisitions as a growth strategy in Kenya. It also looks at the success factors of mergers and acquisition in the private security industry in Kenya.

The limitation is that the study is mainly based on secondary data. The study was confined to only private security firms in Kenya. The study was limited to two corporate firms out of 29 firms registered by KSIA’s, the two firms have undergone mergers and acquisitions in the last 10 years.
1.7 Definition Of Terms

1.7.1 Merger
According to Strategic Direction (2011), mergers typically occur when companies join forces to create a new organization, which, because of complementary skills and expertise, will be a stronger and more competitive outfit. According to Sherman (2011), a merger typically refers to two companies joining (usually through the exchange of shares) as peers to become one. Mergers usually involve full combination of two previously separate organizations into a third new entity (Marks and Mirvis, 1998).

Merger implies a mutually agreed decision for joint ownership between organizations (Johnson, Scholes, and Whittington, 2008). Mergers create a new organization out of two or more organizations of more or less equal stature, pooling all resources (Strategic Direction, 2005).

1.7.2 Acquisitions
Acquisition is the purchase of one organization for incorporation into the new parent firm (Marks and Mirvis, 1998). According to Sherman (2011), an acquisition typically has one company, the buyer that purchases the assets or shares of another, the seller, with the form of payment being cash, the securities of the buyer, or other assets that are of value to the seller.

Acquisition is where an organization takes ownership of another organization (Johnson, Scholes, and Whittington, 2008). Acquisitions add a small firm onto the existing structure of a larger organization. Deals tend to be based on market prices and can be risky, and usually aim to increase sales, cut costs or enter new markets (Strategic Direction, 2005).

1.7.3 Horizontal M&A’s
This is a merger or acquisition of two companies in the same industry with similar products or brands combine (Đặng Anh Vũ and Hanby, 2009).

1.7.4 Security Industry
Security can be improved through the provision of specialized services, such as cash and valuables transport, as well as material means, such as large intelligence databases or personal protective equipment. These goods and services can contribute to reduce the
vulnerability of society to terrorism and organized crime and mitigate the consequences of an attack. The collection of economic agents that produce these goods and services is what is known as the security industry (Marti, 2011).

1.7.5 Cross-Border M&A’s
Cross-border mergers and acquisitions take place when a firm follows the strategic objective of expanding operations to foreign markets through a range of possible entry vehicles, including de novo entry over acquisitions and mergers (Amoateng, 2006).

1.7.6 Entry Strategies
The continuing global upsurge in merger, acquisition, joint venture and other forms of collaborative activity reflects the changing social, economic, technological and market environments in which organizations now have to operate and respond (Cartwright and Cooper, 1996).

1.7.7 Globalization
Globalization of markets refers to the merging of historical distinct and separate national market into one huge global marketplace, while globalization of production refers to the tendency among firms to source goods and services from different locations around the globe to take advantage of national differences in the cost and quality factors of production (Hill, 2001).

1.7.8 Hubris
Hubris comes from a Greek methodology, considering a man who is extremely confident, presumptuous, overly ambitions, and lacks in humility. Hubris applies to a merger, when extremely confident managers are overly optimistic about their abilities to extract the benefits anticipated from a merger, and consequently pay too large premium for Target Company. (Anandalingam and Lucas, 2004).

1.8 Chapter Summary
The purpose of this study is to analyze the factors that affect the success of mergers and acquisitions in Kenya. The focus of the study will be top 5 Kenyan organizations that have gone through mergers and acquisition. The study will also concentrate on the mistakes that take place before mergers and acquisitions will occur.
Chapter 2 dealt with literature review aims to show the researches done out there on topics of mergers and acquisitions. It also the factors that affect the success of M&A, factors that lead to the success of M&A and how to evaluate the signs of failure in an M&A. Chapter three dealt with research methodology that will help the researcher in collecting and analyzing data in respect to the research questions highlighted in the first chapter. Chapter four consists of the results and findings of the study. This is the correlation analysis of the questionnaire. It also included graphical representation of the findings and the analysis of the data. Chapter five includes the discussion, summary and recommendations of the study. It analyses the findings and compares with the literature review to come up with the summary and recommendations derived from the study. There are also recommendations for and any future studies on mergers and acquisition.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
The term mergers and acquisition has been used interchangeably but they are different. Mergers occur when two companies join to form one while acquisition occurs when one organization buys another organization and controls it. The aim for business is to grow and achieve a profit, to evolve from a simple idea to a multimillion making venture. The growth in business aims to develop opportunities ahead of competition, these helps in making profit. Growth measured by an increase in revenue, profits, or assets. Growth is achievable by buying other companies thus combining resources. Even with the need for growth, organizations that look inward for growth through innovation still supplement their growth by look towards mergers and acquisitions. Merger and acquisitions are one of the strategies that an organization can apply to achieve growth.

2.2 Reasons Why Private Security Firms Use Acquisition as a Growth Strategy
Growth of an organization comes from increased revenue, reduced expenses that result to higher profits. Increased revenue is within the company's control and can be achieved by sales and market expansion. Growing by acquisition aims to take advantage of combined synergy that can be better financing terms, instant new market share, having an upper hand on the competition to increased resources. According to Halibozek & Kovacich (2005) growth through acquisition, us a swift process compared with developing growth from within.

Growth by acquisition is not restricted to companies offering homogenous products it also occurs in companies offering complimentary products, or companies that supply or distribute the acquiring company products. According to Unoki (2013) Coca-Cola viewed the acquisition of Columbia as an opportunity to diversify its business portfolio as well as create new sources of value through synergies obtained by combining different products and businesses.
KK Security in 2009 buyout of Knight Support that gave it a presence in the fire-fighting business (Business Daily, 2012). The sale was not of a security related services, but a fire service that gave KK security the opening to the fire fighting services. It would have been more expensive to set up a fire fighting business from scratch this way they could take advantage of the already invested in resources. Nestlé’s business expanded in size and scope through a series of acquisitions of US firms; Libby, the fruit juices company in late 1971; Stouffer’s frozen foods in 1973; Carnation in 1985 (Jones, 2005).

For companies to grow they will need to do something different to achieve a new result. They need to acquire existing business that will bring new technology or improve market share. According to Strategic Direction (2005), Cisco Systems Inc, the networking giant is known for its acquisition-led growth strategy, having taken over 36 smaller firms in ten years. The acquisitions allow companies to penetrate into new markets that otherwise they would not be able to enter. Other reason can be to follow clients. That is, when clients are internationalizing suppliers may have to supply them materials in foreign countries. In addition, companies can adopt a follower strategy, that is, follow the leader in the market. The saturation of the local market can help to make the decision of going to other markets (Martínez, 2004).

In some cases, the M&A involves unlikely mixtures like combining a company with excess cash but few growth opportunities with a company boosting of high return projects but cash hindrances. Usually it happens when big corporations buy small companies and when companies are in different stages of their cycle, that is, one is focused on mature segments and the other is immersed in a growth segment (Martínez, 2004).

2.2.1 Acquisition Creates Value
The aim of any business is to make a profit. Value creation occurs where the returns on the investment exceed the return required (Bruner, 2004). A firm makes a profit if the price can charge for its output is greater than its costs of producing that output, to do this; the firm must produce a product that is valued by consumers (Hill, 2001). Firms can increase their profits in two ways, by adding value to a product so consumers are willing to pay more for it and by lowering the cost of value creation (Hill, 2001).
Firm value will increase by increasing market share, sales, and by reducing the operation costs. Acquisition offer new opportunities to enhance the company’s competitive advantage, operational efficiency, and financial performance, thereby increasing shareholder value (Sudarsanam, 2003). An acquisition may also enable the firm to discover radically new paths of resource combinations and thus open up new growth opportunities for the firm that are different from those previously pursued (Davidsson and Wiklund, 2013).

Value creation is best illustrated using Potter’s value chain. A value chain represents the breakdown of the value of the total output (sales revenue) into its component profit (Sudarsanam, 2003). The Value chain helps to understand the behavior of cost.

Acquisitions are utilized by acquiring companies to gain monetary value from the acquired companies. When one company buys the total assets of the other company, it does as it sees fit with the assets to gain value to the acquiring company. According to Halibozek and Kovacich (2005), an acquiring company may break up the company it purchases into different business units or product lines and sell some or all of them. Causes of the breakup may be that the company needs an immediate cash infusion and selling a business unit may add cash to the company treasury, a method of eliminating a competitor (Halibozek and Kovacich, 2005).

In some cases, the company will acquire another forming a symbiotic relationship where each party bringing something to the table. Many small high-tech businesses need capital to grow, and more-established firms need these start-ups to grow their top-line, hence the record number of acquisitions in high-tech and other growth fields (Marks and Mirvis, 1998). Cost savings are likely to be especially large when one company acquires another from the same industry in the same country. SBC Communications realized substantial cost savings when it acquired Pacific Telesis (Eccles, Lanes, and Wilson, 2001).

Even though few acquisitions produce the desired success, the market seems strong. Some of the acquisitions transactions do also create significant returns for the acquiring firm and thus confirm that acquisitions can be a profitable strategy for both the firms and its shareholders (Hitt, Harrison, and Ireland, 2001). The cumulative spending on Cyber Security deals since 2008 totals nearly $22 billion, an average of over $6 billion in each year. Acquirers have
been from a range of sectors including Technology, IT services, Aerospace & Defense as well as financial investors. With the acquisitions, the Cyber Security market was expected to experience strong growth. Defense contractors have targeted acquisitions that provide access to new customers primarily government agencies e.g. CIA, FBI, GCHQ, MI5/6, with new capabilities and access to scarce security-cleared personnel (PWC, 2011).

Acquisitions have been used in organizations as a means to various strategic decisions from defending an already existing company, making the company stronger by increasing capacities or a forecast of a future opportunity that the company foresees. Protective value and enhancing value are gained by defending existing business and building the existing competitive position. Value sought by building capacities can be used in innovative ways in markets that do not yet exist (CSBS, 1998). Sweat value describes the additional value “squeezed out” of acquired companies by imposing strict financial and operational controls (CSBS, 1998).

Before the acquisition there is, need to set targets to be achieved which help the organization evaluate the success of the acquisition. During Unilever’s $26 billion acquisition of Bestfoods in 2000, senior management understood that there was value to be saved by setting a tight agenda to ensure the delivery of the targeted synergies (Chanmugam, Shill, Mann, Ficery, and Pursche, 2005). Value derived from acquisitions is evident in the U.S. acquirers of private firms or subsidiaries of publicly traded firms who often realize positive excess returns of 1.5 to 2.6 percent (DePamphilis, 2011). Value created has to be more than or equal to the forecasted value

Synergy motive is based on economic growth that results by merging the resources of the two companies. This is the value creation and the aim is to increase the value of the firm (Berkovitch and Narayanan, 1993). Synergy motive for an acquisition suggest that these transactions take place in the anticipation of economic gain, which result from the acquisition of the resources of both firms. The gain occurs to the acquirer firm shareholders.

2.2.2 Access To New Channels

The need to improve the chances of business success causes companies to look into acquisition for survival. According to Gaughan (2007), companies that make a product but
do not have direct access to consumers need to develop channels to ensure that, their product reaches the ultimate consumer in a profitable manner. Locking in dependable distribution channels can be critical to a firm’s success.

According to Sherman, (2010) Acquisitions offer an ability to plug a weakness in the organization. By extending product portfolio or strengthening the existing portfolio, an acquisition can open up new market, customers, geographical regions or even distribution channels. Disney in 2009 acquired Marvel, which gave it access to new contact channels and product development (Sherman, 2010). When Mattel, the toy maker, acquired The Learning Company, an interactive software maker, its aim was to extend its brands into software products and reach older children who were no longer interested in Mattel’s core brands such as Barbie dolls. In addition, Mattel’s corporate strategy intent was to evolve through acquisition from a traditional toy company to a global children's products company. (Gopinath, 2003) Mattel used the knowledge from the new company to revitalize its existing business while at the same time having a common distribution system (Gopinath, 2003), they increased their distribution channel and new markets in this acquisition.

New channels can be gained from a company expands its market share; this in turn improves sales and grows the revenue. EPS Security in the USA, is one of the national's major residential and business fire-and-burglary security firms, they acquired Grand Rapids-based Eagle Security. The acquisition was for 1,000 Eagle Security accounts only. Half the accounts were residential the rest are business accounts that will represent about 80% of Annual revenue (Daly, 2012). This increased the market channel of EPS Security, improving their standing in the industry and creating instant growth in customer acquisition.

Acquisitions provide the immediate access to the target market, including business network and relationships, suppliers, distributors, and customers. Therefore, G4S made a conscious decision to use acquisition as a means of growth (Chang and Rosenzweig, 2001; Simmonds, 1990). The merger of Group 4 Falck and Securicor in the year 2004 in Kenya created G4S (G4S PLC, 2012). According to G4S annual report, acquisitions continue to be an important part of the strategy, particularly in developing markets where they could improve either our market share or where an acquisition can act as a catalyst to drive outsourcing opportunities.
Organizations set aside money in their budget that is solely geared to acquisitions. G4S set budget each year dedicated to acquisition is £200m, they believe there are substantial growth opportunities in these markets and they are targeting 50% of their revenues to come from developing markets by 2019 (G4S PLC, 2012). The theory of growth of the firm suggests that acquisitions enable firms to achieve a rapid speed of expansion (Hennart and Park, 1993).

An acquisition company may choose to keep the entire company it purchased and integrate it into itself, creating a larger company from two smaller companies (Halibozek and Kovacich, 2005). The aim would be to capitalize on the capabilities of both companies as they are shaped into a single new company.

2.2.3 Research, Development And Innovation
Due to the rapid technological change, innovation has becoming increasingly important in organizations today. There is need for novel solutions and more advanced product in the market. Acquisitions of major Swedish manufacturing groups by foreign owners have led to increased investment in R&D in Sweden (Strandell, 2008). The acquisitions have shared the innovative R&D and sharing technological advances to promote growth.

Acquisitions have been looked as an attempt by large organizations to grow by gaining innovation from the companies they buy. Smaller organizations engage in R&D with the hopes of acquisition by the large organizations. To extend its networking offerings, Cisco has purchased 16 computer-networking companies and five computer security companies since 1999 (Phillips & Zhdanov, 2012). This illustrates that organization have grown via acquisitions that have been geared to innovation, the motivation to innovate and carry our R&D activities. The acquisition only occurs if the innovation has been successful.

Innovation can be in marketing i.e. to implement a new marketing process that changes the products design; organizational changing the way the company works thus increasing performance. According to Gaughan (2007) Johnson & Johnson between the periods 1995–2005, the company engineered over 50 acquisitions as part of its growth through acquisitions strategy. Rather than internally try to be on the forefront of every major area of innovation, Johnson & Johnson, a $55 billion company, has sought to pursue those companies who had
developed successful products. They grew by acquiring companies that had innovative and successful products.

Acquisition of a company can achieve growth. According to Phillips & Zhdanov (2012) with the need to capture a greater fraction of the acquisition surplus, the small firm will tend to invest in R&D to increase the odds of successful innovation and being acquired by the larger firm.

The main point in the positive outcomes of acquisitions on innovation is the information correlation among the acquiring and acquired company and, the ability to amalgamate the information into the acquiring company. Typically, the acquirer pays a large premium for the goodwill or brand equity of the acquired firm and the challenge then is not only to preserve the existing equity under the new ownership but, ideally, to expand and enhance it (Lambkin and Muzellec, 2008).

Acquiring technologies can also be a defensive weapon to keep important new technologies out of the hands of competitors. In 2006, eBay acquired Skype Technologies, the Internet phone provider, for $3.1 billion in cash, stock, and performance payments, hoping that the move would boost trading on its online auction site and limit competitors’ access to the new technology. By September 2009, eBay had to admit that it had been unable to realize the benefits of owning Skype and was selling the business to a private investor group for $2.75 billion (DePamphilis, 2011).

The capacity to carry out successful R&D can be increased by acquisitions. By acquiring a unique technology a company will grow in revenue and market share, this is preferred to building the technology from scratch. Abbott’s $3.7 billion purchase of Piramal Healthcare Abbot laboratories is US based drug manufacturer has acquired a domestic pharmaceutical company Piramal Healthcare so as emerge as leaders in the generic drug market in India. One of the benefits is that post acquisition both companies have benefitted in terms of huge returns and increased sales of the pharmaceutical products in the global and the domestic market alike. These have been primarily due to the amalgamation of the drug manufacturing potential of Piramal and the ability of Abbott market effectively the products internationally (Christopher and Arishma, 2013).
2.3 Reasons Why Private Security Firms Use Mergers as A Growth Strategy

Mergers are the most efficient method to add a new product line, enter a new market, or increase distribution scope. A merger is a union of two companies. Together they complement each other with each other’s inadequacy being reduced by the other’s capacity. Neither company has an advantage after the merger, as both companies combine their people, assets, and capabilities to form new entity. In mergers, each company seizes to exist and instead forms a new entity. The 1999 combination of Daimler-Benz and Chrysler to form DaimlerChrysler is an example of a consolidation (DePamphilis, 2011).

Mergers can take on two general forms: horizontal mergers, in which companies combine with related companies and vertical mergers, in which companies of unrelated businesses combine (Cheng, 2012). A merger is an important growth option. Merged enterprises are said to gain from economies of scale, benefit from cash flow savings, procure new customer base and eliminate business rivalry (Kasipillai, 2003).

Mergers have proven to be an important and more and more popular means of accomplishing commercial diversity and growth. A merger strategy can be based on value-maximizing motives, such as exploiting economies of scale and scope, or increasing profits through geographic and product diversification. (Lambkin and Muzellec, 2008).

Reasons for mergers vary, as stated by Hisrich (2013), he talked about three factors that include economics of scale, taxation and combined complementary resource. A firm buys another in its line of business to get more market power, to acquire access to a new product line, or even to bring in new employees. A merger with different kind of company can be favored as a way of reducing risk (Anandalingam and Lucas Jr, 2004).

2.3.1 Economic Of Scale

Economic of scale can occur in any department in the organization. Although there are key departments that benefit the organization than others especially in production, and sales, since these increases the organizations revenue. According to Hisrich (2013), Economic of scale occurs in production, coordination, and administration; sharing central services like office management and accounting, financial control, and upper-level management.
Economics of scale increase operating, financial, and management efficiency, thereby resulting in lower costs, fewer employees and better earnings.

Costs in organizations are split into fixed and variable costs. Fixed costs are present despite production while variable costs depend on other variables to increase or decrease. Mergers between two companies’ results in the new organization reducing its costs, by cutting fixed cost that will come from reducing duplicate departments, staff and also operations. The aim of any company is to reduce cost, increase revenue and in turn achieve huge profits. This in turn will reduce the cost to the company and improve the profits margins. Hackett (1996) notes that cost reduction can also occur through the rationalization of key clinical support, such as pathology and radiology, services linked to investment in technology. In certain activities where major economies were associated with the ways emergency workloads could be organized and delivered across existing hospital sites and more effective scheduling of elective workloads (Hackett, 1996).

Economies of scale exist when costs tend to increase on a less than proportionate rate from the increase in output. One way of accomplishing this is to spread the axed costs over a larger volume of output. When a merger has taken place, economies are supposed to be derived from the sharing of services like management, accounting, research and development (Evripidou, 2012). In 1994, the merger between Radisson diamonds Cruises and seven seas cruises enabled the combined cruises to offer an extended product line in the form of more ships, beds, and itineraries while lowering per-bed costs (Gaughan, 2007).

Many entrepreneurs will merge with other firms to ensure a source of supply for key ingredients, to obtain a new technology, or to keep the other firm’s product from being a competitive edge (Hisrich, 2013). It’s cheaper to merge with a company already possessing a new technology instead of trying to replicate the technology. A merger can allow learning from each other’s experience in the industry or even in technological advances. According to Cento (2009), in 2004, KLM and Air France created a merger called Air France-KLM; the merger benefited the consumer by offering superior services. They used their customer knowledge to offer better services, which in turn brought new clients. “After integrating its two networks and hubs, Air France-KLM SA has reached a growing portion of European market share, particularly among high paying business travelers on long-haul flights” (Cento,
2009). A merger between two airline companies may generate cost savings. First, they can gain cost efficiencies by elimination of duplicative cost in operation and labor (Evripidou, 2012).

Economics of scale can be realized in financial by lower securities issuance and transactions costs, or result in a better matching of investment opportunities with internally generated funds. Combining a firm that has excess cash flows with one whose internally generated cash flow is insufficient to fund its investment opportunities may also result in a lower cost of borrowing. A firm in a mature industry experiencing slowing growth may produce cash flows well in excess of available investment opportunities. Another firm in a high-growth industry may not have enough cash to realize its investment opportunities (DePamphilis, 2011).

2.3.2 Market Share
The particular choice that a firm makes depends on its evaluation of the attractiveness of the market that it wishes to enter or deepen its commitment to, its own competitive strengths, and the potential for value creation when these strengths are matched to the demands of the market (Sudarsanam, 2003). In reference to the BCG Matrices, there is more to evaluate in the market share and growth aspect. There is need to consider the products presented to the market could have been cash cows. This is a business with high market share and low growth (Bruner, 2004).

When a merger between two competitors occurs, it has a reducing effect on the competition and grows the newly formed company into a company with a bigger market share. The newly formed organization if it’s dominant enough becomes the market leader and can set prices in the market. Being the leader or at least the number-two company in an industry can provide a company with advantages over smaller rivals that such smaller competitors might find it difficult to overcome (Gaughan, 2005).

Mergers are used to create market power. According to Gaughan, (1996) market power refers to as monopoly power, is defined as the ability to set and maintain prices above competitive levels. He went on to say that, there are three sources of market power, which include product differentiation, barriers to entry and market share. The government has placed some guidelines to reduce the occurrence of monopoly power, according to Gaughan (1996), the
American justice department in 1968 set guidelines that stated, an industry was considered to be highly concentrated if the four largest firms held at least 75% of the total market.

A merger can increase profitability of the combined firm with an increase in the market share. This can help the organization gain a much needed market growth. In some cases due to the size of the newly acquired market, the newly formed organization can become too big. A number of potential merger have been disapproved by the authorities based on the notion that the merger would provide the new company excess market power. This will have an adverse effect on consumers both in services provided as well as to prices offered (Evripidou, 2012).

Companies that merged with an aim of moving into the number-one and number-two rank in an industry thus achieving market growth was the 2004 merger between J. P. Morgan Chase and Bank One. J. P. Morgan Chase was the product of the merger between J. P. Morgan and Chase Manhattan Bank in September 2000. That merger was not regarded as a great success, partly because many J. P. Morgan managers left the company in 2000 (Gaughan, 2005). The banking industry ranked banks either by total deposits or by total assets. Before the merger, J. P. Morgan was third in total deposits and total assets behind both Bank of America and Citigroup. Bank One was sixth in deposits and assets behind these banks as well as Wells Fargo and Wachovia. After the merger, the combined J. P. Morgan and Bank One became number two in the U.S. banking industry (Gaughan, 2005). This meant that the merger was able to improve the market share of the newly formed organization.

Organization merges in order to gain better distribution channels or even better marketing networks. The need to enter a new market motivates a company to merge with an already established company instead of starting from ground zero. Essentially, the benefits for merger based around dealing with the competitive forces that an organization faces and positioning one’s organization in either an offensive or a defensive position in the market to cope with these competitive forces. In classical terms, mergers either result in moves to establish greater control over factor inputs (labor, capital) which in an NHS context is possible but unlikely (Hackett, 1996).
Merger can reduce the competitive pressures that purchasers in the marketplace can exert on a Trust because greater market concentration allows price increases to pass to the customer (or purchase) or to resist price reductions. Moreover, it can provide an effective barrier to entry to the existing markets served by the Trust because of its large concentration in the market, lower costs and control of the points where hospital care can be delivered (Hackett, 1996).

### 2.3.3 Tax Relief Benefits

A company suffering from losses and in the previous year they did not make enough profits to take advantage of the loss, might be tempted to merge with a company making losses in order to gain from the tax relief. Benefits of a merger include and are not limited to the transfer of brands and other potential synergies: placing shared services and central purchasing in tax-advantaged locations; reorganizing within a country to pool taxes; pushing down debt into high-tax subsidiaries; and obtaining tax benefits that neither company could have realized on its own (Eccles, Lanes, and Wilson, 2001).

Corporate income tax regulations allow the net operating losses of one company to reduce the taxable income of another when they are combined. By combining a firm with a loss with a firm with a profit, the tax loss carryover can be used (Hisrich, 2013). According to Kasipillai (2003), the tax-loss relief is given a special treatment, that is, it is allowed as a deduction from the total tax assessed on the chargeable gain of a taxpayer for the year of assessment in which the loss arises. Under RPGTA in Malaysia, the calendar year is the year of assessment. This means that mergers that attract a loss after the merger can forgo paying taxes.

The decision to merge with a loss making company in order to advantage of the tax refund can allow the new merged company to claim a tax refund for up to 3 years. According to Auerbach and Reishus, (1988) corporations with negative taxable income may claim tax refunds based on these losses only to the extent of the previous three year’s taxable income. Auerbach and Reishus, (1988) goes on to state that the combination with a “fully” taxable firm that has no tax losses and the potential to absorb more credits than it is currently claiming can increase the value of such a firm’s tax benefit.
Since a merger is a combination of two companies into one company, there will be a duplication of roles and excess personnel. In pursuit of cost cutting, the new entity will be looking to terminate staff in the duplicated roles and retain the best staff for the role. According to Kasipillai (2003), compensation paid because of termination of services following a merger of a business is normally tax deductible. This is because the payments are made in the interest of the business. It is an allowable expense because the payments were meant to relieve the new enterprise from onerous contracts.

Mergers have been encouraged by governments in order to save certain industries and to have them enjoy tax reliefs. Case in point is the East Asian 1997/98 financial crisis brought about unexpected problems for Malaysian companies that had borrowed in foreign denominations, especially in US dollars (Zamani, 2002). The sudden surge in currency adjustments resulted in huge losses being reported by several companies, particularly financial institutions. The Malaysian government strongly advocated banks, insurance companies and stock broking firms to merge among their respective groupings to create stronger and more viable business entities (Zamani, 2002). The cost of merging two or more companies, any cost incurred under the merger scheme is capital in nature and thus are not allowed for tax deduction (Zamani, 2002).

2.4 Factors That Have Determined The Success Of Mergers And Acquisitions

For M&A to be successful the shareholder value must be increased faster than when the companies were independent. Successful performance of M&A has become one of the core abilities of the companies and a source of competitive advantage of the competitors. Technological developments, primarily in the fields of computerization, communication, and information, along with the process of globalization, processes of privatization of governmental companies, the liberalization in the transfer of merchandise and services between countries, and the trend of unification between fields and industries and companies and regions – all accelerate the popularity of the use of this strategy. All these factors create many more opportunities to perform M&A and exert pressure on managers to join this trend (Hitt, Hoskisson and Ireland, 2001).

There are various reasons that contribute to the success or failure of mergers and acquisitions. Some of the reasons include implementation, corporate culture integration, due
diligence just to mention a few. If the rules for the implementation of the merger or acquisition have not been clearly stated at the beginning then there will not be a success story. Rules help in decision-making and conflict resolution. Although there is, no set rules for implementation and the success guarantee of mergers and acquisition need to set rules linked to the merger's strategic intent.

Merger success correlates directly with the level and quality of the planning involved. Companies often spend insufficient time analyzing and anticipating current and future market trends as well as integration issues. It is common for companies to forego an objective analysis of their strengths, weaknesses, opportunities and threats, thus risking the success of the transaction from the start (Nguyen and Kleiner, 2003).

Stahl (2004), states that recent research suggests that contrary to common belief, it is not poor strategic fit that most often causes mergers and acquisitions to fail but poor execution. The list of possible reasons seems to be endless including such factors as unrealistic expectations, poor planning, talent lost or mismanaged, poor communication, cultural clashes, changing external environmental conditions, integration difficulties (Papadakis, 2005).

2.4.1 Due Diligence Performed On The Organization

Due diligence involves looking into the history of the organizations, their mission and vision, values, culture and the assets tangible and intangible. It gives a clear picture of the organization. For the picture to be true there is a need to get the right information. With the proper information, the acquiring company can make the right decision whether to acquire or not. According to Jones and Hill (2008), top managers often do a poor job of reacquisition screening, that is, evaluating how much a potential acquisition may increase future profitability. Obviously, the managers of the target company may manipulate company information of the balance sheet to make their financial condition look better than it is (Jones and Hill, 2008). Acquirers have wiped more value off their market capitalization through failures in due diligence than through lapse in any other part of the deal process (Aiello and Watkins, 2001).
Due diligence begins early in the merger stage and continues behind the scenes throughout the merger. The process mainly involves financial, technical, and legal issues that collectively lead to a business valuation of the target. The valuation considers all transactions affecting issues that directly or indirectly affect the initial bid of a merger or acquisition. Once this process has been successfully completed, negotiations begin (Gleich, Kierans, and Hasselbach, 2010).

Companies that use M&A to grow can sometimes neglect due diligence and fail to screen the potential company, thus fail to recognize issues in the business models of its targeted company. In 2009 IBM was in negotiations to purchase chip maker Sun Microsystems, after spending one week examining its books, IBM reduced its offer price by 10%, when its negotiators found its customer base was not as solid as expected. Sun Microsystems was eventually sold to Oracle in 2010, and so far the acquisition has not proven a success as Sun Microsystem’s server sales fell in 2011 (Jones and Hill, 2008). A year after it acquired Keebler foods, Kellogg’s rewarded shareholders with a 25% return (Perry and Herd, 2004). This was accredited to exceptional proficiency in assessing the targeted mergers and acquisitions.

In the age of increased scrutiny and concern about the trustworthiness of financial statements, and given the lengths to which some executives and companies have gone to mislead their investors, it is prudent to obtain the services of professionals who know the industry (Perry and Herd, 2004).

Experts who specialize in analyzing the viability of mergers and acquisitions should be involved in the process. The due diligence team needs to include accountants who are tasked with the duty to review the audited financial statements, lawyers to look at any liabilities the company has gotten into, and tax experts to analyze the tax exemptions to be gained due to a merger (Jones and Hill, 2008). There is a need for independence especially to give the report the authenticity it needs thus the team of accountant, tax experts and lawyers need to be independent (Jones and Hill, 2008). The independent team should look out for negative impacts that can arise once the deal is finished. It is costly and time consuming but it can be the difference between success and failure.
2.4.2 Cultural Integration

Hofstede (1991) defines culture as a collective programming of the mind that distinguishes the members of one group or category of people from others. Every person carries within him - or herself pattern of thinking, feeling, and potential acting that were learned throughout the person's Lifetime. (Hofstede, Hofstede, and Minkov, 2010). Culture is influenced by many variables in one’s life. It can be influenced by your organization, by your nationality. It is deep rooted and is not easily isolated from its people.

Corporate culture is value and practices that are shared across all groups in a firm at least within senior management (Kotter and Heskett, 1992). It considerably affects the performance of the company the way of life and doing business in the corporate A strong corporate culture aids in various ways including employees are in harmony, regulation of human behavior, quick and easy decision making, the sharing of a common goal leads to a more motivated and increased engagement.

Integration involves the adaptation of common management and financial control systems; it is the joining of operations from the acquired and the acquiring company (Jones and Hill, 2008). Specifically, integration involves the synthesis of people into one corporate culture (Knilans, 2009). It is the combination of two corporate cultures with the aim of creating a joint way of doing business. It is important, if the two companies don’t combine to act as one the chances of success are greatly minimized. The success rate of mergers or acquisitions could be enhanced through incorporating cultural compatibility into the identification, evaluation, assessment and selection of potential partners (Schraeder and Self, 2003).

The success of most deals is determined by a strong culture. Looking at mergers and acquisitions that have been successful, the integration of culture has been behind this success. Most mergers have been known to fail at the execution stage. The exercise of integration of culture if not done with care can lead to the organization losing its top talent. According to Dauber (2012), Culture” has become a critical factor for success in today’s international business environment. In particular, mergers and acquisitions are known to suffer from a high failure rate, due to culture differences. Culture plays a major part in the way employees react to the new structure of their work environment, ranging from quick adapting and
commitment to the new expectations to resistance, withdrawal and other forms of unproductive behaviors (Nguyen and Kleiner, 2003).

When Daimler-Chrysler merged, the industry has a lot of expectations since both firms were doing so well. Unfortunately, the merger was a failure. Operations and management were not successfully integrated as “equals” because of the entirely different ways in which the Germans and Americans operated. Daimler-Benz’s culture stressed a more formal and structured management style, Chrysler favored a more relaxed, freewheeling style (Webber and Camerer, 2003). Ultimately, a large numbers of key Chrysler executives and engineers resigned and Daimler-Benz employees were dissatisfied with Chrysler division performance (Appelbaum, et al. 2007).

Culture differences between the merging firms as a key element affecting the success of M&As (Lodorfos and Boateng, 2006). There is need to have effective communication, since it reduces the cultural differences of the merger and reduces the tensions between the employees. For example, Dow-Union Carbide’s merger and acquisition manager said: In order to minimize managerial and cultural conflicts we focus on the development of good communication links with the target company. To reduce communication problems, managers must not only give information but also actively involve all the stakeholders and especially the employees in the merger processes (Lodorfos and Boateng, 2006).

The two cultures collide and this leads to the failure of the merger. Most mergers fail because there was a lack of analysis in the depth of the difference in cultures. The acquisition of NCR by ATT in the early 1990s is a good example of a collision of two cultures. The conservatism and centralized management of NCR did not suit the openness and creativity of ATT. Eventually, NCR was sold at half its market value and ATT lost $3 billion (Weber and Tarba, 2012).

The legal system has been known to stop M&A’s in the interest of safeguarding the corporate culture. One case in point is seen in the states whereby 1989 Delaware Supreme Court Ruling involving the proposed merger between Paramount Communications, Inc. and Time Inc. the court concurred with Times contention that the merger would pose serious threats to the corporate culture of Time (Schraeder and Self, 2003). Mergers and acquisitions still fail to
accomplish many strategic objectives. Ironically, corporations realize the cause of failed merger and acquisition, but they have not successfully integrating merger and acquisition deals (Huang and Kleiner, 2004).

### 2.4.3 High Cost Of Merger And Acquisition

Hubris applies to a merger when the extremely confident managers are overly optimistic about their abilities to extract the benefit anticipated from a merger, and they consequently pay too large a premium for the target company (Anandalingam and Lucas Jr, 2004). Managerial hubris occurs when a manager is accused of paying too much for an acquisition. This can lead to an organization paying too much for the merger especially considering that many merger and acquisitions are led by the CEO.

Price is a factor, if you pay too much to buy a company or join a partner, the resulting debt load requires massive cost cutting; that prevents companies from investing in ways needed to make a combination pay off (Marks and Mirvis, 1998). According to Nguyen and Kleiner (2003) in 1997, NationBank acquired Barnett Bank Inc. for $1.5 billion, an amount that was worth four times the book value of Barnett. Since NationBank paid such a high purchase premium value, it was under pressure to carry out the post-acquisition integration in the shortest time possible. NationBank adopted a shortcut to create value by cutting costs. However, the strategy did not work, and further, most of Barnett’s customers left (Nguyen and Kleiner, 2003).

There is a need to value the target company in order to determine the amount that the company can pay or walk away. According to Sudarsanam (2003) growth comes from the firm’s ability to invest in projects yeilding higher returns than the investors’ required return. Although there are plenty of reasons why value isn’t created, many times its simply because the acquiring company paid too much, they paid more than the acquisition is worth (Eccles, Lanes, and Wilson, 2001).

Due to the laws of demand and supply, whereby if the demand is high the price goes up, the cost of mergers and acquisitions is likely to inflate by the demand for the potential firm. In a competitive bid for the target company, the successful buyer will likely offer more than the fair market value but less than its individual investment value/acquisition value. The
successful buyer may have to offer more than fair market value in order to outbid the pack of other bidders (Lance, 2012). If there is more than one potential acquirer and the bidding gets competitive, that places even more upward pressure on the price (Eccles, Lanes, and Wilson, 2001).

When reviewing the company that is being taken over the acquiring company must determine whether the acquisition will be valuable. The price that Merrill Lynch paid to AXA Financial to acquire Advest was $400 million. The amount was arrived in part based on the number of Advest advisors, their average annual production rate of over $400,000 in sales generating approximately $225 million in overall sales that produced over $130 million in fees for Advest each year (Grantham, 2007). If the talent determines the value of the company, the acquiring company should strive to ensure that it does not lose the talent during the acquisition. In the case of Merrill Lynch the acquisition was based on the number of advisors, by the deal’s close date, over 260 advisors decided not to pursue a career at Merrill Lynch, leaving approximately 250 former Advest advisors transitioning to Merrill Lynch. As evidenced by these results, the volume of advisors who have left did reach a level where this transaction was unsuccessful by Merrill Lynch’s original standards of a minimum retention rate of 65 percent (Grantham, 2007). This reduced the perceived value since the value of the company was based on the 515 Advest advisors.

The main aim of most mergers and acquisitions is to create value opportunities. Paying over and above the value of the company means that it will take longer to realize the value of the acquisition. According to Jones and Hill (2008) it is possible for the company being acquired to hold off the acquisition unless they get approximately 30% to 50% above the usual value of a company’s stock. Nortel and Alcatel-Lucent engaged in a race to purchase smaller, innovative companies that were developing telecommunications equipment. The result was that investors bid up the stock prices for these companies, and purchased at a hugely inflated price. When the telecommunication boom turned to bust, the acquiring companies found that they had vastly overpaid for their acquisitions, and had to take enormous accounting write offs. Nortle declared bankruptcy and sold off all its assets and the value of Alcatel-Lucent’s stocks plunged almost 90% (Jones and Hill, 2008).
2.5 Chapter Summary
This chapter dealt with the literature review of the reasons why private security companies in Kenya choose mergers or acquisitions and their success factors. These looks at what other researchers have written on these topics and the deductions, which might agree or disagree with the research questions. Chapter three dealt with research methodology that will help the researcher in collecting and analyzing data in respect to the research questions highlighted in the first chapter.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
The main purpose of this research was to determine factors that lead to organization using mergers and acquisitions as a growth strategy in the private security industry. Chapter 3 contains the gathering of information required and looking at the alternative methods and procedures that can be used in exploring the study and find solutions to the research questions in accordance with Chapter 1. The chapter outlines the research design, the population studied; sample and sampling techniques are identified and the research models are detailed, data collection methods and the data analysis.

3.2 Research Design
Research design is the blueprint for fulfilling objectives and answering questions (Cooper and Schindler, 2001). The study used the correlation and descriptive research design. The plan is overall program of the research and includes an outline of what the researcher did from writing of the hypothesis and their operational implication for the final analysis of data. The proposed study was mainly a correlation study in attempt to establish the relationship of growth on mergers and acquisition and success factors of mergers and acquisitions in the private security industry.

The research questions help in the understanding of relationship between mergers and growth, acquisition and growth and the success factors of mergers and acquisition in the reasons why private security firms use acquisition as a growth strategy. Also look at the reasons why private security firms in Kenya use Mergers as a growth strategy and the factors that have determined the success of mergers and acquisitions.

From the three questions, there were the dependent and independent variable. In the first question, what are the reasons for using acquisition as a growth strategy in the private security company, growth was the independent variable while the reasons for the acquisition were the dependent variable. The second question asks what is the reasons for using merger as a growth strategy in the private security industry, growth is the dependent variable and the
reason for the acquisition are the independent variables. The third question, what are the factors that have determined the success of mergers and acquisition the factors that determine the success are the dependent variables while the success factors are the independent variables.

3.3 Population and Sampling Design

3.3.1 Population

Cooper and Schindler (2001), describe a population as the total collection of elements about which we wish to make some inferences. The population of interest in this study was Mergers and Acquisitions in the private security industry in Kenya with their head offices in Nairobi. Private security companies that were members registered of the (KSIA) Kenya Security Industry Association who have their head office in Nairobi, which had taken part in mergers or acquisition in Kenya.

They will minimum employment of 200 permanently employed staff. The time limit ensures that the information needed for this research is still part of the organization memory. Private security companies not registered with KSIA were not included in the research. The distribution of the target population is the organizations that have used the growth strategy of a merger or acquisition in Kenya and are members of the KSIA. Only two companies meet these criteria, these are KK Security and G4S.

Table 3.1 Number of Employees

<table>
<thead>
<tr>
<th>Private Security Manpower in Kenya</th>
<th>Employees</th>
<th>All Staff Numbers</th>
<th>Management and Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>KK Security</td>
<td>9,500</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>G4S Security</td>
<td>15,000</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24,500</td>
<td>400</td>
<td></td>
</tr>
</tbody>
</table>

Source: (KK Security, 2012; G4S, 2013b)

The populations consist of administrative and managerial staff since they understand the impact of the mergers and acquisitions.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame
Sampling frame is the list of elements from which the sample is actually drawn (Cooper and Schindler, 2001). Each of the human resource managers from both the organization circulated the questionnaire link to the administrative and management staff within their organization. These ensured that the sampling frame was current, complete and relevant for the fulfillment of the research questions. The sampling frame was KK security and G4S who are members of KSIA a registered as private security companies in Kenya who have their headquarters in Nairobi.

3.3.2.2 Sampling Technique
Sampling technique aimed at eliminating biasness of selecting the sample from wider population. The sample for the research was derived from the two companies’ population. The chosen sampling method ensured that the respondents gave precise information to respond to the specific research objectives thereby enhancing the credibility and reliability of the findings of this study (Cooper and Schindler, 2001).

Probability based sampling method was used for the private security companies. The criteria used to choose the private security companies was; they both had taken part in mergers/acquisitions between year 2000 and 2012, they are listed members of KSIA, they have offices in Kenya and their headquarters are based in Nairobi. The study was dealing with a homogenous sample therefore used stratified random sampling through the human resource managers of each company. The population divided into administrative, management and uniformed staff, and the questionnaire circulated to the admin and management staff only.

3.3.2.3 Sample Size
A sample size must be large or it is not representative and should bear proportional relationship to the size of the population from which it is drawn (Cooper and Schindler, 2001). Using stratified random sampling to get the best representation of the population and the adjusted instrument used accordingly. The sample size consisted of staff who have worked in both organizations i.e. company a or b for a merger and acquire or acquired for the acquisition. The staff consisted of administrative staff and management staff. Stratified
random sampling involves combining the sample into homogeneous subgroups, called strata. In this case, the strata were dependent on the job level that the staff belongs to example management, uniformed or administrative etc. they formed a simple random sample with each staff in management and administrative roles chosen at random to ensure that all the staff had the same likely hood of being chosen. The management and administrative staff of both companies added up to 400 staff. We considered a confidence level of 85%, and a margin of error at 15% and using the Yamane’s formula we calculated the sample size.

\[ n = \text{sample size}, \quad N = \text{Population Size}, \quad e = \text{Margin of Error} \]

\[ n = \frac{N}{1 + N (e)^2} \]

Where \( n \) is the sample size, \( N \) is the population size and \( e \) is the margin of error

\[ n = \frac{400}{1 + 400 (0.15)^2} \]

\[ n = 40 \]

Formula Source: Yamane, 1967

By using Yamane’s formula of the sample size with an error of 15% and with a confidence coefficient of 85%, the calculation of the population of 400 gave the sample size of 40 administrative and management staff from the two private security companies. Meaning that the 40-sample size represented 10% of the population, each sample person represented 10 people in the population.

### 3.4 Data Collection Methods

Data is the most important thing in any research because it holds all the hidden meaning of that information. Data collection ranges from simple observation at one location to a grandiose survey of multinational corporations at sites in different parts of the world (Cooper and Schindler, 2001). The primary data collected using online questionnaires that generated systematic data from open and close-ended questions.
The questionnaires were both structured and some semi structured with more than one choice and an option free form in the general information section. Some questions were scale questions. The scale was of 1-5, 1 meant that the respondent strongly disagreed, 2 meant that the respondent disagreed, 3 meant that the respondent was neutral, 4 meant that the respondent agreed and 5 meant that the respondent strongly agreed. Some of the questions allowed the respondents to choose more than one answer while others restricted the respondent, allowing them to choose one from the given choice.

The first section, the demographic information captured general information of respondent. Section A consisted of questions pertaining to acquisitions, section b had merger questions, and section C had success factors questions. All sections had scale questions, choose one and choose all that apply questions. The questionnaire was a Google form that was send as an online link to the HR managers to share with their staff. The form allowed the respondents’ answers to be tabulated instantly into an excel sheet, therefore reducing the errors of omission from the coding by the questioner.

3.5 Research Procedures
A pilot test is conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample (Cooper and Schindler, 2001). Since the online questionnaire was send as a link and circulated by HR, the pilot test used the same methods of distribution to test the testing of the distribution channel. With the risk of exhausting the supply of respondents and sensitizing them to the purpose of the study (Cooper and Schindler, 2001), 0.1% of the sample size was chosen to test on. Hopefully the risk will generally be overshadowed by the improvements made the design by a trial run (Cooper and Schindler, 2001). To ensure a high response rate, the HR teams constantly send reminders to the staff, prompting them to fill in the questionnaire.

3.6 Data Analysis Methods
This involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2001). The scaled questions in the questionnaire will require an analysis of the derived various functions and to explore the relationship that will emerge among the variables. All received questionnaires were automatically inputted into an excel sheet by Google form. The
responses were checked for consistency, completeness and accuracy. Coding process followed to permit transfer of data from questionnaires to an appropriate computer program that aided in data analysis. The statistical software SPSS was used to analyze the collected data.

The general data were used for demographic purposes. It was presented using graphical representations that included tables, pie charts, and bar charts. Descriptive measures of mean and standard deviation was used to analyze adopted operations improvement approaches while data to achieve objective two was analyzed using the correlation and regression analysis. Any data that was correlated was further regressed to achieve the regression equation and understand the unit change consequences. The data was presented using tables, pie charts and graphs.

3.7 Chapter Summary
This chapter dealt with research methodology helped the researcher in collecting and analyzing data in respect to the research questions highlighted in the first chapter. The chapter started by the introduction of the research methodology, and then explained the research design, population and sampling design, data collection methods, research procedure, and finally the data analysis adopted by the study. The methodology used facilitated the presentation of the research findings for easier understanding and use in the subsequent chapters. Chapter four consists of the results and findings of the study. This is the correlation analysis of the questionnaire. It also included graphical representation of the findings and the analysis of the data.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results and findings from the primary data collected from the field using the questionnaires as a tool. The purpose of this study is to critically analyze why the private security industry uses mergers and acquisition as a growth strategy.

There are four subsections presented on the questionnaire. The first section is the general section that aims to understand the respondent. The second subsection addresses what the respondent perceives growth to be. The third subsection addresses the first research question which is the reasons why security companies use acquisition as a growth strategy. The fourth subsection addresses the second research question why security companies use mergers as a growth strategy. While the last subsection looks at the success factors of mergers and acquisitions.

4.2 Response Rate
Forty questionnaires were initially sent out to management and administrative staff that were working in G4S and KK Security. Out of the forty, thirty two were filled in and considered usable. With 40 being send out and 32 being filled in successfully, the response rate was 80%. The questionnaire was built on the Google form platform which made it easier to circulate.

The results are indicated in the above table 4.1 is per company while the detailed table below. Of the 40 questionnaires, 25 questionnaires sent to KK security only 19 were filled in and out of the 15 questionnaires send to G4S only 13 were filled out.

Table 4.1 Response Rate per Company

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>DISTRIBUTION</th>
<th>Population</th>
<th>Target Population</th>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>KK Security</td>
<td></td>
<td>250</td>
<td>25</td>
<td>19</td>
<td>47.50%</td>
</tr>
<tr>
<td>G4S</td>
<td></td>
<td>150</td>
<td>15</td>
<td>13</td>
<td>32.50%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>400</td>
<td>40</td>
<td>32</td>
<td>80%</td>
</tr>
</tbody>
</table>
Looking at the companies that made up G4S and KK Security, table 4.2 includes the former companies each respondent came from.

Table 4.2: Response Rate per Former Company

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Former Companies</th>
<th>Targeted Population</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>KK Security</td>
<td>KK Security</td>
<td>25</td>
<td>Response</td>
</tr>
<tr>
<td></td>
<td>Ears</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Lodgit</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Knight Support</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>G4S</td>
<td>G4S</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Securicor</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Express Security</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Falcon Security</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Armor Group</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Urban Fire</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Archive solutions</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Group 4</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>32</strong></td>
<td><strong>80%</strong></td>
</tr>
</tbody>
</table>

4.3 General Information

The general information for the study comprises of employees respondents that included the age bracket, the education level, job title, previous employer before the merger/acquisition and job level.

4.3.1 Age Bracket of Respondent

To find out the age of the respondent involved in this study. The age brackets of the respondents were as follows 28% were between the ages of 20-30 years, 31% were between the ages of 30-40 years, 25% were between the ages of 41 – 50 years while 16% were 51 years and above. The age of the respondents did not have any effect on the opinion of the respondents. The results are as per below the figure 4.1.
According to table 4.3, while comparing the age of the respondents and the level of education, it was found that respondents between the ages of 20-30, 2 had diplomas, 2 had masters, 5 had secondary education. Between the age 31-40, 5 had diplomas, 1 had a masters, 1 had secondary education and 3 had undergraduate degrees. Ages 41-50, 2 had diplomas, 1 had masters and 5 had undergraduate degrees. Between the age 51 year and above 4 had masters’ degrees and 1 had a secondary education.

Table 4.3: Comparison of Age and Education Level

<table>
<thead>
<tr>
<th>Age</th>
<th>Diploma College</th>
<th>Masters</th>
<th>Secondary</th>
<th>Undergraduate</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 - 30</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>31 -40</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>41 - 50</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>51 and above</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>9</strong></td>
<td><strong>8</strong></td>
<td><strong>7</strong></td>
<td><strong>8</strong></td>
<td><strong>32</strong></td>
</tr>
</tbody>
</table>

4.3.2 Education Level

There was need to understand the level of education of the respondent. The education levels are 22% are secondary, 28% are Diploma College, and 25% are Undergraduate while 25% are Masters. The results are indicated in the below table 4.4.
Table 4.4 Level of Education

<table>
<thead>
<tr>
<th>Education</th>
<th>No</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
<td>7</td>
<td>22%</td>
</tr>
<tr>
<td>Diploma College</td>
<td>9</td>
<td>28%</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td>Masters</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.3.3 Job Title

The Job title was free flow option that aimed at understanding the job titles of the organization.

4.3.4 Previous Employer

Looking at the previous employer showed the various organizations that merged to form the two organizations, KK Security and G4S. The results are indicated in the below figure 4.2.

![Figure 4.2 Previous Employer Before The Merger / Acquisition](image-url)
According to Table 4.5, this tabulates the respondent’s previous employers and also their academic levels. Out of the four respondents from armor group 1 has diploma level, 1 has a masters, 1 has a secondary certificate, and 1 has an undergraduate degree. From Ears 3 have diplomas, 1 has a secondary certificate, and 2 have undergraduate certificates. Express Security only has 1 with an undergraduate certificate. G4S has 4 with masters’ degrees, while KK Security has 2 with Diploma certificates, 2 with masters, and 1 has an undergraduate certificate. Knight Support has 2 with diplomas, and 4 with secondary education. Lodgit has 1 with diploma and 1 with secondary education level. Securicor has 3 with undergraduate while archive solutions have 1 with masters.

Table 4.5: Tabulates Previous Employer and Education Level

<table>
<thead>
<tr>
<th>Previous Company</th>
<th>Diploma college</th>
<th>Masters</th>
<th>Secondary</th>
<th>Undergraduate</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armor Group</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Ears</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Express Security</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>G4S</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>KK Security</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Knight Support</td>
<td>2</td>
<td></td>
<td>4</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Lodgit</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Securicor</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Archive Solutions</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Grand Total</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>32</td>
</tr>
</tbody>
</table>

4.3.5 Job Level

Looking at the job level looked at the current job levels of the respondents. The results are indicated in the below in figure 4.3 where 31% as are middle level managers, 25% are clerks, 19% are Admin staff, 13% are senior management, 9% are supervisors/ team leaders and 3% is in the board of director.
Figure 4.3: Job Levels of Respondents

The comparison of the job levels against previous employer according to Table 4.6 is as follows. Out of the four respondents from armor group 1 clerk, and 3 middle level managers, Ears had 2 admin staff, 1 clerk, and 2 supervisors/team leaders. Express Security has 1 supervisor/team leader. G4S has 2 middle level managers and 2 at senior management, while KK Security has 2 admin staff, 1 middle level manager, and 2 senior managers. Knight Support has 2 with admin staff, and 4 clerks. Lodgit 2 clerks and Securicor has 3 middle level management respondents. Archive solutions have 1 from the board of directors.

Table 4.6: Job Levels against Previous Employer

<table>
<thead>
<tr>
<th>Job Level</th>
<th>Admin Staff</th>
<th>Board of Directors</th>
<th>Clerk</th>
<th>Middle Level Manager</th>
<th>Senior Manager</th>
<th>Team Leader</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archive solutions</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Armor Group</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td></td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Ears</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Express Security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>G4S</td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>KK Security</td>
<td>2</td>
<td></td>
<td>1</td>
<td>2</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Knight Support</td>
<td>2</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Lodgit</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Securicor</td>
<td></td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>6</strong></td>
<td><strong>1</strong></td>
<td><strong>8</strong></td>
<td><strong>10</strong></td>
<td><strong>4</strong></td>
<td><strong>3</strong></td>
<td><strong>32</strong></td>
</tr>
</tbody>
</table>
4.4 Acquisition as a Growth Strategy

There were three variables on acquisition as a growth strategy, and the need to understand why private security companies used acquisition as a growth strategy. These included acquisitions create value, provides access to new channels and helps in research & development and innovation. Each variable was analyzed independently and respondent were asked choose what the motive of the acquisition was, they were given a choice to pick any of the 3 or all that applied. The other questions, the respondents were asked to indicate how acquisition applied to the growth of the organization, using the choices 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree.

The question on the respondents their opinion, what was the motive of the acquisition. This may not necessarily be the motive of the organization, but it was important to understand what the respondents thought the motive was. 53% of the respondents felt that the motive was to create value, 66% felt it gained access to new channels while 41% felt the motive of the acquisition was to improve research & development and innovation. Only 31 of the 32 respondents commented.

Table 4.7 Motive for Using Acquisition as a Growth Strategy

<table>
<thead>
<tr>
<th>Motive of the acquisition</th>
<th>Respondents</th>
<th>Respondents %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create Value</td>
<td>17</td>
<td>53%</td>
</tr>
<tr>
<td>Gain access to new channels</td>
<td>21</td>
<td>66%</td>
</tr>
<tr>
<td>Improve Research &amp; Development and Innovation</td>
<td>13</td>
<td>41%</td>
</tr>
</tbody>
</table>

4.4.1 Acquisition Creates Value

The study findings in Table 4.8 indicate that the acquisition created value some value. In the case where the respondents were asked if there was no growth, the mean is 2.25 means that they disagree with the statement that there was no growth. The acquisition created wealth, which is evident with the mean of 3.86, which is closer to agree than neutral. The return on investments has exceeded the expected returns the organization expected with the evidence mean of 3.44 it borders more on agreed than neutral. The value of the company has grown more after the acquisition as is evidence with the mean of 3.59. Selling off the loss making departments would not have made any more profits as is evidence with a mean of 3.34. The
acquired company was not broken down and some units sold as is indicated by a mean of 2.31. This proves that there was creation of value from the acquisition but not through selling off loss making departments.

Table 4.8 Acquisition Creates Value Indicators

<table>
<thead>
<tr>
<th>Question</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no growth in revenue in the new organization after the acquisition</td>
<td>2.25</td>
<td>1.44</td>
</tr>
<tr>
<td>I strongly feel that the acquisition created wealth for the acquiring company</td>
<td>3.86</td>
<td>1.04</td>
</tr>
<tr>
<td>The return on investments has exceeded the expected returns the organization expected</td>
<td>3.44</td>
<td>1.389</td>
</tr>
<tr>
<td>The value of the company has grown more after the acquisition</td>
<td>3.59</td>
<td>1.36</td>
</tr>
<tr>
<td>Selling off loss making departments would have made more profits to the acquisitions</td>
<td>3.34</td>
<td>1.62</td>
</tr>
<tr>
<td>The company that was acquired was broken down and some units sold off</td>
<td>2.31</td>
<td>1.28</td>
</tr>
</tbody>
</table>

The two variables growth and creates value are not correlated. The growth variables considered are increase in revenue, growth in sales, increase in profits, increase in assets and increase in staff recruitment. The lack of correlation means creation of value and growth is not related.

Table 4.9: Correlation of Growth and Value Creation

<table>
<thead>
<tr>
<th></th>
<th>Creating Value</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating Value</td>
<td>Pearson Correlation</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>1</td>
<td>.092</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Growth</td>
<td>Pearson Correlation</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.092</td>
<td>1</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

4.4.2 Access to New Channels

According to figure 4.4 in the case of use of acquisition as a growth strategy, access to new channels averaged from six questions, the results were 69% agreed that acquisitions created access to new channels, 22% were neutral, 6% disagreed and 3% strongly disagreed.
The acquisition of the company opened up new markets for the present organization with an indicator mean is the highest at 4.34. The distribution channel of the products became more effective after the acquisition with an indicator of mean 3.66. The acquisition created new channels for the organization; this is evident with a mean indicator of 3.75. The market share of the organization grew after the acquisition the mean indicated as 3.97. The acquisition aided the company to venture into new geographical regions as is indicated by a mean of 4. The customer base has not reduced since the merger as is indicated by the lowest mean of 1.84. The results show that the acquisition created access to new channels.
Table 4.11: Correlation Between Growth And Creating New Channels

<table>
<thead>
<tr>
<th></th>
<th>New Channels</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Channels</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>32</td>
</tr>
<tr>
<td>Growth</td>
<td>Pearson Correlation</td>
<td>.380*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>.032</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>32</td>
</tr>
</tbody>
</table>

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

There is a positive correlation between growth and new channels. This means a unit increase in growth will see a 0.38 increase in new channels.

Table 4.12 Regression Of Growth And Creating New Channels

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.380*</td>
<td>.145</td>
<td>.116</td>
<td>.54367</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), New Channels

Regression analysis used to determine the relationship between growth and creating new channels in Acquisitions. The result of the $R^2$ is 0.145, indicating that approximately 14.5% of the variance in growth can be explained by new channels variables in the linear regression.

Table 4.13 Anova Growth And Creating New Channels

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1</td>
<td>1.499</td>
<td>1.499</td>
<td>5.073</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>30</td>
<td>.296</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31</td>
<td>10.367</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: growth
b. Predictors: (Constant), New Channels

The f critical (1,30) is 4.17 which is smaller than the critical factor 5.073, this shows that the overall model is significant therefore the research is valid. The $p< 0.032$, which interprets to 3.2%, which is less than the 0.05. It indicates that the F critical predicts the outcome variable, the 5% level of significance was 5.073.
Table 4.14 Coefficients Growth And Creating New Channels

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>I</td>
<td>(Constant)</td>
<td>1.803</td>
<td>.510</td>
<td>3.535</td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>New Channels</td>
<td>.319</td>
<td>.142</td>
<td>.380</td>
<td>2.252</td>
</tr>
</tbody>
</table>

a. Dependent Variable: growth

\[ Z = B_0 + B_1X_1 + \varepsilon \]

Where \( Z = \) Growth, \( B_0 = \) z intercept, where \( X_1 \) is the creating new channels variables, \( \varepsilon \) is the standard error.

\[ Z = 1.803 + 0.319X_1 \]

Growth = 1.803+ 0.319(new channels) a unit increase

Growth = 1.803 + 0.319 New Channels

Ever unit increase in new channel will result to a 2.122 increase in growth.

New channels (new channels, b= 0.319) is significant (p= 0.032), the coefficient is positive, which indicates that growth is related to new channels. This shows that the coefficient 0.38 translates to 38% of the growth in private security firms in Kenya

4.4.3 Research, Development and Innovation

The study findings in table 4: 15 indicate that research, development and innovation can be evident in the innovation of new markets where the mean indicator is 3.75. In addition, process innovation of selling off loss making departments to increase the profits to the accusation was not effective and the mean indicator is 3.3. The distribution channel for the acquisition has become more effective and evidenced by a mean of 3.66.
Table 4.15: R&D and Innovation Indicators

<table>
<thead>
<tr>
<th>Questions</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The acquisition of the company opened up new markets for the present organization</td>
<td>3.75</td>
<td>1.19</td>
</tr>
<tr>
<td>Selling off loss making departments would have made more profits to the acquisitions</td>
<td>3.34</td>
<td>1.62</td>
</tr>
<tr>
<td>The distribution channel for the products has become more effective after the acquisition</td>
<td>3.66</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 4.16 Correlation between Growth and Research, Development and Innovation

<table>
<thead>
<tr>
<th>Research, Development and Innovation</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th></th>
<th>Growth</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research, Development and Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>.363</td>
<td>32</td>
<td></td>
<td></td>
<td>1</td>
<td>.363</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>.166</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There is no correlation between variables growth and research, development & innovation. The lack of correlation means research, development and innovation in the private security companies in Kenya and growth is not related.

4.5 Merger as a Growth Strategy

Table 4.17: Motive for Merger

<table>
<thead>
<tr>
<th>The merger was driven by</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The need for Market growth</td>
<td>17</td>
<td>53%</td>
</tr>
<tr>
<td>The need for business expansion</td>
<td>28</td>
<td>88%</td>
</tr>
<tr>
<td>The need to create more profits</td>
<td>25</td>
<td>78%</td>
</tr>
<tr>
<td>The need to enter new markets</td>
<td>18</td>
<td>56%</td>
</tr>
<tr>
<td>The need to improve quality of service</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td>The need to enhance the market position</td>
<td>15</td>
<td>47%</td>
</tr>
<tr>
<td>The need to increase the distribution channels</td>
<td>13</td>
<td>41%</td>
</tr>
</tbody>
</table>

The question on the respondents their opinion, what was the driving factor behind the merger. This may not necessarily be the motive of the organization, but it was important to understand what the respondents thought the motive was. 53% of the respondents felt that merger was driven by the need for market growth, 88% felt that the merger was driven by the
need for business expansion, 78% felt that the merger was driven by the need to create more profits. 56% felt that the merger was driven by the need to enter new markets, while 25% felt that the need to improve the quality of service was the reason for the merger. 47% felt that the merger was driven by the need to enhance the market position and 41% felt that the need to increase the distribution channel was the driving force behind the merger.

![Figure 4.5: Merger Shouldn’t Have Occurred](image)

According to figure 4.5 All things considered, the merger between the two companies should not have taken place. From the question which aims to understand if the merger should not have occurred taken place according to the respondents. 41% strongly disagree, meaning the believe that the merger shoud have occurred. 22% disagree, meaning the believe that the merger shoud have occurred, while 6% are neutral while 13% agree that the mergers hould not have occurred while 19% strongly agree that the merger shouldn’t have occurred.

**Table 4.18: Merger Should Not Have Occurred Indicators**

<table>
<thead>
<tr>
<th>Merger should not have occurred</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.47</td>
<td>1.59</td>
<td></td>
</tr>
</tbody>
</table>

This is the graphical representation of the table showing the comparison of the previous employers’ opinion on whether or not the merger should not have occurred. The merger should not have occurred indicators show that the respondents believe that the merger should have occurred. This is evident from the mean of 2.47
Table 4.19: Merger as Growth Strategy Indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company gained from proprietary knowledge held by the new company</td>
<td>3.88</td>
<td>0.907</td>
</tr>
<tr>
<td>It was easier to expand capacity at less cost than building new departments</td>
<td>3.81</td>
<td>1.061</td>
</tr>
<tr>
<td>The merger has created a monopoly in the private security industry in Kenya</td>
<td>2.56</td>
<td>1.585</td>
</tr>
</tbody>
</table>

The company gained from the proprietary knowledge held by the new organization, this is evident from the mean of 3.88. The expansion of capacity by merging is a better option than building new departments from in growth; this is evidence by the mean of 3.81. The evident mean of 2.56 illustrates that the merger did not create a monopoly in the industry as is illustrated in the table above.

Table 4.20: Merger Driver’s Indicator

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The merger was driven by</td>
<td>3.875</td>
<td>1.18</td>
</tr>
</tbody>
</table>

The merger was driven by 6 variables which include The need for business expansion, The need for Market growth, The need to enhance the market position, The need to improve quality of service, The need to increase the distribution channels, and The need to create more profits. From the table above, one can note that the respondents picked at least 4 of the 6 choices as is seen by the mean of 3.88.
### 4.5.1 Economic Of Scale

#### Table 4.21: Economics of Scale Indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>After the Merger, there was an increase in Efficiency</td>
<td>3.7500</td>
<td>1.16398</td>
</tr>
<tr>
<td>The operation costs have increased but not less than the increase in output of the merged company</td>
<td>3.7188</td>
<td>1.05446</td>
</tr>
<tr>
<td>The increase in internal financial control process has resulted savings which in turn has increased in better earnings</td>
<td>3.4375</td>
<td>1.26841</td>
</tr>
<tr>
<td>The merger created a reduction in the fixed costs caused by shared services like management, accounting, research and development</td>
<td>3.5313</td>
<td>1.50235</td>
</tr>
<tr>
<td>The merger created an increase in output</td>
<td>3.5938</td>
<td>1.36451</td>
</tr>
<tr>
<td>There was a reduction in the average cost of production</td>
<td>3.3438</td>
<td>1.26004</td>
</tr>
<tr>
<td>The selling prices of the services went down</td>
<td>1.9688</td>
<td>1.28225</td>
</tr>
<tr>
<td>The Merger brought new technologies to the organization</td>
<td>3.6875</td>
<td>1.06066</td>
</tr>
<tr>
<td>There was new skills introduced from the new company</td>
<td>3.7813</td>
<td>1.06965</td>
</tr>
<tr>
<td>It was easier to expand capacity at less cost than building new departments</td>
<td>3.8125</td>
<td>1.06066</td>
</tr>
<tr>
<td>The company gained from proprietary knowledge held by the new company</td>
<td>3.8750</td>
<td>.90696</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

After the merger there was an increase in efficiency, this is evidence with a mean of 3.75. There was an increase in internal financial control process that resulted in savings that had a positive effect on earnings that became better, evidenced by a mean of 3.44. Although the operational costs went up, they were less than the increase in output of the new company; this is evidence with the mean of 3.71, the merger improved output with a mean of 3.59. Average cost of production was unaffected by the merger this is evident by the mean of 3.34, and the selling price of the products went up as is seen by the mean of 1.97. The merger created a reduction in the fixed costs caused by shared services like management, accounting, research and development; this is evident with a mean of 3.53. The economics of scale bringing in new technology that is evidenced by the mean of 3.69 this means that it was cheaper to merge with an organization that has the technology and benefit from the said technology. The benefit from the merger was an introduction of new skills that improved the
skill set of the merging companies, this is evident from the mean of 3.78 as seen in the above table. The company gained from the proprietary knowledge held by the new organization, this is evident from the mean of 3.88. The expansion of capacity by merging is a better option than building new departments from in growth; this is evidence by the mean of 3.81.

Table 4.22 Correlation Between Economics Of Scale And Growth

<table>
<thead>
<tr>
<th>Economics of Scale</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.013</td>
<td>32</td>
<td>.435*</td>
<td>.013</td>
<td>32</td>
</tr>
</tbody>
</table>

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

The two variables growth and economics of scale are positively correlated. The economics of scale variables are as per the above table. The positive correlation means that a unit increases in economics of scale will result to 0.435 increases in growth.

Table 4.23 Regression Between Economics Of Scale And Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.435a</td>
<td>.189</td>
<td>.162</td>
<td>.52931</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Economics of Scale

Regression analysis was used to determine the relationship between growth and economics of scale in acquisitions. The result of the $R^2$ is 0.189, indicating that approximately 18.9% of the variance in growth can be explained by economics of scale variables in the linear regression.

Table 4.24 ANOVA Between Economics Of Scale And Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.961</td>
<td>1</td>
<td>1.961</td>
<td>7.001</td>
<td>.013b</td>
</tr>
<tr>
<td>Residual</td>
<td>8.405</td>
<td>30</td>
<td>.280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.367</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: growth
b. Predictors: (Constant), Economics of Scale
The f critical (1,30) is 4.17 which is smaller than the critical factor 7.001, this shows that the overall model is significant therefore the research is valid. The p< 0.013, which interprets to 1.3%, which is less than the 0.05. It indicates that the F critical predicts the outcome variable; the 5% level of significance is 7.001.

**Table 4.25 Coefficients Between Economics Of Scale And Growth**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.540</td>
<td>.534</td>
<td>2.883</td>
</tr>
<tr>
<td></td>
<td>Economics of Scale</td>
<td>.398</td>
<td>.150</td>
<td>.435</td>
</tr>
</tbody>
</table>

a. Dependent Variable: growth

\[ Z = B_0 + B_1X_1 + \varepsilon \]

Where \( Z \) = Growth, \( B_0 \) = \( z \) intercept, where \( X_1 \) is the Economics of Scale variables, \( \varepsilon \) is the standard error.

\[ Z = 1.540 + 0.398X_1 \]

Growth = 1.803 + 0.319(economics of scale) a unit increase

Growth = 1.540+ 0.398(1) economics of scale

Ever unit increase in economies of scale will result to a 1.938 increase in growth.

Economics of Scale (Economics of Scale, \( b= 0.398 \)) is significant (p= 0.013), the coefficient is positive, which indicates that growth is related to Economics of scale. This shows that the coefficient 0.435 translates to 43.5% of the growth in private security firms in Kenya

**4.5.2 Market Share**

**Table 4.26: Market Share Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company profitability increased upon the merger</td>
<td>3.4375</td>
<td>1.29359</td>
</tr>
<tr>
<td>The merger reduced competition in the private security industry in Kenya</td>
<td>3.0938</td>
<td>1.35264</td>
</tr>
<tr>
<td>The merged company is now a market leader</td>
<td>3.6563</td>
<td>1.00352</td>
</tr>
<tr>
<td>The merger facilitated entry into new markets</td>
<td>4.2188</td>
<td>.90641</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The profit of the merged company increased this is evidence by the mean of 3.43. Although the merger has not reduced the competition drastically as seen by the mean of 3.09, the merged company is now a market leader as is seen by the mean of 3.66. The merger has also facilitated entry into new markets thus increasing the market share as is seen by the mean of 4.21.

**Table 4.27 Correlation Between Market Share And Growth**

<table>
<thead>
<tr>
<th>Market Share</th>
<th></th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.232</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.201</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Growth</th>
<th></th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.232</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.201</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

The two variables growth and market share are not correlated. The lack of correlation means that to gain market share as a reason for a merge does not affect the growth of the organization in any way.

**4.5.3 Tax Relief Benefits**

**Table 4.28 Tax Relief Benefits Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>After the Merger, there has been a lot of cost cutting measures put in place</td>
<td>3.8750</td>
<td>1.03954</td>
</tr>
<tr>
<td>Downsizing and Restructuring occurred after the merger</td>
<td>3.5938</td>
<td>1.49966</td>
</tr>
<tr>
<td>Before the merger, the company you worked for was suffering financial losses</td>
<td>2.6875</td>
<td>1.67404</td>
</tr>
<tr>
<td>The new organization received tax exceptions from the government after the merger</td>
<td>2.5938</td>
<td>1.52102</td>
</tr>
<tr>
<td>The terminated / retrenched staff was compensated for the loss of income</td>
<td>3.4688</td>
<td>1.43649</td>
</tr>
<tr>
<td>The merger was encouraged by the government in order to save the industry</td>
<td>1.8438</td>
<td>1.29787</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
After the merger there was a lot of cost cutting measures implemented table below indicates that the mean was 3.8750. Alongside cost cutting, the company also embarked on downsizing and restructuring the new organization this is evidenced by the mean of 3.5938. Before the merger the company the respondent worked for suffered financial losses, the mean was 2.6875, being in the middle means that some of the companies did suffer from the financial loses and others didn’t thus the neutral response. According to the findings some of the new organizations received tax exceptions from the government after the merger; this is due to the evidence of the mean at 2.59. The respondents were neutral thus the conclusion that some felt the government had given the organization a tax exception while others did not get the exception. Terminated and retrenched staff were compensate for their loss of income after the merger, this is evidence in the mean of 3.4688. The mergers were not encouraged by the government in order to save the industry; this is evident in the mean of 1.84.

**Table 4.29 Correlation Of Tax Relief And Growth**

<table>
<thead>
<tr>
<th></th>
<th>Tax Relief</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Relief</strong></td>
<td>Pearson Correlation 1 .057</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .755</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N 32 32</td>
<td></td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>Pearson Correlation .057</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .755</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N 32 32</td>
<td></td>
</tr>
</tbody>
</table>

There was no correlation between the two variables growth and tax relief benefits. There is no link between the two.

**4.6 Success Factor Of Mergers And Acquisition**

**Table 4.30 Merger / Acquisitions Shouldn’t Have Happened Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Merger / Acquisition should not have happened</td>
<td>1.91</td>
<td>1.28</td>
</tr>
</tbody>
</table>

According to Table 4.30 the merger/ acquisition should not have happened. With the evidence of mean 1.91, it is clear that the respondents believe that the merger/ acquisition
should have happened. This illustrates that there was some success in the merger / acquisition.

**Table 4.31 The Merger / Acquisition Should Not Have Happened**

<table>
<thead>
<tr>
<th>Rank</th>
<th>No</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Strongly Disagree</td>
<td>18</td>
<td>56%</td>
</tr>
<tr>
<td>2 - Disagree</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>3 - Neutral</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>4 - Agree</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>5 - Strongly Agree</td>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>32</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to Table 4.31 that aims to illustrate that the merger/ acquisition should not have happened. Out of the 32 respondents, 56% of the respondents strongly disagree that the merger / acquisition should not have happened, 19% disagree while 9% were neutral. 9% agree and 6% strongly agreed.

**Table 4.32: Value Of The Acquired Company**

<table>
<thead>
<tr>
<th>The value of the organization acquired was in</th>
<th>No</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>The customer base</td>
<td>29</td>
<td>91%</td>
</tr>
<tr>
<td>The asset base of the organization</td>
<td>18</td>
<td>56%</td>
</tr>
<tr>
<td>The talent in the employees</td>
<td>18</td>
<td>56%</td>
</tr>
<tr>
<td>Management style</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td>The technology possessed</td>
<td>13</td>
<td>41%</td>
</tr>
</tbody>
</table>

As the table 4.32 illustrates the value of the acquisition was measured by 5 parameters; these include customer base, asset base, and talent in the employees, management style and technology possessed. Out of 32 respondents, 91% choose the customer base as the value of the organization acquired. Out of 32 respondents, 56% choose the asset base of the organization as the value of the organization acquired. Out of 32 respondents, 56% choose the management style as the value of the organization acquired. Out of 32 respondents, 41% choose the customer base as the value of the organization acquired.
4.6.1 Due Diligence Performed On The Organization

Table 4.33 Due Diligence Indicators

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The decision to acquire was based on the due diligence</td>
<td>3.6875</td>
<td>1.0298</td>
</tr>
<tr>
<td>The business model of the acquired company matched the acquiring company</td>
<td>2.5</td>
<td>1.27</td>
</tr>
<tr>
<td>The Due Diligence was conducted by independent auditors</td>
<td>3.4063</td>
<td>0.8747</td>
</tr>
</tbody>
</table>

According to Table the decision to acquire was backed by a due diligence. This is evidence with the mean of 3.69. Although the business model of the company acquired didn’t match the acquiring company, this is evidence by the mean of 2.5. Independent auditors were involved in some of the acquisitions but not in others, this is evidence with a mean of 3.41.

Table 4.34: Correlation Of Due Diligence and Success Factors

<table>
<thead>
<tr>
<th>Due Diligence</th>
<th>Pearson Correlation</th>
<th>Due Diligence</th>
<th>Success Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td></td>
<td>.572**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Success Factors</td>
<td>Pearson Correlation</td>
<td>.572**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

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

There is a positive correlation between the two variables due diligence and success factors of mergers and acquisition. The positive correlation means that a unit increase in due diligence will result to 0.572 increase in the matched business models in the acquired and acquiring business.

Table 4.35: Regression Of Due Diligence And Success Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.572a</td>
<td>.327</td>
<td>.305</td>
<td>.74716</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Due Diligence
Regression analysis was used to determine the relationship between due diligence and merger and acquisition success factors. The result of the $R^2$ is 0.327, indicating that approximately 32.7% of the variance in the success factors can be explained by due diligence variables in the linear regression.

**Table 4.36 : ANOVA Of Due Diligence And Success Factors**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>8.138</td>
<td>1</td>
<td>8.138</td>
<td>14.577</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>16.748</td>
<td>30</td>
<td>.558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24.885</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Success Factors
b. Predictors: (Constant), due diligence

The $f$ critical (1,30) is 4.17 which is smaller than the critical factor 14.577, this shows that the overall model is significant therefore the research is valid. The $p< 0.001$, which interprets to 0.1%, which is less than the 0.05. It indicates that the $f$ critical predicts the outcome variable; the 5% level of significance was 14.577.

**Table 4.37 : Coefficients Of Due Diligence And Success Factors**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.075</td>
<td>.566</td>
<td>1.900</td>
</tr>
<tr>
<td></td>
<td>Due Diligence</td>
<td>.593</td>
<td>.155</td>
<td>.572</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Success Factors

$Z = B_0 + B_1X_1 + \varepsilon$. Where $Z = \text{Growth}$, $B_0 = \text{z intercept}$, where $X_1$ is the due diligence variables, $\varepsilon$ is the standard error.

$$Z = 1.075 + 0.593X_1$$

Success Factor = 1.075 + 0.593 (due diligence) a unit increase

Success Factor = 1.075 + 0.593(1)

Success Factor = 1.668

Ever unit increase in due diligence will result in a 1.668 increase in Success Factor.
Due Diligence (due diligence, b= 0.593) is significant (p= 0.001), the coefficient is positive, which indicates that success factors are related to due diligence. This shows that the coefficient 0.572 translates to 57.2% of the success factors of mergers and acquisition in private security firms in Kenya.

4.6.2 Cultural Integration

According to Table the two cultures blended well to form a new corporate culture, the union has been successful to create a new culture, this is evidenced by the mean of 3.75. The friction due to cultural differences between the two companies was in some cases present and in other cases not present; this is indicated by the mean of 3.0. After the merger / acquisition senior management and talented staff left the organization during the culture integration this was evident by the mean of 3.5. The cultural integration was not done properly and the change was not properly explained to the respondents’ evidence by a mean of 3.1.

Table 4.38: Cultural Integration Indicators

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The new corporate culture is a blend of the two cultures from the two companies</td>
<td>3.7500</td>
<td>1.16398</td>
</tr>
<tr>
<td>There is lots of friction due to the cultural differences between the two companies</td>
<td>3.0000</td>
<td>1.58623</td>
</tr>
<tr>
<td>Senior management and talented staff left after the merger / acquisition during the process of culture integration</td>
<td>3.4688</td>
<td>1.50235</td>
</tr>
<tr>
<td>The culture integration was done properly and the change was properly explained to me</td>
<td>3.0938</td>
<td>1.25362</td>
</tr>
</tbody>
</table>

The two variables cultural integration and the increase of the value of the organization after the acquisition are not correlated. The lack of correlation means cultural integration does not affect the success of the merger and acquisition.
Table 4.39: Correlation Between Culture Integration And Success Factors

<table>
<thead>
<tr>
<th>Cultural Integration</th>
<th>Cultural Integration</th>
<th>Success Factors</th>
<th>Success Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.187</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.305</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

4.6.3 High Cost Of Merger And Acquisition

Table 4.40: High Costs Of Merger And Acquisition Indicators

<table>
<thead>
<tr>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The acquisition cost was more than the fair market share</td>
<td>3.4375</td>
</tr>
<tr>
<td>Before the merger / acquisition there was a high demand for the acquired firm</td>
<td>2.9375</td>
</tr>
<tr>
<td>The value of the acquiring company increased after the acquisition</td>
<td>3.7813</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
</tr>
</tbody>
</table>

The acquisition cost was more than the fair market share it is clearly demonstrated by the mean of 3.43. Although the value of the acquisition was more than the fair market share, the value of the acquiring company increased after the acquisition, this is evident by the mean of 3.78. Before the acquisition, there was demand for the acquired / merged company this is evidenced by the mean of 2.9.

Table 4.41 Correlation between the Cost of the Acquisition and the Value after Acquisition

<table>
<thead>
<tr>
<th>High Cost</th>
<th>High Cost</th>
<th>Success Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.026</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.886</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

There is no correlation between the two variables the acquisition cost and the value of the acquiring company. This means that there was no connection between the cost of the merger and acquisition with the success of the merger and acquisition.
4.7 Chapter Summary
This chapter dealt with results and findings of the study. The data collected in chapter three is analyzed and presented. The chapter starts with an introduction, and the response rate of the study, the data is represented by graphs, pie charts and tables illustrating percentages. The study goes on to analyze the demographic data that is aimed at giving general information on the respondents. The study goes on to analyze each research question using correlation analysis; any question that is correlated either positive or negative is analyzed further using linear regression. Chapter five gives a summary of the findings, and the concussions in relation to the objectives of the study. It also gives the implication of the study. Recommendations and suggestions for further study are also given.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter gives a summary of the findings, and the concussions in relation to the objectives of the study. It also gives the implication of the study. Recommendations and suggestions for further study are also given.

5.2 Summary
The purpose of the study was to understand the use of merger and acquisition as a growth strategy in the private security industry in Kenya. The study looked at hypothesis behind choosing mergers and acquisition as a growth strategy in the private security industry. They study was guided by the following research questions. Firstly, why private security firms use acquisition as a growth strategy? Secondly, the reasons why private security firms in Kenya use mergers as a growth strategy? Thirdly, what are the factors that have determined the success of mergers and acquisitions?

The study used descriptive survey that was designed to investigate the research questions. The respondents were drawn from two key private security companies in Kenya that have undergone mergers and acquisition. The research sample was 32 respondents out of the targeted 40 respondents, 19 came from KK Security while 13 were from G4S. Data was collected using web based questionnaire, with the link send via email for all to independently fill in. Data was analyzed using SPSS Version 21 for descriptive and inferential statistics. Descriptive statistics of mean and standard deviation analyzed the main objectives, while correlation and regression analysis was used to show the relationship between growth and reasons why organization use mergers and acquisitions.

The study aimed at establishing why private security companies in Kenya use merger and acquisition as a growth strategy. There were a total of three variables, why use mergers, why use acquisition and what contributes to the success of mergers and acquisition. The respondents choose from a scale depending whether they agreed or disagreed with the statement in concern to their organization.
The first research question of this research was to find out why organizations use acquisitions as a growth strategy. Acquisition as a growth strategy looked at reasons for using acquisition for organization grow, the reasons being acquisition creates value, provides access to new channels, and promotes research, development and innovation in the private security industry in Kenya. Correlation analysis done established that there was no relation between growth and creation of value through acquisition, there was a positive correlation between growth and creation of new channels through acquisition and there was no correlation between growth and research, development and innovation through acquisition.

The second research question of this research was to find out why organizations use mergers as a growth strategy. Merger as a growth strategy looked at reasons for using mergers as a growth strategy, the reasons being economies of scale, improve market share and as a tax relief benefit in the private security industry in Kenya. Correlation analysis done established that there was correlation between growth and economics of scale through merger, there was no correlation between growth and market share through merger and there was no correlation between growth and tax relief through merger.

The third research question of this research was to find out what were the success factors of mergers and acquisition. Looking at the success factors of mergers and acquisitions in private security companies, we looked at due diligence, cultural integration and the high cost of the merger and acquisition. Correlation analysis done established that there was correlation between success of mergers and acquisition with due diligence, there was no correlation between culture integration and success of mergers and acquisition and there was no correlation between the cost of the acquisition and the success of the merger and acquisition.

5.3 Discussion

5.3.1 Reasons Why Private Security Firms Use Acquisition As A Growth Strategy
Research finds indicate that organization use acquisition as a growth strategy in order to access new channels. Daly, (2012) illustrated the growth in accessing new channels when he talks about when EPS Security in USA acquired Eagle Security and grew their channel into Grand Rapids and gained business accounts.
According to Bruner (2004), Hill (2001) Two variable stand out to create value one has to either add value to the product causing consumers to pay more or reduce the cost to ensure that consumers buy more. In the case of this study, the respondents do agree that there was some growth in revenue after the acquisition.

Sudarsanam (2003), is certain that with the acquisition comes an increase in the shareholder’s value, although individually the respondents did agree that there was value created after the merger, it is not clear whether the value was passed on the shareholders and there was no correlation with the growth of the organization.

Value creation according to Hill (2001) ensures that organizations will increase profits by adding value to a product or lowering the cost, in this case the study shows no correlation between growth and value creation.

Eccles, Lanes, and Wilson (2001) states that when the acquisition is from the same industry, the savings are greater; in this case not all acquisitions were from the same industry. Some were from complimentary industries like fire, logistics and security industries, while others did offer homogenous services. There was creation of value but it cannot be linked to the new organization’s growth.

There is no direct link between value creation and growth although Marks and Mirvis (1998) speak of a symbiotic relationship where the acquiring company and acquired company benefit; this is not the case in the private security industry. Margherita, (2008) states that in his study the empirical evidence showed that the value of a new company is almost always different from the sum of the values of the merging companies. Hitt, Harrison and Ireland (2001) acknowledge few acquisitions produce the desired success, and this is evidence in the creation of value according to this study does not create the desired success. Many Mergers and Acquisition implementers overestimate the value that will be created by the M&A, they can also overestimate the time the return on investment, these leads to an unrealistic perception of value and also leads to the declaration of the merger or acquisition was a failure.

Acquiring to gain new channels ensures that an organization expands its capacity and improves its channels and network in the industry. It could be to plug a weakness, strengthen
an existing portfolio, gain a target market, and improve distributorship of their products (Sherman, 2010; Gopinath, 2003). For this study, the focus was placed on new markets, distribution channel and new geographical areas

For this study, the focus was placed on new markets, distribution channel and new geographical areas, the respondents were positive that there was an improvement in all the areas in regards to the acquisition creating growth in new channels. The correlation of growth and the new channels was positively associated meaning that for every unit of growth, there was a 38% increase in the new channels.

EPS Security in America used an acquisition to gain more security accounts thus more customers, so has G4S done in their grand to grow via acquisition. (Chang and Rosenzweig, 2001; Daly, 2012). Access to new channels has a direct link to growth, (Sherman 2010; Gopinath 2003) Mattel, Disney and marvel have used acquisitions to revitalize its existing business and provide access to new channels. The study shows a correlation between access to new channels and growth, we can therefore deduce that the acquisition in the private security industry in Kenya has brought about new channels thus created growth.

It is rather regular for a company to acquire another to take improved benefit of each other's distribution channels. The healthcare sector has experienced a significant shift in terms of its expansion due to emerging/developing markets, increasing competition to get regulatory approval of the drugs and globalization. Companies in different segments of the world are reaching out to their complementary manufacturing companies to share and gain benefit by utilizing each other's core competencies in drug designing, multiple clinical trials, patent sustenance on a drug, marketing, increasing the drug pipeline and research & development (Christopher & Arishma, 2013).

According to Hitt, Haskisson and Ireland (2001) acquisitions may serve as a substitute for innovations, particularly when resources are inadequate to pursue both acquisitive growth and internal development strategies. Phillips & Zhdanov (2012) have illustrated that smaller organizations do invest in innovation to create a demand and be acquired. From the results of the study, the private security industry in Kenya have not gained innovation or to improve its
research and development from their acquisitions. If they have gained any, this has not translated to growth in the new organization.

Cisco, (Phillips & Zhdanov, 2012) has used acquisition of other networking companies to grow, that acquisitions can be a way to acquire innovation as a substitute strategy for conducting R& D inside the existing firm. Lambkin and Muzellec (2008), states that information amalgamation is key to the success of the acquisition, expanding and embracing the existing equity is key.

Strandell, 2008 illustrates the acquisition in Sweden have lead to an increase in r&d, the study shows that there was an increase in the market innovation after the acquisition. Although the study illustrates that there was no correlation, the personal opinions of the respondents illustrates that there was a change in the market innovation.

Gaughan (2007) illustrates that Johnson and Johnson’s acquisition strategy paid off with them gaining successful products without the hustle of them thinking innovatively. With Gaughan 2007 and Christopher & Arishma (2013) illustrate a positive correlation between acquisitions for innovation and growth while the results in this study show no correlation between research, development and innovation and the Private security companies growth.

5.3.2 Reasons Why Private Security Firms In Kenya Use Mergers As A Growth Strategy

There was an increase in efficiency and an improvement in the internal financial controls. Hackett(1996) looked at a increased efficiency in a hospital by reducing the workload. This is the creation of economics of scale by reducing the overheads, thus reducing the costs. The cost of the product went up, meaning that the merger did not improve the cost of the merger private security company.

Operational costs increased in the mergers in the Private security Industries, focusing on Gaughan (2007) example of the merged cruise which in turn lead to more ships and lower per bed costs. This is the case in this study where the operation cost went up, the output also improved. This created more revenue and therefore more growth to the merged organization.
Growth can be achieved by reducing the costs and maximizing the margins thus earning a profit. The average cost of production did not change, but the fixed costs went down. This improved the profits which in turn was a growth in the revenue. Hackett (1996) theory of cost reduction although was pointing to the hospital industry also works for the private security industry in Kenya.

There was new technology gained from the merger, growth was achieved in the technology front by the merger. According to Hisrich (2013) a merger to achieve technology or key ingredients will ensure growth and create a competitive edge over other organizations in the industry. The merged companies gained from the proprietary knowledge held by the new organizations.

The mergers across the private security companies offering homogeneous products will be achieved from sharing central services. From the study it is clear that there was a reduction in costs from shared services. Economics of Scale was positively correlated to growth, meaning that for every increase in economies of scale there was a positive increase in growth in the private security industry.

Looking at the BCG Matrices, the organization needs to analyze the market value of a product before a merger, a cash cow can have a high market share but low growth (Bruner, 2004). There was a notable increase in the profitability of the organization, and the organization became a market leader, all these did not increase the company’s growth, there was no correlation between the reason for merger which is market share and the organization’s growth. One can argue that with market share there is need to develop the acquired market and it is a long term growth strategy, or better still the product was a cash cow great market but poor growth opportunities.

Mergers aimed at increasing their market share can result in monopolization. The study shows that there has been a reduction in the competition. Mergers reduce competition which in turn the newly formed organization becomes the market leader. Governments have set regulations to reduce monopolies (Gaughan, 2005; Gaughan, 1996). The set rules would restrict further growth.
An organisation is faced with the challenge of choosing the best growth strategy for them. The merger of the private security companies in Kenya has allowed them to enter new market. Although there is a geographical change in the company it does not necessarily mean that there is growth. Braun (2013) states that a company that wants to enter new markets needs to look at the growth rate of the new market. Evaluating the market size or segmentation, annual market growth rate, and the number and strength of players in the market can determine growth or no growth.

According to Gaughan (2005) market leadership can give an organisation advantage over smaller organisations. The study shows that the merged organisation has become a market leader in the private security industry. The monopoly power that Gaughan, (1996) talks about can help improve growth since the market leader will be able to maintain higher prices than the market dictates. Evripidou (2012) points out that authorities might resist the merger due to the excess market power and this can affect the prices and provision of service. The study shows that there was a very small reduction in competition in the industry.

Market share is measured as the ratio of your own share of the market to that of your largest competitor (Bruner, 2004). The study shows that the profits of the organizations increased after the merger despite there being no correlation between growth and market share meaning that the profits were not sufficient to create growth in the merged organization.

Buono & Bowditch (1989), show that one of the most expensive aspects is employee turnover. The cost of firing and employee including the severance pay and unemployment taxes is quite high. There is need to ensure that the organization doesn’t lose its top talent.

Although the research shows that there is no correlation of tax relief and growth in mergers, the individual questions illustrate some of the stated income tax relief that is available. These include termination of staff and issuing them a termination package, which is tax deductible according to Kasipilla (2003) and business losses from either of the merging company according to Auerbach and Reishus (1988). Kasipillai (2003) goes on to say that the income tax effects arising from M&A’s are reviewed under the following sub-headings: termination of employees, legal expenses, general expenses, capital allowances and business losses.
As stated by Kasipillai (2003) Mergers can be encouraged by the government as a way of salvaging an industry. This research shows that in the private security industry in Kenya, the government has not been behind the mergers in order to salvage the industry. In this case the study concurs with Zamani (2002) to illustrate why the reason for the merger was not tax relief, since any amount used in the merger was taxable and considered as capital unlike the amounts usually considered as income tax thus attract tax relief.

It seems the special treatment given to a merged company in form of a tax relief as is mentioned by Hisrich 2013, and Kasipillai 2003 was not applicable to the private security industry in Kenya. The study shows that there is no growth achieved from any tax relief that a company might gain from a merger.

There were cost cutting measures carried out after the merger, these included downsizing and restructuring of the organization. There was termination and retrenchment of staff that were compensated for their loss of income. The duplication of roles was fixed by retrenching the excess staff. According to Kasipillai (2003), the merged organization was able to get a tax deductible from the retrenched staff.

### 5.3.3 Factors That Have Determined The Success Of Mergers And Acquisitions

Mergers and acquisition is a marriage as earlier illustrated, for the M&A to be successful as seen there needs to be proper due diligence. This requires planning. Planning is very essential to the success of the M&A, Nguyen and Kleiner (2003) says that forgoing the SWOT analysis can put the success of the merger at risk. Stahl (2004) states that poor execution and not a poor strategic fit causes the failure of a merger and acquisition Papadakis (2005) states an endless list of potential reasons for failure. This clearly shows that no one reason can be attributed to the failure or success of mergers and acquisition.

The study makes it clear that when deciding on a merger and acquisition strategy the organization needs to first focus on whether the strategy makes financial sense, due diligence should be used to identify the financial viability of the strategy. Due diligence is one of the key elements in the success of mergers and acquisition. Negotiations for a merger or acquisition should begin after a valuation of the organization both indirectly and directly. (Gleich, Kierans, and Hasselbach, 2010). The study illustrates that the mergers and
acquisition were based on due diligence. It further illustrates that there is a correlation between due diligence and success of merger and acquisitions. Conducting due diligence IBM reduced its offer for Sun Microsystems according to Jones and Hill (2008).

Managers fail in the prescreening of potential M&A companies making lack of proper due diligence a major reason for M&A failure (Jones and Hill 2008; Aiello and Watkins, 2001). Top managers engage in costly M&A transactions because they assume they can create more value with an acquisition target than other potential acquirer can and certainly, than the owners and management of the acquisition target (Frensch, 2006). Jones and Hill, (2008) Mentions that top managers can manipulate financial information, to make the target company look favorable.

The business model of the two companies did not match, in the case of IBM reduced its offering to sun Microsystems after a review of the books (Jones and Hill, 2008). The study illustrates that the Due Diligence was conducted by independent auditors, which improves the success rate of the merger. It can be considered that since a proper due diligence was carried out the findings of the due diligence supported the M&A, illustrating either future growth or synergy in the diversity of the business models.

There is a positive correlation between the due diligence and the success factors of mergers and acquisition, this means for a merger or acquisition to succeed allot of planning and evaluation have to be carried out, excellent due diligence has to occur.

Culture is influenced by where one works; it is a shared belief (Hofstede, 1991). Cultural integration therefore will be the union of two cultures to form a new culture that comprises of elements from both acquire and acquired. In his research Lakshman (2011) notes that it is just as important to focus on the processes of integration that lead to integration effectiveness, which could be a critical antecedent and ultimately contribute to creating value in acquisitions.

The primary reason many mergers and acquisition do not deliver longer term value is because they lack a strong cultural integration plan (Knilans, 2009). Integrating culture is a long term plan. The study shows that there was some friction from the differences in corporate culture of the two companies. Friction takes time to manifest itself therefore it is
safe to say that if there was any integration in the company, they did not consider it as a long term plan.

An equal integration is quite difficult like in the case of the German and American culture was not properly integrated and is equal this lead to staff dissatisfaction and eventually resignations. (Webber and Camerer, 2003; Appelbaum, et al. 2007). Although studies show that success is determined by a strong culture and integration clearly the case above shows that two strong cultures need a lot of sensitivity in integrating. According to Lakshman (2011), cultural learning by both the acquirer and the acquired as one of the critical variables leading to integration effectiveness.

This study shows that the some senior management and talented staff left after the merger / acquisition during the process of culture integration. Looking at the case of Daimler-Chrysler merger, where key Chrysler executives and engineers resigned it was a failure especially since they lost talent who were an asset in the merger (Appelbaum, et al. 2007). Talent is a key asset in a merger or acquisition ad in some cases the reason for the strategy. With the loss of these, the company losses money and the success of the strategy are compromised.

Unfortunately the merger was a failure. Operations and management were not successfully integrated as “equals” because of the entirely different ways in which the Germans and Americans operated (Appelbaum, et al. 2007; ). This could be as a result of the lack of analysis in the depth of the different cultures (Weber and Tarba, 2012). Some cases it could be due to the intervention of the government, as a way to safeguard the already existing corporate culture (Schraeder and Self, 2003). There was no correlation between the success factors and cultural integration.

The valuation of a company is subjective. Baker, Pan, & Wurgle (2012) state that a large number of assumptions are needed to justify any particular valuation of the combination. The bargaining power cannot be fully established, boards can bluff in the negotiation, and other bidders could emerge. Meaning that you cannot precisely determine the price of the merger or acquisition, but various assumptions can be made to estimate the broad value. Managers have been accused of paying too much that can lead to huge debt that requires cost cutting strategies to recover from (Anandalingam and Lucas Jr, 2004; Marks and Mirvis, 1998).
According to Hitt, Haskisson and Ireland (2001), the promise of a competitive advantage over competitors has increased the popularity of mergers and acquisition. It has lead to the pressure for the merger or acquisition. Due to competition, the price paid maybe higher than expected just to ensure that the merger occurs (Lance, 2012). In this case the participants did not think that there was a high demand for the organization being acquired thus the cost of the merger and acquisition was not affected by competition trying to outbid each other.

The participants were neutral to the fact that the acquisition costs more than the fair market share, this needs to be further explored to look at each acquisition and merger separately. According to Sudarsanam (2003), paying too much can lead to the organization not creating any value thus increasing the chances for a failed merger or acquisition. Successful M&A result in increasing market share, core organizational capabilities, knowledge and expertise (Hitt, Ireland and Harrison, 2001; McIntyre, 2004; Kongpichayanond, 2009).

Managers tend to suffer from managerial hubris thus paying higher premiums for acquisition targets. Top managers engage in costly M&A-transactions because they assume they can create more value with and acquisition target (Frensch, 2007). Although they are undertaken for good reasons, the research shows that many high-cost mergers and acquisitions fail to provide the anticipated rewards (Love, 2000).

When the value of the organization lies with the talent, the aim should be to ensure that the talent is not lost, unlike in the case of Merrill Lynch (Grantham, 2007). The most valuable employees, those that the post-merger corporations can least afford to lose, tend to be the first to leave the organization, in the case of Merrill Lynch, who lost sales staff which affected the success of an expensive merger (Grantham, 2007; Love, 2000). It was not clear if the value lied with the talent, and the participants felt that the value of the organization did not change much as compared to before. There was no correlation between the cost of the merger and acquisition and the success factor although according to Baker, Pan, & Wurgler (2012) the most natural explanation is that reference point prices play a role in merger related decisions. Therefore we can say that the cost of a merger or acquisition does affect the success of the merger and acquisition.
5.4 Conclusion

5.4.1 Acquisition As A Growth Strategy
The aim is to ensure that customers are either paying more or buying more to achieve growth. All studies point to value creation by adding value to the product or reducing the cost. In the study the respondents didn’t see any growth in revenue after the acquisition. The study did not find a correlation between growth and creation of value by acquisition. Although acquisition from the same industry is thought to be more lucrative, due to the great savings, in this case there was no link with the growth of the organization. In conclusion we can acknowledge that few acquisition produce the desired growth and value creation effect expected.

One of the reason for using acquisition as a growth strategy is to gain access to new channels. This is aimed at capacity building and improving the organization’s channel in the private security industry. Organizations have used this method to achieve new clients and reduce the weakness of the organization. The study shows that there is a direct link between the growth of the organization and acquisition to gain new channels. The study shows that acquisitions can be used to open new markets for the organization, improve distribution channels and even strengthen the existing products.

The use of acquisition to gain research, development and innovation and in total achieve growth is increasing important due to the rapid change in technology. Organizations are having a hard time catching up with the changes. Novel solutions can now be acquired from organizations that have invested in R&D and innovation. An increase in innovation is noted in the private security industry after the acquisition. Small organizations invest in innovation and strengthen their research and development departments to ensure that they are acquired by a bigger organization. Although in the private security industry there was no correlation between growth and research, development and innovation.

5.4.2 Merger As A Growth Strategy
One of the reasons for using mergers as a growth strategy is to gain economics of scale. The increase in efficiency and reduction of overheads achieved results to reduction in costs resulting to growth. There was no cost reduction in the merger in this study. Operations costs
went up and the output improved this lead to improvement in the profits which resulted to growth. When an industry like the private security industry that offers homogeneous products, they will gain more from a merger especially merging shared services and reducing costs thus achieving growth. In this case there is a positive correlation, for every increase in economies of scale there was a positive increase in growth in the private security industry.

Cash cows have great market share but no growth aspect. This would explain why the participants stated that there was an increase in the market but there was no correlation between the market share and growth. Monopoly can be a result of mergers especially if the two major organizations join into one, thus reducing competition. The study shows that there is no like between the market share and growth.

There was no correlation of tax relief and growth in private security companies’ mergers. Organizations have benefited from mergers, especially if they merge with a loss making organization. There has been interference from the government, where they have encouraged organizations to merge in order to salvage the industry. In turn they gain a tax relief. After a merger, the organization can retrench people, and offer them retrenchment benefits. The organization will gain by getting a tax relief from the government.

5.4.3 Factors That Have Determined The Success Of Mergers And Acquisitions
Performing due diligence in an organization is important before a merger or acquisition. A due diligence performed properly. The need to look at the deal critically and analyze if it makes financial sense needs to be carried out by an independent party to ensure an unbiased opinion of the union. Independent accountants to evaluate the authenticity of the financial reports, lawyers and tax experts who evaluate every negative outcome will increase the chances of a merger and acquisition success. The study shows a positive correlation between due diligence and merger and acquisition success factors. The more the due diligence carried out, the higher the chances of merger and acquisition success.

Culture integration involves the union of two cultures to form a new culture comprising of both cultures. Lack of a proper cultural integration has been contributed to failures in mergers and acquisitions. It is natural for the organization to have friction since each believes that their culture is superior, therefore there is need to compromise and have a well defined
integration plan. If handled badly it has been noted that there is a possibility to lose top management and talented staff. The loose can mess the merger or acquisition especially if the acquisition objective was to gain in the talent acquired. The study shows that there is no correlation between cultural integration and merger and acquisition success factors. Although it can be difficult to pinpoint the true value of an organization, the organization can estimate a broad value. Demand for the company, and bluffing by top management of the company can lead to the other organization making a hasty decision and acquire the company for more than the value of the organization. Paying too much leads to the company making losses since it is recovering from the high cost of the M&A. In this case there was no correlation between the success factors and the high cost of the merger and acquisition.

5.5 Recommendations

5.5.1 Recommendations For Improvement

5.5.1.1 Acquisition As A Growth Strategy
There is need to look at the long term goal of acquisition as a growth strategy in regards to creating value, more needs to be put in place. In the case of private security firms in Kenya, there is need for them to invest more and find radical new ways to combine the new resource and thus open other ways to do business rather than what they had initially. This will mean that as much as the acquisition is aimed at achieving growth, a combination of other strategies needs to be put in place. By acquiring an organization, the new entity needs to be ruthless and get rid of the duplicated units and the ones not making money immediately. This will reduce the waste of resources and ensure a creation of value, thus achieving growth.

The use of acquisition as a growth strategy to gain access to new channels is a success, with a positive correlation between growth and new channels. This means that for every gain in new channels the organization will grow. It is recommended for the players in the private security industry in Kenya to carry out acquisition in order to benefit from each other and improve distribution, increase clients and strengthen their existing products especially if they need to grow.

There is need for private security companies in Kenya to realize that innovation is the key to the rapid technological changes occurring in the world. People are becoming more
sophisticated and demanding more for their money, this means that if the organizations don’t catch up and be ahead of the peoples demand, there will be a need gap. This gap could be filled by an international company which would meet the need for technological innovations.

5.5.1.2 Merger as a Growth Strategy

Private security industries need to look at mergers as a way to consolidate homogeneous services and reduce the costs. This will improve the profits and achieve growth. The maximization of the margins will improve the profit, although average cost of production won’t change, but the fixed costs went down.

Mergers create better market share, although sometimes they do lead to monopoly, which does achieve the objective, which is growth. Private security companies need to look critically at the products if they aim to improve the market share, study the product and place it in the right position growth verses market share (BCG Matrix) before buying the company. Understanding the market size or segmentation, annual market growth rate, and the number and strength of players in the market can determine growth or no growth.

Security industries need to understand the tax relief that can be gained from merging. The merging of a loss making organization will earn the organization a tax relief but it can be a double edged sword, lack of profits. This can be counterproductive especially since the aim is to grow. The government interference can help salvage the industry but it can dent a profit making organization since it gives pressure to the profits made.

5.5.1.3 Factors That Have Determined the Success of Mergers and Acquisitions

The study is clear, for success to occur in a merger or acquisition there is need for a deep look at the organizations by an independent team. Due diligence can take long and delay the merger or acquisition but it is the determining factor to the success of the strategy. All organizations should not leave the due diligence to top management since they can manipulate financial information to the favor of their organizations.

Companies in the Private security industry that plan to either merge or acquire need to come up with a cultural integration plan. Understanding both cultures and with sensitivity combining them to form a new culture should be paramount. This will reduce the attrition of top and talented employees and in turn improve the chances for the M&A success.
The pressure to acquire the company and the need to carry out a proper evaluation should be balanced. There is need to balance the need to acquire this company before anyone else and coming up with the broad value to base the cost of the merger and acquisition. Private security companies should be willing to walk away from organization priced higher than their broad value if success is the objective.

The study concentrates growth achieved either through mergers or acquisition and the success factors of mergers and acquisition in the private security industry. However these variables do not explain 100% of this relationship. Therefore, it is important that the managers of private security industries to consider that not all intended benefits of mergers and acquisition are predetermined and obvious to begin with.

Management needs to look at each reason separately and in detail, weighing the pros and cons of each. There is a need for further study with a focus exclusively of each reason for merger and acquisition was deduced.

5.5.2 Recommendations for Further Research

Private security companies in Kenya are struggling with the challenge of remaining competitive in an industry environment characterized by consolidation of customers, competitors and suppliers, plus other cooperatives. To remain competitive, many cooperatives are participating in mergers and acquisitions.

The study was based on KK Security and G4S at their head offices in Nairobi, Kenya. Further studies are recommended to other private security companies in Kenya, East Africa and also Africa. This would provide better knowledge to the use of mergers and acquisition as a successful growth strategy.
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APPENDICES

Appendix A: Cover Letter

Dear Sir/Madam,

I am conducting a survey on Mergers and Acquisitions as a Growth Strategy in the Private Security Industry in Kenya.

This study is a requirement for the partial fulfillment of an MBA program in `Strategic Management at USIU Africa. The study aims at understanding why private security companies in Kenya use Mergers and Acquisition as a Growth Strategy. Your assistance will be greatly appreciated and will be of great benefit to this research.

The answers you will provide will not be treated individually but as a summary of respondents' opinion. All the information collected will be used for academic purposes and treated with strict confidentiality.

Thank you very much for your participation

I've invited you to fill out the form Mergers and Acquisitions as a Growth Strategy in the Private Security Industry in Kenya.

To fill it out, visit:  http://goo.gl/forms/9TvWL8UcQ4
Appendix B: Data Collection Instruments-Questionnaire

Mergers and Acquisitions as a Growth Strategy in the Private Security Industry in Kenya

This study is a requirement for the partial fulfillment of an MBA program in ‘Strategic Management at USIU Africa. The study aims at understanding why private security companies in Kenya use Mergers and Acquisition as a Growth Strategy. Your assistance will be greatly appreciated and will be of great benefit to this research. The answers you will provide will not be treated individually but as a summary of respondents’ opinion. All the information collected will be used for academic purposes and treated with strict confidentiality. Thank you very much for your participation

*Required

Demographic Information

I would like you to answer a few questions about your work history and background. I am not interested in identifying individual employee. These questions only help me to compare the opinions of different groups of employees. Please fill in the blanks or check the appropriate response.

1. **In which age bracket do you belong?** *
   
   *Mark only one oval.

   - [ ] 20 - 30
   - [ ] 31 - 40
   - [ ] 41 - 50
   - [ ] 51 and above

2. **What is your highest level of education** *
   
   *Mark only one oval.

   - [ ] Secondary
   - [ ] Diploma
   - [ ] College
   - [ ] Undergraduate
   - [ ] Masters

3. **What is your job title in the organisation** *

4. **Who was your previous employer before the merger / acquisition** *
   
   *Mark only one oval.

   - [ ] KK Security
   - [ ] G4S Securicor
   - [ ] Ears
   - [ ] Lodgit
5. **Which of the following best describes your current job level? *  
*Mark only one oval.*

- Board of Directors
- Senior Management
- Middle level
- Manager Supervisor / Team Leader
- Admin Staff
- Clerk
- Security officer
- Other: 

**Growth**

6. **In your opinion, how do you measure growth in your organisation?**  
*Tick all that apply.*

- Increase in revenue
- Increase in market share
- Growth in sales
- Increase in staff recruitment
- Increase in profits
- New products launch
- New technology
- Increase in assets i.e. vehicles, land, offices,
- Entry into new markets

7. **The Merger / Acquisition brought what benefit to the organisation**  
*Tick all that apply.*
Reduced competition
Added new brands and product/services
Provides access to fresh customer base
Added new geographical locations
Achieved economies of scale
Brought in a fresh breath of management skills
Gave the company a competitive edge

Section A: Acquisitions

Please indicate your level of agreement or disagreement regarding your present organization using the following rating scale.
Read each statement carefully and tick any number from 1 to 5.
1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree

8. **In your own opinion, what was the motive for the acquisition.**
   *Tick all that apply.*
   - Create Value
   - Gain access to new channels
   - Research & Development and Innovation

9. **The acquisition of the company opened up new markets for the present organization**
   *Mark only one oval.*
   
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10. **The distribution channel for the products has become more effective after the acquisition**
    *Mark only one oval.*
    
    | 1 | 2 | 3 | 4 | 5 |
    |---|---|---|---|---|
    | Strongly Disagree | | | | |
    | Strongly Agree | | | | |

11. **There is no growth in revenue in the new organization after the acquisition**
    *Mark only one oval.*
    
    | 1 | 2 | 3 | 4 | 5 |
    |---|---|---|---|---|
    | Strongly Disagree | | | | |
    | Strongly Agree | | | | |

12. **The acquisition has created new channels for the organization.** (Sales Channels, Distribution Channels, Communication Channels) *Mark only one oval.*
    
    | 1 | 2 | 3 | 4 | 5 |
    |---|---|---|---|---|
    | Strongly Disagree | | | | |
    | Strongly Agree | | | | |
13. **The Market share for the company has grown after the acquisition**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

14. **The company has ventured into new geographical regions after the acquisition**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

15. **The customer base has reduced since the merger**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

**Value Creation**

16. **I strongly feel that the acquisition created wealth for the acquiring company**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

17. **The return on investments has exceeded the expected returns the organization expected**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

18. **The value of the company has grown more after the acquisition**  
   *Mark only one oval.*  
   Strongly Disagree |   |   |   |   |   | Strongly Agree |

19. **Selling off loss making departments would have made more profits to the acquisitions**  
   *Mark only one oval.*  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |

20. **The company that was acquired was broken down and some units sold off**  
   *Mark only one oval.*  
   1 2 3 4 5  
   | Strongly Disagree |   |   |   |   |   | Strongly Agree |
Section B: Merger
Please indicate your level of agreement or disagreement regarding your present organization using the following rating scale.

Read each statement carefully and tick any number from 1 to 5, 1-Strongly Disagree, 2-Disagree, 3-Neither Disagree Nor Agree, 4-Agree, 5-Strongly Agree

**21. All things considered, the merger between the two companies should not have taken place**

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**Economic of Scale**

**22. After the Merger, there was an increase in Efficiency**

(operation efficiency, financial efficiency, and management efficiency)

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**23. The operation costs have increased but not less than the increase in output of the merged company**

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**24. The increase in internal financial control process has resulted savings which in turn has increased in better earnings**

for the company and its staff

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**25. The merger created a reduction in the fixed costs caused by shared services like management, accounting, research and development**

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**26. The merger created an increase in output**

number of security people deployed,

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree

**27. There was a reduction in the average cost of production**

*Mark only one oval.*

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Strongly Disagree  [ ]  [ ]  [ ]  [ ]  [ ]  Strongly Agree
|   | The selling prices of the services went down  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 29. | The Merger brought new technologies to the organisation  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 30. | The company gained from proprietary knowledge held by the new company  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 31. | There was new skills introduced from the new company  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 32. | It was easier to expand capacity at less cost than building new departments  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 33. | The company profitability increased upon the merger  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 34. | After the Merger, there has been a lot of cost cutting measures put in place  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
| 35. | Downsizing and Restructuring occurred after the merger  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
|   | **Tax Relief**  
|   | **Before the merger, the company you worked for was suffering financial losses**  
|   | *Mark only one oval.* | 1 | 2 | 3 | 4 | 5 |
|   | Strongly Disagree | | | | | | Strongly Agree |
37. The new organization received tax exceptions from the government after the merger
   
   *Mark only one oval.
   
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   Strongly Disagree   Strongly Agree

38. The terminated / retrenched staff was compensated for the loss of income
   
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   Strongly Disagree   Strongly Agree

39. The merger was encouraged by the government in order to save the industry
   
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   Strongly Disagree   Strongly Agree

40. The merger has created a monopoly in the private security industry in Kenya
   
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   Strongly Disagree   Strongly Agree

**Market Share**

41. The merger reduced competition in the private security industry in Kenya
   
   *Mark only one oval.
   
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42. The merged company is now a market leader
   
   *Mark only one oval.
   
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43. The merger facilitated entry into new markets
   
   *Mark only one oval.

44. The merger was driven by
   
   Tick all that apply
   
   □ The need for business expansion
   □ The need for Market growth
   □ The need to enhance the market position
   □ The need to enter new markets
   □ The need to improve quality of service
   □ The need to increase the distribution channels
The need to create more profits

Section C: Success Factors

45. **The Merger / Acquisition should not have happened**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

46. **The new corporate culture is a blend of the two cultures from the two companies**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

47. **There is lots of friction due to the cultural differences between the two companies**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

48. **The new corporate culture has had a positive effect on the performance of the company**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

49. **Senior management and talented staff left after the merger / acquisition during the process of culture integration**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

50. **The value of the organisation acquired was in**

    Tick all that apply.

   - The talent in the employees
   - The asset base of the organization
   - The customer base
   - The technology possessed
   - Management style

51. **The acquisition cost was more than the fair market share**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |

52. **The culture integration was done properly and the change was properly explained to me**

   Mark only one oval.  
   | 1 | 2 | 3 | 4 | 5 |
   | Strongly Disagree | | | | | Strongly Agree |
53. **The value of the acquiring company increased after the acquisition**
   Value being Market Share/ Stock Price/ Profits
   *Mark only one oval.*  1  2  3  4  5
   
   | Strongly Disagree |  |  |  |  |  | Strongly Agree |
   |-------------------|---|---|---|---|---|
   |  |  |  |  |  |  |

54. **The decision to acquire was based on the due diligence**
   *Mark only one oval.*
   
   | Strongly Disagree |  |  |  |  |  | Strongly Agree |
   |-------------------|---|---|---|---|---|
   |  |  |  |  |  |  |

55. **The business model of the acquired company matched the acquiring company**
   *Mark only one oval.*
   
   | Strongly Disagree |  |  |  |  |  | Strongly Agree |
   |-------------------|---|---|---|---|---|
   |  |  |  |  |  |  |

56. **The Due Diligence was conducted by independent auditors**
   *Mark only one oval.*
   
   | Strongly Disagree |  |  |  |  |  | Strongly Agree |
   |-------------------|---|---|---|---|---|
   |  |  |  |  |  |  |

57. **Before the merger / acquisition there was a high demand for the acquired firm**
   *Mark only one oval.*
   
   | Strongly Disagree |  |  |  |  |  | Strongly Agree |
   |-------------------|---|---|---|---|---|
   |  |  |  |  |  |  |

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