

**EFFECTS OF MERGERS AND ACQUISITIONS STRATEGY ON  
PERFORMANCE OF BRITAM INSURANCE COMPANY LIMITED IN KENYA**

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## **DECLARATION**

This research is my original work and has not been submitted for any academic qualification

Sign ..... Date.....

**Irene Wanjiru Wanjiku - D61/76987/2014**

This research work has been submitted for examination with the approval of my university supervisor.

Signed..... Date.....

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## **DEDICATION**

In loving memory of my late mum, Ms. Wanjiku your teaching on hard work and discipline did not go in vain.

To my daughter Samantha Mwangi, knowledge liberates. Indeed, knowledge is power. “Education is the great engine of personal development. It is through education that the daughter of a peasant can become a doctor, that the son of a mine worker can become the head of the mine that a child of a farm worker can become the president of a great nation. It is what we make out of what we have, not what we are given, that separate one person from the other” (Nelson Mandela, Long walk to Freedom).

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

A.K.I. - Association of Kenya Insurers

C.E.O. -Chief Executive Officer

GDP-Gross Domestic Products

G.W.P. -Gross Written Premium

MBA- Master of Business Administration

HR- Human Resource

I.C.E.A. -Insurance Company of East Africa

I.C.T. -Information communication and technology

I.R.A.-Insurance Regulatory Authority

IS-Information System

M & A –Mergers and Acquisitions

N.S.E. -Nairobi Stock Exchange

## **ABSTRACT**

The market has become very dynamic, influenced by a myriad of factors; regulations, economic booms, recessions, globalization and technological advancement. Due to these changes, organizations are continuously adopting new ways of doing business to counter threats as well as exploit new opportunities. One of the key strategies that organizations have embraced to improve firm growth is M& A. It is alleged that mergers and acquisition maximizes the growth of a firm and expands it through enhancement of its marketing and production operations. Many insurance firms in Kenya have turned to M& A as key strategy towards growth and profitability as well as gaining competitive advantage. Some of the reasons put forward for M&A in insurance entities are expansion of the distribution networks, meeting the high levels of market share and capital share and to earn benefits from the most desirable practices globally. The push for market share among large insurance companies comes against a framework of increased share capital in underwriting industry of Kenya. The industry will be adopting the risk based model which is in its pilot stage and is expected to be implemented at the beginning of 2018. This study mainly seeks to establish the influence of M&A on performance of Britam Insurance in Kenya after acquiring Real insurance company. The research was anchored in two main theories, namely resource dependency theory and market power theory. The resource dependency theory was crucial as it states that a company can utilize its inward resources and capabilities in a manner that enables it to have an edge over its competitors. The market power theory was important as it stated the manners in which an organization is able to gain an edge over its competitors through improved synergies.

The study was executed using a case study analysis of the firm. Interview guides were used for data collection to the key managers in charge of strategy and marketing as well as through secondary data collected through the company's financial statements and data on the company's website. Data analysis was done using content analysis. The study found that Britam Insurance was able to achieve its objective by increased market share and regional expansion. The company is still undergoing transition challenges in terms of cultural differences, high staff turnover, integration of ICT system and loss of renewal business. However, the efforts to resolve the challenges have borne fruit and after one year of merger, employees seem to be comfortable working in the new environment. It is recommended that a prospective study on Britam performance of this M&A be conducted for the next few years to see if this merger was helpful.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Firms operate in a vibrant environment and are threatened with unpredictable changes in environment. One of the key strategies that organizations have embraced to improve firm growth is M&A. It is alleged that M&A maximizes the growth of a firm and expands it through enhancement of its marketing and production operations. The main aim of M&A is to make available strong firm capacity of meeting customer needs, gain competitive advantage, reduce strong competition and venture into technological development which enhances better performance and achievement of the desired profits (Moktar and Fang, 2014). While the main objective of M&A is to improve firm performance and growth, this has always not been the case (Akinbuli and Kelilume, 2013).

There are various theories that explain the motivation of mergers and acquisition. The first of this theory is the Resource Dependency theory, fully advanced by Jeffrey Pfeffer and Gerald Salancik in 1978. It refers to the study of how the firm's external behavior is affected by the external resources based on the relationship between organizations as a specific conception of social action. In market power theory, Feinberg (1985) argues that improved synergies in allocation accrues the firm with positive significant private advantages since holding all other factors constant firms with more power in the market control prices and earn more profits through the adoption of consumer surplus.

There has been a recent upsurge in M&A activity within the Kenyan insurance market which is attracting responsiveness to the industry changes. So, it would be very important to know the motive behind this merger and acquisition attractiveness, factors leading to, the transition process undergone, the challenges faced thereafter and the overall firm performance. There is need to therefore establish how these organizations have performed before and after their acquisition so as to complement the positions taken so far as relating to the effect of M&A on the performance of the firm.

Many insurance firms in Kenya have turned to M& A as key strategy towards growth and profitability as well as gaining competitive advantage. Some of the reasons put forward for M&A in insurance entities are expansion of the distribution networks, meeting the high levels of market share and capital share and to earn benefits from the most desirable practices globally. The push for market share among large insurance companies comes against a framework of increased share capital in underwriting industry of Kenya. The industry will be adopting the risk based model which is in its pilot stage and is expected to be implemented at the beginning of 2018. A major challenge to insurance growth in Kenya remains the industry capacity to maintain positive public good will which limits product uptake, innovation and adoption of alternative delivery channel.

### **1.1.1 Mergers and Acquisitions.**

The terms M&A are often used interchangeably; however, there are some variances. Gaughan (2007) describes a merger as the combining of efforts by two or more firms to form one firm. Acquisition is one way through which a merger could be attained.

Okonkwo (2004) in such scenarios the shareholders of the company acquired are paid and the new possessor is the person who acquires all or a bigger portion of the acquired company's assets. Acquisition refers to the process whereby one company takes control over a part or all of the assets of another company either directly or indirectly.

M& A is an attractive strategic option which helps to strengthen the competitiveness and competencies of the resulting company, achieving operating economies, and creation of new market opportunities. M&A are driven by strategies to achieve the various objectives such as; creating a more cost-efficient operation, expand a firms geographical and distribution coverage and to gain competitive advantage. Many companies use acquisition to expand internationally or racing for global market leadership that extend the company's business into new product categories.

### **1.1.2 Firm Performance**

The performance of the company is vital in attracting the customers. Therefore, the responsible management for running firms needs to raise the performance of the firm through competitive clear procedures and strategies to improve its transactions and operations throughout its life span. Continuous performance is the objective of any firm because only through performance, firms are able to grow and become competitive.

Understanding the factor of a firm performance is important especially in the framework of the current economic crises, this enables the identification of which needs to be treated with urgency for the firm performance. Firm performance comprises the actual output or results of a firm as measured against its intended outputs or objectives and goals through strategies adopted by firms. Evidence suggests that big firms use both the financial and non-financial performance measures. (Malina & Selto, 2004).

Measuring the performance of firm represent quantification results of several activities within a firm over a period of time. For measurements to be undertaken, the link between performance measurements, objectives, strategies, and organizational results environments must be known. Firms have tried to use Balanced Score Card methodology, a system that is used extensively to align the activities of the business to the strategy and vision of a firm, improve the external and internal communications, and monitor firm's performance against the organization's strategic goals. Performance is tracked and measured in four perspectives, namely; Internal processes; that enables the managers to understand how their business are performing and the extent to which its products meet the needs of the customer (the mission) Customer service perspectives; dissatisfaction of customers makes customers to opt for suppliers who meet their needs. Financial performance; comprises the actual output or results of a firm as measured against its intended outputs or goals and objectives through strategies adopted by firms. Learning & Growth, employees should be taken through training so as to be in line with the current technology.

### **1.1.3 Insurance Industry in Kenya**

In Kenya, the insurance market is regulated by the Insurance Regulatory Authority (IRA). The annual report of I.R.A. in 2014 showed that, Kenya remains the largest insurance market within the East Africa Community with 52 registered companies. The number and structure of the underwriters in the market has considerably changed in the last five years with new global giants entering the market for example; The Prudential Group, Allianz Insurance Group and the Barclays Group. Other restructuring undertakings within the industry have been M&A in addition to portfolio transfers among existing players which have greatly impacted the insurance firms in Kenya (IRA Annual reports 2014).

Penetration still stood at 3.4% despite immense growth of the industry as at 2013 with an insurance density of near US\$ 25.3 when estimated. However, in 2015, the penetration ratio declined to 2.9% as a result of re basing of the GDP. Going by the Performance Standards of the sector 2009-2030, it is anticipated that by 2030 the penetration ratio will have risen to 5%. The low insurance uptake is linked to factors such as; low disposable incomes for the majority of the population with close to 50% of Kenyans living below the poverty line, general lack of a saving culture among Kenyans, a negative perception of insurance especially with regard to settlement of claims and lack of understanding among most of the citizens about the various insurance policies.(IRA strategic plan 2013-2018). Existence of insurance fraud cases is another big challenge in the insurance industry, skills gaps in certain critical areas, capitalization levels, limited investment in competitive recruitment, career development and training and large number of insurance firms in relation to the levels of GDP resulting to price wars due to overcapacity.

#### **1.1.4 Britam Insurance Company in Kenya**

Britam is a diversified financial services group, with interests across the Eastern Africa region listed in the Nairobi Securities exchange. It offers a wide range of financial Services and products in Banking and Property, asset management and insurance. Britam obtained 99.0% of real insurance in form of cash, a deal which gave it establishment in other regions i.e. Malawi, Mozambique and Tanzania.

The aim of the transaction was to make it possible for Britam to strategically expand its insurance business and expand into other fundamental geographical regions. As at the end of the year 2013, Britam controlled 4.4% of the market in relation to the gross written premium while 3.1% was controlled by Real insurance as per the records of Association of Kenya Insurers (AKI). After acquiring Real Insurance, Britam leapfrogged the ICEA Lion and become the second largest insurer in Kenya, and reduce the gap in the market between industry leader Jubilee and itself. The Real and the merged Britam entities controlled 11.2 % market share as at June 2014 with a net profit growth of 23%, below the 12.6 % of the jubilee, while the third was the ICEA controlling 8% (IRA). “We have been very successful in executing our strategy in 2014 and acquiring Real Insurance was one of the successes,” said Benson Wairegi, Britam’s managing director.

## **1.2 Research Problem**

In a firm, M&A decisions are important for a firm to succeed and this requires that such decisions should not be rushed. M& A continue to enjoy significance as strategies among insurance firms in order to achieve firm's growth. However, their success in creating shareholder value remains challenged. Theoretically, it's assumed that mergers increase firm performance due to increased market power, enhanced profitability, and risk diversification. In insurance industry, M&A respond both to cyclical factors and structural factors i.e. changes in technology, distribution models and regulation. Business cycle development, underwriting market conditions and associated moves in financial markets also greatly influences the M&A decisions of a firm (AKI Annual Report 2014).

A lot of mergers took place in the insurance industry in the recent past whereby middle size insurers have been merging together after insurance regulations on minimum capital requirements and high compliance costs as well as introduction of risk based underwriting were introduced. Insurance firms in Kenya have had to deal with rampant economic transformations, including increased foreign competition and the requirement to increase their capital base that has necessitated firms to merge their operations.

In addition to the big role played by the commercial banks in the financial intervention of the economy, insurance firms also play a role. Thus, their success implies economic excellence (Andoh, Abor & Ansah-Adu, 2012; and Ezirim & Agiobenebo, 2002). Merger is a technique adopted by companies so as to increase their activities with the aim of increasing their long-term profitability (Bert, 2003).

However, Marangu (2007) resolved in his study that substantial performance improvement of the non-listed insurance firms resulted from merging compared to the non-listed insurance firms that had not merged within the same period. Mergers and acquisitions strategies have seen Companies like ICEA group and APA group performs better in terms of gross written premiums though it is not clear whether M& A was the only contributor to growth. Presently in Kenya, notable mergers and acquisitions of over ten insurance firms has taken place where big local companies and foreign companies have merged or acquired the small companies. Real Insurance Company just like any other organization was affected by the turbulence in the environment which led to it being acquired by Britam. Britam has experience challenges through the transition process such as decline of share price, high staff turnover, redundancy and decline of general business premiums.

A number of studies have been undertaken on M&A with the aim of understanding the relationship between firm performance and M&A. Martin and Loderer (1992) did a study on the 155 acquisitions and 304 mergers that occurred between 1965 -1986 and noted a positive and negative abnormal return that was insignificant over the next five subsequent years. Hoshino and Yeh (2002) studied how acquisition affected the operating performance of a firm by use of acquisitions that occurred among the Japanese Corporate between 1970-1994 and the study choose a sample of 86. The acquisitions' success was examined on the basis of efficiency, growth and profitability. The results indicated a substantial declining trend on sales growth and profitability and insignificant downward trend in productivity.

Locally studies of M& A have created mixed reactions; Omondi (2016) conducted a survey and found that M& A created competitive advantage for ICEA Group Company. Ndonga (2013) in his study of M&A as a growth strategy concluded that M&A is a strategic tool that must be cautiously applied and implemented. Avulala (2015) carried out a survey on effects of M&A on growth of Insurance firms in Kenya and concluded that indeed M&A has great impact on growth on profitability though not the only contributor. M&A are capable of having an adverse effect. Muya (2006) carried out a survey on M&A and concluded that M&A add insignificant value to the firms which merge. Various past studies have created conflicting and inconclusive results; it becomes hard for insurance industry players to confidently say whether merging two insurance companies is beneficial. The past studies have as well failed to show a distinct link between mergers and acquisition and firm's performance. This study seeks to answer the question, what is the effect of mergers and acquisition strategy on firm performance of Britam Kenya after merging with Real Insurance Company?

### **1.3 Research Objectives**

The objectives of this study were as follows;

- i. To establish the effects of mergers and acquisitions on performance of Britam insurance company in Kenya.
- ii. To identify challenges faced by Britam in undertaking mergers and acquisitions as a strategy.

#### **1.4 Value of the Study**

To the scholar, this study will help to build knowledge by adding on the existing literature on effect of M&A as a strategy to improve firm's performance. It will also provide ground for advance research to the scholar. Scholars who may be interested in further research on the effect of M&A on the performance of the firm will be able to gain insight into the study topic and investigate any research gaps not addressed by this study. Further, the study will provide more insight into the correlation between M&A in relation to firm performance and will be used as a reference basis for other future studies in the field of M&A and restructuring of companies in the insurance industry.

To the theories, the study will increase value to the existing literature in this area, at the same time become a source of support. It will also create ground for further research to criticize and investigate the theories further. The study will contribute to the existing knowledge in the field of strategic management on M&A and trigger further research to refine or extend the existing present study.

This study will be important to the policy makers, (IRA) and help in formulating standards and procedures on establishing appropriate level of M&A dealings as well as developing laws and regulations for the industry. The study will assist in understanding how to improve the risks that engross the insurance industry as well as understanding the best way to reduce risks and coming up with appropriate regulations.

The study will as well help the regulator to evaluate if M& A is an optional strategy to improve industry performance especially with the new regulations on increased share capital and risk based underwriting.

It will also enable shareholders understand the impact Mergers and acquisition has on the value of its share, asset and liabilities and how it will affect their investment values positively or negatively. The study will provide significant information to the shareholders on whether their wealth can be increased through M& A and therefore support any mergers and acquisition proposed by the senior managers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents a comprehensive review of past literature in relation to mergers and acquisition by various scholars and researchers. The precedent review of literature seeks to put together and relate the various components of the theories, empirical evidence for M&A and effect of mergers and acquisition was discussed. Secondary material such as published journals, master's thesis, articles and books which carries previous research work on the study topic was analyzed.

#### **2.2 Theoretical Foundation**

This study was based on two theories namely; resource dependency theory and market power theory. These theories are discussed in the following subsections.

##### **2.2.1 Resource Dependency Theory**

This theory was developed by Jeffrey Pfeffer and Gerald Salancik in 1978. It refers to the study of how the behavior of a firm is influenced by the firm's external resources based on the relationship between firms as an explicit conception of social action (Salancik & Pfeffer, 2003). Resource acquisition enables a firm to mingle with external environment as it's that owns and controls these resources. Varying political and economic environments between firms lead to conflict and changing interdependence patterns within a specific resource network.

Since firms depend on the environment so as to acquire resources, they need to come up with strategies that would enable them to easily acquire these resources. Thus, these firms have already determined the external environment and leaving them with little strategic choices (Salancik &Pfeiffer, 1978). The theory further suggests that if the company does not require any type of resources from the stakeholders, then it is independent from the influences of its external environment. (Salancik &Pfeiffer, 2003). This Theory looks into the happenings of a firm from the external perspective from the position of the stakeholders of a company thus it is equally suitable for any other outside-in analysis of the process of resource allocation of the firm.

The theory can also be used to investigate the links between a specific company and its external environment so as to ascertain how strongly they are interrelated. This helps to foresee potential conflicts which could make the uncertainty of the firm to rise. This also implies that the more discussions and interactions the company conducts with the external environment within which it exists, the more guaranteed it will be in addressing its access to resources and the more it will depend on the groups which own its preferred resources (Salancik &Pfeiffer, 2003).

### **2.2.2 Market Power Theory**

The market power theory argues that an increase in the allocative synergies gives the firm significant and positive private benefits since assuming all other factors do not change (*Ceteris paribus*), firms with larger market power charge high prices and earn bigger profit margins through consumer surplus appropriation (Feinberg, 1985).

Choi and Weiss (2005) argue that M&A create value only if they can increase the market power of a firm, enabling the post-merger enterprise to receive higher economic returns. Firms with bigger market power can easily influence market prices by controlling their profit margins. Increase in the allocative synergies offers the firm with positive and significant benefits since organizations with bigger market power earn greater margins. The theory allows for limitation of potential future competitors which can offer the firm with a substantial premium, and long-term sources of gain (Motta, 2004).

An industry with firms possessing market power are rather discouraged as it provides firms with the capability to engage in practices which discourage fair market practices and competition with other similar firms. In cases where all the market participants have same market power, then the only way through which anti-competitive behavior could occur is through collusions, or group of participants within the market collectively exercising market power. The following entry barriers are the fundamental foundations of market power; increasing returns to scale, control of scarce resources, barriers created by the government to entry and technological superiority (Ismaila, 2011).

Equally recognized firms have a higher competitive advantage over firms that are new in the industry. A recognized firm can lower its prices when threatened by a new competitor to get rid of competition. Wier and Eckbo (1985) stated that the main aspect when considering the association between takeovers and increased market power are the horizontal mergers.

When the number of suppliers who are active in a market is low, individual market actors' can easily be noticed and the probability of discovering nonconforming increase in level of production is high.

### **2.3 Mergers and Acquisitions and Firm Performance**

Mergers and acquisitions helps a firm to improve its competitiveness and attain a higher competitive advantage as compared to other firms through risk reduction, acquiring a bigger portion of the market share, and geographies, taking advantage of the economies of scale and penetration into new markets (Gopi & Saboo, 2009). Any merger's success is described through the special features it generates in the process of value creation and enhancement. It can be estimated through use of parameters such as the financial performance, competitive positioning due to product differentiation and cost leadership and market attractiveness. This leads to profit sustainability in the long-term and the generation of wealth of the shareholder (Hildebrandt, 2005).

The ultimate goal of M&A is to generate synergies which increase market power, foster growth, boost profitability and improve efficiencies (Pandey, 2008). M& A leads to synergy, it is projected that merging of two companies into one large company creates more benefits as the new entity will be more valuable than the value of the separate entities combined. Synergy can be achieved through diversifications which is a cheaper and less painful process. Through M&A firms acquire special characteristics. Many firms face the challenge of limited resources and strengths needed for its expansion and growth.

According to Hitt and Pissano (2004), M&A are ways by which firms are able to effectively compete in dynamic business environments and gain a higher competitive advantage. Each firm needs to seek ways of becoming profitable, flexible and successfully compete with the world at large.

M&A enables firms to realize rapid growth through organic growth which is attained through sales increase, external growth and internal investments. In most cases, firms prefer external growth, especially those already in an established industry as it offers limited growth opportunities; little risk is involved with external growth. The market share is improved through horizontal mergers in small industries. An increase in the market share in turn gives it the power to determine prices. At some stage, a company might have to venture into M&A so as to get access to the resources and competencies that limit its growth in a cheaper way than trying to develop these capabilities through their internal systems.

#### **2.4 Reasons for Undertaking Mergers and Acquisitions**

When two firms combine their operations through mergers or acquisition they achieve a desirable strategic option which enables them to strengthen the resulting competitiveness of the company, achieve economies of scale, open up avenues of new market opportunities and competences. A major reason can be the need to adjust to the dynamic environment. Scholes, Whittington & Johnson (2010) believe that the existence of synergies enables the two firms to combine efforts and work more efficiently together than they would if they were separate.

Such synergies arise due to the combined ability of the firm to eliminate duplicated functions, share managerial expertise, decrease competition, raise larger amounts of capital and to achieve economies of scale (Scherer and Ravenscraft, 1987).

Mergers and acquisitions maximizes the growth rate of a firm by improving its marketing and production activities, firms use M&A so as to increase the growth rate of their operations which helps them to increase their profits in the long run. Firms also opt to merge so as to attain better marketing and distribution networks. Every firm's wish is to expand into different markets where a firm of a similar type is already operating instead of beginning its operations from zero through distribution and marketing networks that opens up a wider customer base for both companies over a short period of time. M&A may also extend the company skills by bringing new talent to the management that enhances the capabilities of the company and allow for new product development and knowledge (Poposki, 2007).

Through M& A, a firm with stake in various business environments can benefit from some reduced risk exposure (Block et al, 2009). Firms pursues inorganic expansion from mergers and acquisitions so as to achieve reduced exposure to variability of returns, enhance their posture in the primary and secondary markets as well as the credit market through increased scope, or get tax savings from previous accumulated losses. This can be achieved through products or services diversification by complementing the service or product in use. Two firms can combine their products or services so as to gain a competitive advantage over competing products and spread the risk.

Firms can enhance performance posture that a merger can foster as a consequence of expansion in different geographical scope. Bigger firms benefit from enhanced access and acceptance to markets and thus are in a better state to raise equity and debt capital (Block et al, 2009). The essential aim of M&A is to provide the company with a strong capability of reduction of fierce competition, evolving into technological advancements and meeting customer needs which will lead to enhancement of better performance and reaping of substantial profits (Moktar and Xiaofang,2006)

Motis (2007) indicates that M&A enable firms to enjoy cost savings. The firms are able to incur fewer costs in their undertakings and operations due to the economies of scale enjoyed. He also argues that by increasing its size through M&A, a firm has the potential of increasing its buyer power that enables it enjoy huge discounts. M&A enable firms to grow and expand their territory which enables them to enjoy greater control of the market within which they operate.

## **2.5 Challenges for Mergers and Acquisitions**

Mergers and acquisitions often have disappointing effects despite their main goal of contributing to improvement in performance. The several empirical studies that have been conducted show high rates of failure of the M&A undertakings. A revelation by Thomas Straub (2007) on the factors that contribute to the now and then failures in M&A indicate that firms needs to develop a research structure which is comprehensive and tries to end rival perspectives and endorse a modern understanding of factors which limit performance.

Human resource department is confronted with Employee turnover through M&A, the turnover in non-merged firms is half the turnover witnessed in merged companies. A *Journal of Business Strategy* that was published around July/August 2008 suggested that M&A destroy the stability of leadership in top management of the target company teams for close to a decade after a deal. In the study, target companies were found to lose 21 % of their executives annually for up to 10 after an acquisition. This is more than twice the experienced turnover in firms that are not merged (Lole, 2011).

Cultural integration is more difficult than some executives assume. Many times, this aspect is ignored for more tangible deliverables. Integrating two cultures requires swift alignment of idiosyncratic behavior sets and policies. Clash of cultures often arises in cases where acquisition is being used to acquire new skills since the organizational routines of one organization vary from those of another. This is because of the added hurdles of different national cultures (Schoenberg, 2000).

A survey on companies that had accomplished acquisition and mergers was conducted by PWC in 2010 and indicated that communication constraints were among the main factors that caused failure of the company synergies. Communication with employees, empowering them and creation of a culture that enables them to go through all fundamental issues and successful integration (Gaughan, 2007). Communication of key goals for the merger, integration strategy and process, needs to include line management, in order to ensure ownership and support for the process.

Firm must know how to deal with their employees and getting people from each merging partner to listen to the other side wherever they are better (John Reh, 2004). When mergers and acquisitions occur, the management and employees are left confused. Lack of concrete information on the side of the top management prevents it from providing the employees the information they require so as to redirect their actions into the company that has been merged. During the management of any fundamental project, such as M&A it's necessary to keep the employees from both parties well-versed at all times. Inform the employees of the integration process through various channels of communication.

## **2.6 Firm Performance**

The measurement of performance greatly influences a firm's management and the improvement of its processes since the only manageable things are those that can be measured. Thus, so as to enhance the performance of a firm some measurements are required to ascertain the influence of firm's effectiveness upon the performance of the business. Measurement of performance is essential for effective firm's management (Tatoglu, Demirbag, Zaim and Tekinus 2006). Improvement process is impossible if the results cannot be measured. Thus, improvement of performance requires measurements to determine the level at which business performance is affected by the use of firm's resources (Sharma and Gadenne, 2002). The success of a firm can be explained through comparing its trend in terms of performance over a given period of time.

Indicators of the performance of firm offers significant and valuable information which allows the management to report progress, monitor its performance, communication, pinpoint problems and improve motivation (Neely, Kennerley and Waggoner, 1999). According to Cameron and Whetten (1983), the contribution of business performance in the strategic management process can be viewed in three dimensions; empirical dimension; most studies done on strategy make utilize the performance of construct as they seek to study the various strategy process and content issues. Managerial dimension; the importance of performance is visible as there are many principles that have been laid down to enhance performance. The theoretical dimension; Here, the performance concept forms the main strategic management core.

Norton & Kaplan (1992) argue that a balanced financial and operational performance presentation is desired by modern managers. The balanced score card entails financial measures which portray the outcome of actions that have been taken and analyses the effects of both the financial and operational measures on internal processes, customer satisfaction and the innovation and improvement activities of an organization that that will lead to better performance in the future. The success of a firm can easily be described by examining its performance over a specified time span. Furthermore, there is no specific measurement that has been proposed which can measure each aspect of performance. Performance measurement offers a lot of important information which allows the management to report progress, performance monitoring, pinpoint problems and improve communication and motivation.

## **2.7 Empirical Studies and Knowledge Gaps**

The impact of M&A's on subsequent performance has been widely studied with broad literature. The fact that researchers have not reached a common result, continue to argue over methodical issues, and widely found negative results unsettling have made the topic popular among academics. Whether merged and acquired firms achieve expected performance could be the critical question examined by all researchers. The study by Zander and Kogut (1996) agrees with market power theory of M&A. He argues that firms engage in M&A to deal with the dilemma of how to achieve superiority over markets as productivity and spread increases with the division of labor but specialization increases the communication cost and enhanced management. The findings also support the market power theory based on the argument that a firm and market are two distinct things since communication; learning and coordination are situated both physically and mentally within an identity.

There is cumulative information which proves that the dynamic capabilities of a firm affect the performance of the firm to a great extent. Cockburn and Henderson (1994) in their study found that the ability of the firm to acquire and utilize acquired knowledge from the external sources has got positive implication on the productivity of the research work. Yeh and Hoshino (2002) evaluated the implications of M&A on the operating performance of a firm by sampling 86 Corporate Japanese mergers in the year 1970-1994. They found that there was a significant decline in profitability, productivity decline, downsizing in the workforce and significant an adverse effect on sales growth rate.

Avulala (2015) conducted out a study on effects of M&A on growth of insurance firms. The study concludes that M&A has great impact on growth of profitability of insurance companies. However, the study also found out that mergers and acquisition was not the only contributor to firm growth; It was established that M&A helps companies acquire new markets at the same time enhance customer loyalty, which in turn translates to increased market share. The quality of products offered also plays a major role in improving market share of the merged firm and therefore companies are urged to develop quality products that meet market needs. The study admits that M&A has led to enhanced internal processes and procedures, better information & technology systems and improved internal efficiency. Leadership plays a key role in growth of any organization, in order to achieve growth; company needs strong management team with sound leadership skills. Despite the efforts done by many scholars on the empirical inquiry into the differentials affecting specific dynamic capabilities, little studies have brought out a comprehensive account of their right impact on performance of the firm.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The previous chapters described the background of the study, described the research problems, gave a comprehensive literature review in relation to factors which may influence concept of creating sustainable firm growth, and presented the theoretical foundation for this study. This chapter explored the research design, population of study and the sample design, techniques of data collection and of data analysis.

#### **3.2 Research Design**

A case study was used to conduct this study which was perceived to be the most suitable as it enabled an in-depth study of the subject of investigation effect of acquisitions and merger strategy on firm performance of Britam Insurance Company in Kenya. Mugenda and Mugenda (2003) states that a case study entails a detailed and complete investigation of an institution, social unit, cultural group, entire community or family and considers depth instead of breath of the study.

The main aim of a case study explains factors and relationships which have led to the behavior being examined. Since the study was to explore on the effects of mergers and acquisition adopted by Britam Insurance Company in Kenya and the challenges faced during transition period, the most suitable instrument for the study was the case study.

### **3.3 Data Collection**

Data collection was done through use of the primary and secondary data. Primary data was acquired by conducting an interview guide (appendix 1). The set of questions asked by an interviewer when conducting an interview is referred to as an interview guide (Mugenda and Mugenda 2003). The people interviewed were Head of General Underwriting, General Manager in charge of Strategy, Human Resource Manager, Business Development Manager and Business Relationship Manager. Secondary data on growth of the merged company before and after the merger was as well used.

The research compared performance of Britam insurance before and after M&A and the challenges faced during transition period. Secondary data included Insurance Regulatory Authority annual reports, AKI reports, public records, reports to shareholders, insurance surveys and economic review as well as reports from the financial statements of insurance companies.

### **3.4 Data Analysis**

Content analysis was used for data analysis since the data collected was qualitative in nature. This method was appropriate because it provided a record of the interview as per the responses given during the interview and did not restrict interviewees to the answers they provided. It also had the benefit of generating more information which would otherwise not have been obtained when using other methods.

Content analysis ensures objectivity, systematic examination of communication in order to break down, identify and analyse the presence or relations of words, word sense, characters, sentence, concepts or common themes (Mito, 2008).

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1: Introduction**

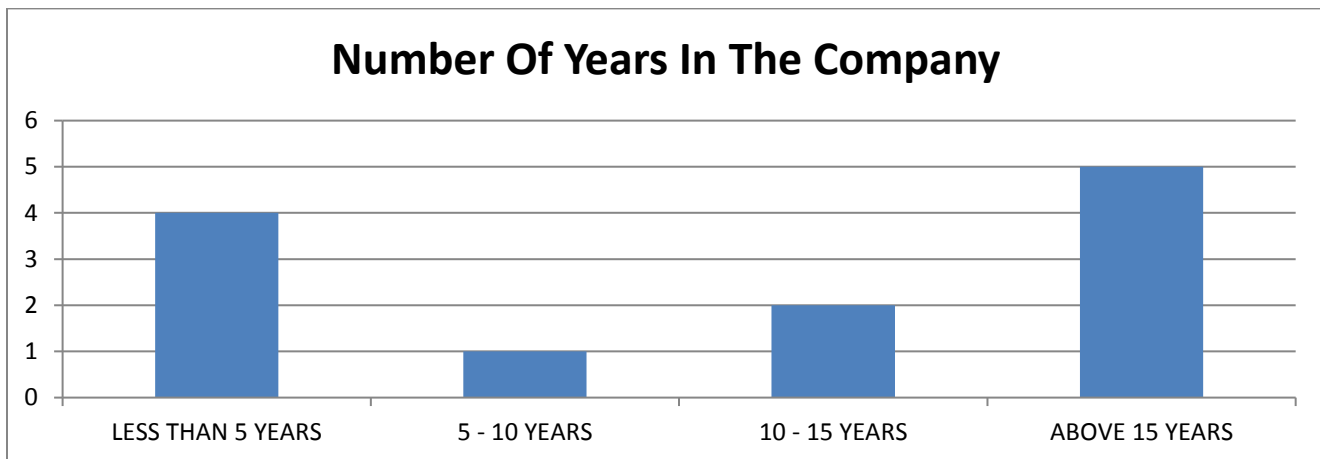
This chapter presents data findings from the field, its analysis and its interpretations. The study used both primary and secondary data. The purpose of primary data was to establish the Britam staff perception on whether the growth was achieved or destroyed after the M&A activities were completed. The primary data was collected through personal interview undertaken through interview guide, analyzed using content analysis and interpreted in line with the objectives of the study. The quantitative secondary data was obtained from the company financial statements, IRA and AKI publications, and insurance journals. The objective of the study was first, to establish the effects of mergers and acquisitions on performance of Britam insurance company in Kenya and secondly to identify the merger processes undergone and the post-merger challenges faced. Key among the performance effects aspects considered were achievement of synergy, market growth increased premium production and higher operations expenses. The firm is as well experiencing high staff turnover and intercultural differences.

#### **4.2: Position of selected Interviewees**

The study initially sought to inquire information on various aspects of the interviewees' background. The aspects explored included Interviewees positions in the organization as well as their experience based on the number of years while working in the insurance industry. This information aimed at testing the appropriateness of the respondent in answering the questions regarding Britam Merger and acquisition.

A total of five (5) respondents were interviewed. The study targeted members of staff who were involved in the merger and acquisitions process. These staff included the Head of General Underwriting, The General Manager in charge of Strategy, Human Resource Manager, Business Development Manager and Business Relationship Manager. All staff had a clear guideline and information on what the company wanted to achieve through merger and acquisitions strategy. The members of staff were interviewed in depth and come out with different type of information related to their respective departments.

**Figure 4.2: Number of Years in the Company**



**Source:** Author, 2017

### **4.3 Effects of Mergers and Acquisitions on Performance of Britam Insurance Company in Kenya**

The first objective of this study was to establish the effects of Britam performance after acquiring Real Insurance. The data analysis revealed effects that have affected both financial and non-financial performance of Britam. It was important to identify these effects so that we could understand the impact that M& A as a strategy has on organization performance. When interviewees were asked to explain what their opinion and the experience since the acquisitions, the following responses were received; Market growth and achievement of synergy, Regional expansion, market share, effects of business retention. These findings from the interviewees will be discussed in the following sub sections;

#### **4.3.1 Market Growth and Achievement of Synergy**

Britam has been a dominant in life insurance for decades but their performance on general insurance was not good. The board of Britam decided to expand their general insurance and the fastest way was to adopt M& A strategy in order to grow their general insurance book which was mainly driven by bancassurance line. It was also revealed during the interviews that the shareholders were not satisfied with the slow growth. They had high aspirations to grow and expand and considered it prestigious. They also wanted to extend into new markets and products. The acquisition enabled Britam to broaden its investments and cut reliance on earnings from listed companies as well as government securities.

Bateman & Zythami (1993) agree to this fact that mergers can help firms to achieve access to new markets, products, technology, resources & management talent. Salton & Weinhold (1999) also concur with the fact that M&As are principal vehicles by which companies enter new product markets and expand the size of their operations. So, it was a good opportunity for Britam to acquire and merge with Real Insurance. Britam had the market and wider network of branches but lacked skills of managing general insurance business. The merger enabled Britam net profit for the full year to December grow 23 per cent, boosted by the acquisition of Real Insurance in mid-2014.

**Table 4.3.1: PRE-MERGER& POST MERGER TABLE**

	2016	2015	2014	2013	2012
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Revenues</b>					
Gross earned premiums	20,291,84	19,605,67	14,045,7	8,847,16	6,849,69
Net earned premiums	17,393,58	16,373,72	11,792,1	7,751,19	5,956,69
Fund management fees	929,234	718,537	696,056	613,511	377,208
Investment income	5,223,975	4,550,017	3,477,27	2,992,19	2,016,57
(Losses)/gains					
Commissions earned & other income	1,225,429	1,324,922	624,681	417,616	360,823
<b>Total income</b>	<b>22,360,21</b>	<b>20,130,98</b>	<b>20,692,3</b>	<b>15,130,0</b>	<b>11,743,3</b>
<b>Expenses</b>					
Net insurance benefits and claims	5,001,165	10,614,21	8,023,29	4,902,05	3,669,33
Interest payments/increase in unit value	1,742,978	495,774	2,035,98	2,204,58	1,608,82
Operating and other expenses	7,094,697	6,716,741	4,616,40	3,210,99	2,286,57
Finance costs	1,177,264	802,155	350,290	-	-
Commissions payable	3,547,258	3,291,904	2,712,98	1,873,28	1,476,08
<b>Total expenses</b>	<b>18,563,36</b>	<b>21,920,78</b>	<b>17,738,9</b>	<b>12,190,9</b>	<b>9,040,82</b>
Share of profit of the associate	442,281	594,864	259,007	181,685	146,845
<b>Profit/ (loss) before tax</b>	<b>4,239,133</b>	<b>(1,194,93)</b>	<b>3,212,38</b>	<b>3,120,82</b>	<b>2,849,40</b>
<b>Total comprehensive income/(lo</b>					
<b>Earnings per share</b>	<b>1.26</b>	<b>(0.50)</b>	<b>1.31</b>	<b>1.21</b>	<b>1.37</b>

**Source:** Britam audited accounts 2016.

### **4.3.2 Market Share**

After acquiring Real Insurance, Britam leapfrogged the ICEA Lion and became the second largest insurer in Kenya, and reduced the gap in the market between industry leader Jubilee and itself. The Real and the merged Britam entities controlled an 11.2 % market share as at June 2014 with a net profit growth of 23%, below the 12.6 % of the jubilee, while the third was the ICEA controlling 8% (IRA). There was an increase in market share immediately after the acquisition which the interviewees believed it was as a result of M& A which led to increased market share and synergy creation.

During the transition period, the year 2016 market share has been affected negatively which the interviewees as well believed there was a direct correlation. According to 2016 financial statement from AKI, Britam market share on non- life business has reduced from 7.25% in the year 2015 to 5.69% by end of 2016 financial year.

### **4.3.3 Regional Expansion**

The completion of acquisition of 99 percent in Real Insurance Company limited accorded the company foreign-regional expansion and Greenfield operations to Tanzania, Malawi and Mozambique in line with its strategy to grow its business in local and regional insurance markets. To attain the regional growth strategy Britam's Group CEO appointed heads to steers regional growth. These included Regional Directors in charge of Insurance business in Kenya, Uganda, South Sudan, Rwanda, Tanzania, Malawi and Mozambique.

According to the interviewees the group CEO recognized that implementation of this ambitious strategy required a new structure hence the necessity to expand the roles of key senior departmental heads, to represent regional affairs. The team was well equipped to fully exploit the growth opportunities available in the region while providing consumers with high quality products and services.

Britam’s local and regional expansion strategy continues to bear fruit that has enabled Britam to implement its strategy of expanding its general insurance business and diversifying its presence into key geographical areas that include some of the most promising growth frontier markets in Africa. “The remarkable growth has been supported by growth of various business Units locally and across the region due to the continued focus on product innovation and geographical (local and regional) expansion.” Says general manager in charge of strategy

**Table 4.3.3 Number of Offices**

<b>Country</b>	<b>No. of Offices</b>
<b>Kenya</b>	32
<b>Uganda</b>	8
<b>Tanzania</b>	10
<b>Rwanda</b>	5
<b>South Sudan</b>	1
<b>Malawi</b>	7
<b>Mozambique</b>	3

**Source:** Britam Annual Report 2016

#### **4.3.4 Customers and Intermediaries retention**

There were other difficulties as well. For example, there were difficulties with clients at the time of renewals. The underwriting terms of Real Insurance were too liberal and the staff of Britam found the terms not beneficial to the company. So, in the process, many clients decided to go to their competitors. Also, there were difficulties in dealing with intermediaries who were used to dealing with the staff of Real Insurance at their offices. General insurance was separated from long term business and they relocated to Renaissance building from Britam center and Royal Ngao center which was inconvenient for their customers. The study found that Britam retention was affected and reduced to 60% from previous years where they could retain almost 90% of written premiums at the same time their marketing expenses have gone up trying to acquire new businesses.

The business development manager indicated that it is costing them more to get new customers than to keep existing one and is affecting their profitability. He as well indicated that there are harmonizing their renewals to enable them build and maintain the renewal retention which will enable the company to grow long term profit immensely.

## **4.4 Challenges**

The second objective of this study was to identify the difficulties that the new formed company has faced since the merger. Whenever two individuals marry or two companies merge, there are bound to be some differences and difficulties which need to be overcome for the smooth sailing of the new relationship. It is important to identify the difficulties faced after this merger so that other players in the field can benefit from the experience of this merger and expecting certain peculiar difficulties relating to the local scene, can be prepared to tackle them efficiently. In the following paragraphs, we explain and discuss such difficulties as were encountered by Britam Kenya.

### **4.4.1: Intercultural Differences**

It was found that employees from both companies had distinctly different cultures and styles and were not ready to adopt the new culture. Many employees could not adjust to the new way of doing things. The HR manager indicated that communication was key and they have been tasked to share as much information about what is happening and, most importantly, how the changes will affect individual employees. Employees were taken for trainings and town halls were called to reassure them of company stability. It is an ongoing process. Harmony within the departments is brought about by the managers but Mr. Wairegi who is the managing director oversees the harmonization process.

#### **4.4.2 Staff Turn Over**

Employees are faced with uncertainty about what the future may hold and whose job is on the chopping block which created fear of losing their jobs especially in general business where roles were duplicated. Employees especially at the senior level have been fighting for positions among each other to become competitive with each other which is resulting into conflict. According to the interviewees the company is facing retention issues resulting from negative attitudes felt by employees, including, but not limited to: Uncertainty about the future of the organizational direction, Feelings of loss of previous organizational culture, Uncertainty about personal job security, Perceptions of lack of leadership credibility and Feelings of confusion due to unclear communication. Consequently, in an attempt to regain control over individual job situations, many employees have been "jumping ship" to competitors as M&A is implemented.

However, the HR manager is ensuring that employees are being kept informed about impacts on their jobs and their future with the company. “Business continuity is key to realizing the benefits of a merger or acquisition and there can be large financial implications from the cost of hiring new employees, the loss of knowledge/ intellectual capital, and the loss of client relationships Therefore, Britam management is proactively working towards retaining employees trust” says head of HR

#### **4.4.3 Integration of IT System**

Another challenge has been the integration of the IT system as well as financial and accounting information. The integration process is affecting retention business as well as data processing where customers have been complaining about delays in documents processing and reconciliation issues. Britam are using standardized interfaces, as well as methods and guidelines, to help increase the likelihood of a successful integration. Britam’s previous strategic period 2014-2016 focused on IT-enabled business transformation (Project Jawabu) which is integrating the two systems and it’s on implementation stage. The project is on its final stages and the interviewees confirmed that it has been successful and they are now able to monitor existing and new business with minimal reconciliation hitches. The interviewee indicated that they are now able to send renewal invites and pay intermediaries commissions on time which has boosted their renewal retention as well as their direct client and intermediaries’ relationship.

The PricewaterhouseCoopers conducted a study in 2000 and found that 47% of firms perceived the acquisition of technical talents being among the aims of the merger, the increase was however significant for firms undertaking this for the same motive (15%) in 1997. The essence of the IS in M&A activities was also reflected in the study, with 75% of firms facing challenges problems in IS systems' integration as a result of delays, reduced revenue and lost opportunities. The success or failure of a M&A is greatly determined by the functioning of the post-acquisition relationships.). Challenges mostly arise when there is poor integration of the acquired firm by the acquiring firm leading to financial viability and reduced profitability upon the acquisition.

#### **4.5 Discussions**

This section shows how the findings of the study are linked to the adopted theories. The section also makes citations of what other authors/researchers have said and found from studies carried out. Measures put in place by Britam to counter certain challenges are also highlighted. The study findings indicated that Britam M&A have led to increased market share and regional expansion. The growth in investment income and gross written premiums was also attributed to M&A undertaken by firms. The study also confirmed that the growth was not solely attributed to the M&A meaning other factors other than M&A were able to contribute towards growth, a 6 billion corporate bond that was to provide a pivot to long-term funding which was to bolster growth of the company. These findings support the illustration of Pandey (2008) that the ultimate goal of M&A is the generation of synergies that can foster growth, increase market power, improve efficiencies and boost profitability. The study also reveals that Britam has now been able to provide variety of products especially in general business after merger which has a direct bearing on the market share of the firm. These findings are in line with the production and market power theories as well as the study of Zander and Kogut (1996) that illustrated that firms engage in M&A to deal with the dilemma of how to achieve superiority over markets as productivity grows with the division of labor but specialization increases the costs of communication and coordination.

The study on the effects of M&A on operational efficiency revealed that, mergers and acquisition have led to enhanced internal processes and procedures, better IT systems and improved internal efficiency of the merged companies. The study further confirmed that integrated operating system is a key requirement for growth of merged entities. The findings validate Chunlai and Findlay's assertion that the main purpose for conglomerate is to help firms reduce capital costs and overheads and achieve efficiency (2003). Britam has been able to integrate the two systems where Real was using Serius and Britam was using Aims, the two systems have been harmonized into one system (jawabu project)

The research study shows an increase of claims ratio, management expense ratio, reduction of premium renewal retention, conflict amongst employees and high turnover which the interviewees believed they were teething problems for a short term. Study by Yash Bansal (2005) that was conducted on the merger of Apollo and Pan Africa general insurance to form APA insurance showed that APA performance was affected negatively in the first years of M&A but in the long run they are now among the top five leading insurance in Kenya. This has as well been witnessed from the merger of ICEA and Lion insurance that formed ICEA group in 2012, the company went through challenges during the merger transition that affected their overall performance but as of 2016 IRA end year results the two companies are among the leading insurers, APA being number 3 with a market share of 9.7% and ICEA being number five with a market share of 6.3%. This study therefore concludes that, in the short run, there was a negative impact on the firm performance of insurance firms that were involved in M&A.

The research also concluded that the merged firms on average performed better than industry average while controlling higher market share than before the merger.

The above shows that all the findings in this study relate positively to those cited in the literature review in chapter two of this paper. It was useful to know that there were no exceptional difficulties faced by Britam and that the challenges faced relate positively to those faced by companies worldwide after the mergers. The other firms ready to merge in the insurance industry can always be ready to deal with such problems from the word go. General challenges faced by Insurance firms in Kenya are significant but these challenges help to differentiate and accentuate the standing of successful players. Britam too is experiencing the challenges and has developed mechanism of countering them to ensure that it stays afloat. This reaction is in line with the dynamic capabilities theory. Leonard-Barton (1992) defines dynamic capabilities as the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. Where dynamic capabilities reflect a firm ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

A summary of the study's findings is presented in this chapter; this chapter also outlines the conclusions and recommendations of on the basis of the study's objectives. The objectives of this study were first to establish the effects of M&A on performance of Britam insurance company in Kenya. Secondly the challenges faced during transition period. Based on the findings, this chapter tries to give its recommendations made for status improvement as well as suggestions made for further areas of study.

#### **5.2 Summary**

The study found that M&A strategy has both positive and negative effects to Britam where the company market share has increased, regional expansion, increased in written premiums; renewal retention is reducing due to intermediaries and direct clients transferring existing business to their competitors for fear of the unknown and high operations expenses. Britam is as well facing challenges during the transition period where the rate of staff turnover is high, intercultural differences between Britam and Real staff and ICT Integration challenges.

On the effects of mergers and acquisition on profitability of the firm, the study established that mergers and acquisitions have increased profitability of the company. The gross written premiums and investment income grew within first year of M&A. According to the study, increase in profits was consistent after M&A where before M&A gross earned premiums was at 8.8Bn in the year 2013 which has now grown to 20Bn by end of 2016 financial year as highlighted in Table 4.3.1(.pre-merger & post-merger )

However, it was established that M&A was not solely responsible for the growth in profits other contributors like property development and investments, products innovation strategy, and information technology strategy were as well key contributors. There was a significant relation between M& A and growth in market share of Britam where, Britam leapfrogged the ICEA Lion and become the second largest insurer in Kenya, and reduced the gap in the market between industry leader Jubilee and itself. The Real and the merged Britam entities controlled a 11.2 % market share as at June 2014 with a net profit growth of 23%. Acquisition of new markets and customer loyalty was enhanced due to M&A.

It was also established that quality of products developed after merger had a great impact in the growth of Britam market share where Britam' continued focus on innovation and its use of cutting edge technology to deliver products and services to customers across all social and economic situations has received both local and international recognition. Britam won the World Class Innovation Award at the ICT Excellence through the Jawabu ICT project.

Synergy creation was also considered a major factor contributing to this merger. The company's strong brand too has a bearing to the performance achieved. Britam's vision is to attain market leadership as the company continues to grow and protect the group's market share through further acquisitions and products innovation.

The main challenges which have come out very clearly in this study are the cultural differences and the difference in the working practices and conditions of the employees of the two merging partners. Britam is currently facing high staff turnover especially on Non-life business where there was duplication of roles. Another problem which surfaced up was the demoralization of the staff of both Britam and Real who discovered a disparity in the pay scales among the employees of the two merging partners. There was duplication of roles especially on general insurance side and some employees had a sense of job insecurity which led to high staff turnover.

Another challenge has been the integration of the IT system as well as financial and accounting information. The company is having backlog problems due to increase in work load and shortage of human resource. Britam management is hopeful that the Jawabu project will be successful and things will be back on track. by end of 3<sup>rd</sup> quarter 2017.

The research study findings indicate that M&A has a negative effect on Britam insurance in the short run on the claims ratio, and expense ratio, renewal retention and high staff turnover. However, M&A has led to increased market power and regional expansion of Britam. In addition, from past studies transition period encounter many challenges in the short run but perform well above industry average in the long run.

### **5.3 Conclusion**

From the research carried out it is evident that Britam takes M& A strategic planning as an important aspect of their operations. This understanding has enabled the company to be alert on the environmental changes and took adequate measures in response and has seen the results of the adopted strategy realizing positive performance in an exponential manner for the period under study despite the M&A challenges. This is in line with the adopted theories on resource dependency theory and market power theory. As a result, Britam has been able to compete favorably against its competitors and expand its market share leading to remarkable organizational performance.

The study also concludes that M&A on its own cannot achieve strong, efficient and competitive insurance systems because performance is dependent on several factors and need to be supplemented by other measures as such; enhancing the expertise and professionalism of the insurance personnel, embracing corporate governance practices and improved ICT system. M&A has a negative effect for the merged firms in the short run, this give Britam a room to work on the challenges they are currently facing, that will allow them to achieve sustainable competitive advantage in the long run.

## **5.4 Recommendations**

The study has recommendations on managerial policy, as well as managerial. This section covers recommendations for the management, the policy makers, the stakeholders, the organization as well as the insurance industry.

### **5.4.1 Recommendations for managerial policy**

Given the desire of the Kenyan insurance to embrace IT, research and innovation, thereby expanding its capacity to exploit the existing untapped insurance market, this is likely to see sustained cost pressures, together with stringent advancements in the regulatory environment that is expected to enhance insurance penetration and risk management will in turn put a lot of pressure on the independent local insurer. Statutory demands for a stronger capital base, solvency margins and risk based implementation, demand for insurance have highlighted the importance of insurance in mitigating performance impact of catastrophes events; all this put together will see M&A as the only strategic option to the independent insurer in order to remain competitive and profitable in the long-run.

Based on the findings, there is need for insurers to adopt M&A as a strategic approach to external growth. However, correct choice of the target must be identified to allow generation of synergies that will foster corporate growth and improve profitability. To realize meaningful growth players in the insurance industry should only adopt M&A as a means to improve efficiency, achieve synergy and grow market share, purpose of M&A should not be to meet regulatory requirements rather, the purpose for M&A should be business environment driven.

#### **5.4.2 Recommendation for managerial practice**

Foremost, the study found out that the company opted for M&A strategy to achieve competitive advantage. It is therefore recommended that in order to sustain competitive advantage, the company must implement the strategies that were put in place to see a successful process. The heads of various departments should deal with encountered challenges where Head of HR will continuously work on cultural differences and high staff turnover, ICT head to ensure the systems are well integrated to enhance smooth internal processing as well as the financial managers who should work to keep cost-to-revenue ratio as low as possible this will gradually improve the operating efficiency thus promoting positive performance. While the management and employees at Britam will have an informed understanding of their organization's performance in line with their job security and their expected contribution towards achieving the group's vision through the adopted strategies.

#### **5.5 Limitations of Study**

Limitation is an aspect of research that may influence the results negatively, but over which, the researcher has no control (Mugenda and Mugenda 1999). There were a number of limitations that the researcher encountered. Non-response caused by fear to reveal detailed information concerning the organization and expose the company's key strategic decisions that led to M&A. The researcher foresaw a challenge in collecting the required data from the interviewees. The interviewees feared giving information stating that the information requested may be used against them. It was not easy to convince some of the senior respondents in the company to participate in the study.

Britam being a listed company in NSE is known to work under very strict confidentiality in order to secure any unauthorized access to information. Most of the respondents agreed to participate on condition that the information was not to be divulged to any other party other than for academic purposes only. To limit the effects of this limitation, the researcher carried with her an introduction letter (appendix 11) from the University confirming that the data requested was used for academic purposes only.

There was lack of co-operation from some of the interviewees for fear of victimization from their supervisors. The researcher also foresaw a challenge where the respondents were likely to give the ideal scenario instead of providing the situation the way it was at that time. This affected research findings as it distorted the study findings.

### **5.6 Suggestions for Further research**

The study focused only on Britam. Further studies should be carried out across all the companies that have gone through M&A in the recent past to see whether there are any commonalties or unique factors that can be attributed to the varied performance of the companies. Since majority of the Merger and acquisition transactions were done recently i.e. between 2013 and 2016. It would be important if a similar study is done in future to confirm if the current findings will still hold given change in time.

It is recommended to perform a long term (3 to 5 years) prospective study of the post-merger on performance of Britam since the study was centered on the short-term effect. There is need to examine the long-term effect of M&A. After all, the purpose of any strategic move ultimately is to gain competitive advantage over the competitors and to improve the performance of the firm and to increase the shareholder's wealth except sometimes when the strategic move is made in order to survive and prevent the firm from collapsing. Whatever the motive, further research will assist in ascertaining whether the merger was successful in meeting the objectives.

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## **APPENDICES**

### **APPENDIX I: INTERVIEW GUIDE**

#### **1.0 General Information.**

- 1.1 Which department do you belong to?
- 1.2 What is your position in the department?
- 1.3 From which merging partner do you originally belong to?
- 1.4 For how many years have you worked for the organization?

#### **2.0 Effects of Mergers and Acquisitions on Performance of Britam Insurance Company of Kenya.**

- 2.1 What are the reasons for taking Mergers and acquisitions?
- 2.2 How has the performance (both financial & non-financial) of the company been affected after the merger and acquisition process?
- 2.3 Has the effect of performance solely attributed to mergers or acquisition undertaken by the firm?
- 2.4 Would you term the merger or acquisition undertaken by your firm a success?
- 2.5 Would you recommend a merger or acquisition again?
- 2.6 Is Merger and acquisition the only solution to growth of Britam performance?

#### **3.0 Factors Responsible for the Merger.**

- 3.1 What was the prominent factor which led your firm to merge?
- 3.2 Please answer the following questions in yes or no.
  - 3.2.1 Was your firm satisfied with the market share?

- 3.2.2 Was your firm lacking in any financial skills?
- 3.2.3 Was your firm lacking in technology?
- 3.2.4 Was your firm lacking in human resource management skills?
- 3.2.5 Was your firm lacking in administration skills?
- 3.2.6 Was your firm lacking in marketing skills?
- 3.2.7 Was your firm making losses before the merger?
- 3.2.8 Was your firm making profits before the merger?
- 3.2.9 Was there any statutory requirement forcing your firm to merge with another?
- 3.2.10 Was your firm aiming to extend into new markets?
- 3.2.11 Was your firm aiming to extend into new products?
- 3.2.12 Was the aspiration of the owners for growth a factor behind the merger?
- 3.2.13 Was the Motive of Creating Synergies Behind the Merger?
- 3.2.14 Were the overheads of your company when alone too high?
- 3.2.15 Did the merger help in reducing administration, production and marketing costs?
- 3.2.16 Did the merger help in improving local management?

#### 4.0 Challenges of Mergers.

- 4.1 What are the main challenges/ difficulties the company has faced since the merger
- 4.2 Has the newly formed company faced any lack in communication of goals for the merger to line managers, customers, employees etc.?
- 4.3 Were there any problems in the clarification of authority, control and reporting relationships?
- 4.4 Were there any problems faced in the integration of the cultures of the two firms?
- 4.5 Was there any problem in identifying value creating activities and giving them priority?
- 4.6 Was the cut over period clearly defined?
- 4.7 After the change in the control of the management, were there any problems in tracking and achieving the synergies and realign accountability?
- 4.8 How was the culture of the other merging partner? Was it very strong and difficult to change?
- 4.9 Were the key people retained?
- 4.10 Was the proper time spent in keeping the new people happy and fitting the new products/technologies into existing activities?
- 4.11 Lastly and more importantly, how was the new company able to cope with the entire post-merger problem encountered?

**APPENDIX 11: LETTER OF RECOMMENDATION FOR DATA COLLECTION**



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**TO WHOM IT MAY CONCERN**

The bearer of this letter ..... IRENE WANJIRU WANJIRU  
Registration No..... D61/76987/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO  
SENIOR ADMINISTRATIVE ASSISTANT  
SCHOOL OF BUSINESS