INFLUENCE OF MERGERS AND ACQUISITIONS ON COMPETITIVE ADVANTAGE IN THE INSURANCE INDUSTRY IN KENYA: A CASE OF UAP-OLD MUTUAL GROUP

BY

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DECLARATION

This research project is my original work and has not been presented for examination to any other university.

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DEDICATION

This paper is dedicated to my children: Fabian Ombaso Aswa, Makena Masibhayi Kobia and Muthomi Mutwiri Kobia.

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ABSTRACT

Mergers and acquisitions continue to shape local and international business due to changes in the operating environment. The objective of the study was to determine the influence of mergers and acquisition on competitive advantage, a case study of UAP Old Mutual Group. The study was based on theories: of competitive Advantage and the Resource-Based View (RBV), an empirical review on mergers and acquisition from various scholars was conducted. The research methodology was a case study, using an interview guide as a data collection tool, the data was analyzed using content analysis. The results from the research shows that there is a relationship between mergers and acquisition and competitive advantage. There was an in increase in the market share and performance of the organization post-merger, the organization was able to incorporate a new service which created competitive advantage. The merger has it pros and cons; the pros were that it improved the organization performance and financial status, the cons are that merging the two organizations products and services has taken time implement and a few changes were made e.g. staff layoff. I would recommend further studies to be conducted on mergers and acquisition in other industries e.g. hospitality, mergers and acquisitions of organizations operating in different industries and a review on the performance of the organization that conducted a merger/acquisition few later. The research concluded that there is a significant relationship between competitive advantage and mergers/acquisitions. Mergers/acquisition can be used by a company that is aiming at improving its profits and market share. A follow up research should be conducted on organization that have performed a merger/acquisition to analyze the progress, as well as merger/acquisition in different industries.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Companies globally grow by venturing into new markets, diversifying their products, having an upper hand over their competitors, acquiring new human capital skills and innovation thus the widespread use of mergers and acquisition (Frederiksen, 2021). When performing merger and acquisition, companies need to ensure that the institutional capabilities are enhanced across the merger and acquisition cycle, with an aim of shifting the focus from management to competencies-based approach that will increase competitive advantage over other firms. Mergers and acquisitions create a complex situation that requires companies to work on their internal competences and concepts in order to achieve growth thus leading to competitive advantage (Cristina, 2013). This research will be analyzing two theories of competitive advantage; resource-based view theory and the competitive advantage theory: The RBV theory analyses the internal organization environment to the industry the firm is operating in. RBV attempts to analyze and explain the profitability and efficiency difference among firms in the industry, the use and development of diversification strategy and firms' capabilities. The theory of competitive advantage states that a company should focus on building and sustaining competitive advantage, while emphasizing on output.

The insurance industry in Kenya comprises: insurance and reinsurance companies, intermediaries that include advisors, agents and loss adjusters or risk managers. The insurance companies' operations are guided by the Insurance Act; Laws of Kenya, Chapter 487, it has two main regulating bodies i.e. The Association of Kenya Insurers (AKI) duties include but are not limited to consultation and advisory and the Insurance

Regulatory Authority (IRA) that was established in 2007 as a regulator and supervisor of insurance companies. The insurance industry in Kenya has notable mergers: the merger between Apollo Insurance Ltd and Pan Africa Insurance Company to create APA insurance and Lion of Kenya Insurance Company and Insurance Company of East Africa to form ICEA LION Group and the acquisition between Union des Assurances de Paris (UAP) and Old Mutual.

1.1.1 Mergers and Acquisitions

It is considered a merger, when two or more corporations consolidate their business operations i.e., the assets and liabilities of the bought company are incorporated into the buying company accounts. The two firms experience many changes, the buying firm will retain its identity (Sherman and Hart, 2006). A horizontal merger involves firms operating in the same: industry, process, commodity or service while a vertical merger involves two or more companies supplying its products to the other company leading to formation of a new company.

An acquisition occurs when companies operating in the same industry make a decision to combine through one company purchasing the other, upon completion of the transaction or deal, the acquired firm becomes subject to the acquirer's management (Lole, 2011). The results of an acquisition are; the target company loses its identity; its assets and liabilities are absorbed into the accounts of the buying firm and the acquiring firm holds onto its identity. Acquisitions can be hostile or friendly; a hostile takeover is whereby the acquiring company challenges the target company through addressing the target company shareholders directly or changing management team. An acquisition is considered friendly where the target company's management participates in the process. (Kainika,2017).

1.1.2 Competitive Advantage

According (Lynch, 1999) competitive advantage equates to a company's competencies and capabilities that increase its competitive status in the industry. An organization that has unique products and services gains a competitive edge that can be strengthened through an in-depth analysis of the operations, marketing, finances, people and strategic focus in the industry in which it operates. Mergers and acquisitions are a strategic option used to increase companies': market shares, economies of scale and scope, manage risk, diversification of products/services and venturing into new geographical locations in order to increase the customer base.(Lunani & James ,2018).According to (Wang,2014) an organization had to develop its competencies and capabilities to a level that would make it perform better than its competitors thus achieving competitive advantage, while Porter argued that competitive advantage leads to better performance.

Competitive advantage is grouped into: cost leadership and differentiation, cost leadership is achieved when an organization operates at its lowest cost of production by increasing efficiency, practicing overhead cost control i.e., monitoring and redistribution of the overheads and reducing the cost of production. Differentiation competitive advantage is whereby an organization is able to create and offer a unique product or services thus creating customer brand loyalty (Porter,1985). An organization should aim at having the three types of advantages for it to compete efficiently and effectively: ownership advantage is whereby an organization has or is able to resources that are not available to competitors. Internalization advantage encourages an organization to use its ownership advantage status to internalize its production efficiently and effectively while location advantage encourages an organization to open branches in other countries that will increase their profit margins (Milman, 2001).

1.1.3 UAP-Old Mutual

There are 55 registered members offering general insurance, health insurance and life insurance services and 4 associate members (IAK, 2019). The future of the insurance industry in Kenya is likely to experience more mergers and acquisitions, some organizations are likely to diversify while others may opt to capitalize on certain niche markets. The government is a key contributor to the industry that needs to be regulated and also insurance companies need to be kept abreast of ever-changing market needs (IRA, 2013-2018).

UAP Holdings Limited is a Pan-African Financial Service company whose origins in Kenya during the amalgamation of Provincial Insurance Company of East Africa. UAP Insurance Company Limited was born due to a merger between Union Insurance and Provincial Insurance, it became a fully a fully-owned Kenyan company in 1996. UAP Group underwent restructuring in 2006 a multi-phased plan to shift from non-life insurance business to broad-based Insurance and Financial Services Group. It has branches in East Africa, offering services and products like Life Assurance, Property Investments, Fund Management and related Financial Services e.g. Insurance payments, securities brokerage and financial consultation. It has four business ventures in Kenya i.e., UAP: Insurance Kenya (personal & commercial) Life Kenya (individual and group life) Investment Limited (equities, fixed income, real estate) and Properties Limited (commercial, hospitability, retail and residential).

Old Mutual Kenya (OMK) is part of the Old Mutual plc. That ventured into the Kenyan insurance market in 1920s. It was founded in South Africa in 1845 and it is listed on the London Stock Exchange and Johannesburg Stock Exchange. In 2015, Old Mutual East Africa Group was formed after acquiring a major share in Faulu Microfinance bank. The Group operates as a quality financial services group in Africa offering a variety of financial services to different customers across key markets in their countries of operation. The group operates in Kenya, Uganda, South Sudan, Rwanda and Tanzania (Mutual, 2022)**.**

The acquisition and merger between UAP and Old Mutual to be fully fledged they require authorization from the Insurance Regulatory Authority, Capital Markets Authority and investors. Old Mutual had acquired a majority stake of 60.7 per cent in UAP by July, 2015, the two corporations operate parallel businesses in life insurance and asset management as they manage the multifaceted merger procedure. According to (Economics, 2015) UAP and Old Mutual settled on the deal ahead of listing in the Nairobi Stock Exchange. Old Mutual increased its shareholding to 60% from 23% after purchasing 37% from private equity (PE) firms Aureos, Africinvest and Swedfund for an amount of Kshs. 14 billion. The 1,000 minority stakeholders who include staff & agents were not included in the buyout by Old Mutual. The first transaction between Old Mutual and UAP occurred when Old Mutual acquired a 23.3% stake from Centum Investments.

Mergers or acquisitions aim to: grow the market share as well as customer base, improve the economies of scale and scope, increase shareholders shares and increase revenue with the aim of increasing competitive advantage over rival firms (Lole,2011).

Research done by Kainika on merger and acquisition (2017) concluded that the market shares post-merger/acquisition period had affected the performance of Sanlam Kenya. Mergers and acquisitions have few effects in the banks short term equities as there were no significant changes in ROE two years before merger of the banks although significant changes exist in ROE two years after merger. Significant changes in the rate of growth of commercial banks assets exist from the second year of merger. It was noted that mergers have no influence on the debt ratio of commercial banks throughout the entire period of study. Market growth after mergers showed a positive effect as banks merge their operations to approach bigger markets (Misigah, 2010).

1.2 Research problem

Global businesses are experiencing changes that are being influenced by globalization, innovations and an epidemic. These changes have resulted in organizations encountering strong competition thus, the urge to grow the business through various strategic options that enable organizations to face the challenges in the operating environment, as well as provide a platform for them to explore available opportunities. For organizations seeking to establish competitive advantage in their industry of operation, mergers and acquisitions have been considered a more probable strategy (Lole,2011).

Mergers and Acquisitions activity in the global market is an accelerating activity, with organizations that are anticipating economic fallout from the global coronavirus pandemic. The business world has been affected by the pandemic including businesses declaring bankruptcy or foreclosure, a drop in daily operations, consumer spending has changed considerably due to loss of jobs or being on unpaid leave, change in supply chain due the lockdowns being implemented in different countries. Plans for mergers and acquisitions have been delayed or cut back on due to financial and economic crises, business uncertainties and capital markets (Richard, David, and Richard,2021). The Competition Authority of Kenya report of the period 2017/2018 indicated that 148 mergers were under deliberation. Of the mergers reviewed 55.3% had an international geographical setting, which indicates Kenya's continued attractiveness as an investment partner. The finance and insurance sector had 17 merger notifications in the period between 2017/2018. Examples of mergers and acquisitions are: the 100% acquisition of Saham South Africa by Sanlam Emerging Markets (Ireland) Limited (SEMIL) and the merger between UAP and Old Mutual (CAK,2017/2018).

Studies on mergers and acquisitions have been undertaken by different scholars in Kenya, including but not limited to the following: Lole(2011) carried out a case study using APA Insurance Limited on how mergers and acquisitions affected the organization's economic aspect; Omondi (2016) carried out a case study using ICEA and Lion group to analyze the outcome of the merger and acquisition strategy on organizations competitive edge, Kenya; Wanjiru (2011) Total Kenya Ltd was the subject of research on mergers and acquisitions as a competitive advantage tactic. Relationships between mergers or acquisition and competitive advantage has not been covered extensively as most studies were focused on the influence of mergers and acquisitions on the organization's operations, obstacles faced during the deal making process, pre and post organization performance, or the motives. This research is aimed at determining the influence of mergers and acquisitions on competitive advantage in the insurance industry in Kenya: a case study of UAP-Old mutual group.

1.3 Research Objective

The objective is to determine the influence of mergers and acquisitions on competitive advantage in the insurance industry in Kenya; a study of UAP-Old Mutual Group.

1.4 Value of the Study

This study aims to look into elements that influenced market competition in insurance business as a result of mergers and acquisitions. By analyzing whether mergers and acquisitions improve competitiveness or complicates future regulatory policy in Kenya which would be of interest to researchers, insurance consumers, company shareholders, the insurance regulators, foreign investors and government. The study will serve as a guide for any scholar interested in reviewing materials on mergers and acquisitions noting that it’s a global trend, and many organizations are attempting to gain a competitive advantage while reducing operational costs.

The shareholders will use the information provided to guide them when making decisions by having information on the pros and cons of the merger on their investments. Mergers have been implemented by various companies with an aim of improving their competitive advantage thus increasing shareholders investments and market share. The merger is expected to affect the prices of both firms as well as the overall price after the merger. The share values for both companies are affected in the process i.e., an acquiring firm sometimes experiences a drop in the share value which can be linked to different organizational and industry fact while the acquired firm will show an increase in share value, the increase in transactions tends to inflate the share prices.

The government will gain in this research considering the fact that it has introduced new regulations/policies that have led to insurance companies undertaking mergers and acquisitions. The regulator in this research would be the Insurance Regulatory Authority which is the regulating body of insurance companies and Competition Authority of Kenya which manages mergers and acquisitions. The Insurance Regulatory Authority will use the research to ensure the financial sector enjoys the globally competitive financial services sector with emerging trends i.e., mergers and acquisitions, buy-outs etc.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter entails academic studies and empirical reviews on mergers and acquisitions. Information was derived from searches done by other scholars, books, journals and articles which provided material for analysis and comparison with the focus being on the relationship between mergers and acquisition and competitive advantage.

2.2 Theoretical background theories and principles

The theoretical background entails the theories of gaining competitive advantage, it covers the opinions of different scholars and how competitive advantage was derived. The research will cover two theories of competitive advantage: Theory of Competitive Advantage and the Resource Based View theory.

2.2.1 Theory of Competitive Advantage

Mekic & Mekic(2014) Michael Porter advocated for this theory in his 1985 book titled Competitive Advantage, he introduced the model of value chain with two tactics i.e., cost leadership and differentiation (Porter, 1985). The theory competitive advantage has also been covered by other scholars: (Welch, 2013) concluded that strategy is the same as resource apportionment thus for an organization to achieve competitive advantage they are required to conduct: industry analysis, analysis of changes implemented by the competitors' and their effects and internal analysis of the organization's contribution to the industry. Smith & Flanagan(2006) concluded that for a company to gain competitive advantage, it had to win the customers over the competitors through offering better services/products and that meant identifying the old competitive advantage competences and creating new ones in order to remain relevant in the industry. McGrath (2013) urges companies to move past sustainable competitive advantage with an aim of generating new competencies/capabilities, while using them definitively when they are relevant and forging ahead. The ever-changing business operations have shown an existing gap between the outdated approaches to competitive advantage strategy and the current business operations.

The competitive advantage theory is based on two tactics of lower cost and differentiation strategy. Competitive advantage is derived from capacity(s) e.g., skills, superior market position or resources that increase organizations performance over the competitors. (Porter,1996). The cost advantage and differentiation strategies result from the industry structure that are attributed to the firm's capacity to manage the industry competitive forces i.e., potential entrants, consumers, substitutes, suppliers and industry competitors. Three generic strategies: cost leadership, differentiation, and focus are employed to enable a firm to obtain competitive advantage through integration of intended scope of operations and the five competitive forces of the industry. The generic strategies use different approaches to attain competitive advantage i.e., the focus strategy is utilized in certain industries with the goal of achieving cost focus or differentiation focus, whereas the cost leadership and differentiation approaches provide competitive advantage in different industries. Based on the five aspects of competition and the competitive advantage the company seeks to gain, each generic strategy implementation will differ from industry to industry. (Porter,1990).

Johnson & Scholes (2003) indicated that the global business environment is experiencing operational changes, thus organizations are required to generate new ways of functioning effectively and efficiently by creating new capabilities. Various competitive strategic options need to be embraced for survival and to be able to sustain competitive advantage as firms globally are competing in an ever changing, dynamic environment. Powell (2001) indicated that competitive advantage has led to a lot of scholarly materials being published, with many firms aiming to identify and create competitive advantages in their industries of operation. Strategic management courses and textbooks have incorporated competitive advantage as an important topic when discussing organization strategy.

2.2.2 The Resource-Based View (RBV)

It is determined by an organization's internal business environment e.g., the value system, human resources, organizational structure, corporate culture, stakeholders' goals etc. as the way of attaining competitive advantage, while emphasizing on the resources it develops to reach its goal (Wang,2014). According to Penrose (1959), organizational resources give the organization a leverage compared to the industry structure when it comes to attaining competitive advantage. Wernerfelt (1984) described an organization as a set of competencies and capabilities that are partially linked to the organization thus, thus firms are different despite having an equivalent set of: experiences, assets and skills, or organizational cultures that determine how efficiently and effectively an organization performs its functional activities with this logic.

The RBV model has five tests that are used to determine the value of a resource:

imitation test which is based on the complexity of the features of the organizational resources for duplication by rivals e.g., the products physical individuality, path dependency, causal uncertainty and economic sabotages. Durability test is based on the depreciation of the resources i.e., the longer the time a resource is accessible determines its value. The assessment of apportions is based on who gains the most from the resources, the value is always subject to bargaining among the stakeholders, including customers, distributors, suppliers, and employees and the test of competitive superiority is used to determine who is better. (Montgomery,1995).

The RBV integrates the organizational resources and capabilities and the industry environment perspectives of strategy as a basis of competitive advantage. There are four theoretical circumstances that have been proposed to enable competitive advantage: Heterogeneity of resources is based on the assumptions that resources and competences are diverse in all firms; this can be established when a firm earns profits in competitive markets by producing efficiently because superiors' resources remain limited. A firm that can influence the price of its products can create a monopoly market from its resources through control of supply and demand of its products/services. When a firm creates products/ services that are complex to substitute or imitate it gains a competitive advantage in terms of profits over its rivals, it limits competition thus creating a state of imitability and suitability. Imperfect mobility is whereby resources are restricted thus cannot be traded creating and sustained competitive advantage and notional demands to competition states that for a firm to be able to establish a superior position, it should have experienced either a monopoly or oligopoly market structure, in its industry or it will be more costly to achieve competitive advantage (Margaret,1993).

2.3 Empirical Review and Knowledge Gaps

The motives behind mergers and acquisitions are complex and cannot be classified easily, synergy or collaboration between organizations has been indicated as a major motive. Synergy occurs when two organizations combine their processes and procedures to get a better outcome as compared to them operating individually. In mergers and acquisitions context, a synergy is attained when two organizations collaborate to improve on their profitability, efficiencies and increase their economies of scale.

The results of the merger ought to provide greater profitability, efficiencies, economies of scale and scope than results of an organization individually. An acquisition is undertaken by companies for various reasons e.g., to increase the market share, improve on their performance or increase in economies of scale with an aim of generating sustainable competitive advantage (Afande,2015). In Kenya the Mergers and Acquisitions (M&A) trend has seen the banking and insurance industries expecting to have an increase in deal making due to the revised capital requirement policies. Kenya is the preferred entry point for foreign investors in East Africa due to its increase in mergers and acquisitions deal activities. Organizations looking to expand geographically as well as diversify on their products/services use Kenya as a trial market due to its favorable operating environment, available labor, established private division and the continuous development of infrastructure. As of 2010 the financial services industry has seen a significant increase in mergers and acquisitions, this has been witnessed between leading financial services providers while the medium level companies are stagnating (IAK, 2017).

Afande(2015) conducted research on factors motivating mergers and acquisitions in Kenya, using a descriptive survey design and census survey based on the organizations listed on the Nairobi Stock. The study was aimed at examining the factors leading to mergers and acquisitions amongst companies registered at the Nairobi Stock Exchange. It was concluded that mergers/ acquisitions were used to reduce production costs while increasing production efficiencies, financial synergy and acquisition of specific assets. Managerial interest was also a factor leading to mergers and acquisitions due to the desire to protect existing market share, and also as an achievement on their tenure.

Lole(2011) conducted a case study of APA Insurance Limited: the outcomes of mergers and acquisitions on overall economic performance. A survey research design was used, using sampling method, in 2012 data provided by the Insurance Regulatory Authority indicated that three insurance companies had undertaken a merger and only one had its merger and acquisition details available for analysis. Thus, the researcher considered a survey research design and used a case study using available published financial statements, data was analyzed using descriptive statistics. The study used paired t-test statistics to establish the pre- and post-merger performance of insurance companies in Kenya. It concluded that mergers/acquisitions are a strategic choice used by insurance companies with an aim of achieving sustainable competitive advantage in the industry.

Ouma(2016) impact of competitive strategies and performance of insurance companies in Kenya. A descriptive survey and a cross – sectional to show the connection between these two factors was used by the researcher. Due to the market experiencing low penetration, insurance companies have implemented various approaches with the aim of attaining competitive advantage. The research findings indicated that differentiation strategy i.e., constant upgrading of the product, use of different marketing and advertising platforms, use of strategic alliances has been used. The study concluded that use of sustainable competitive strategies provides positive effects on the performance of companies.

Musau(2015) conducted research on strategies implemented by commercial banks in Kenya to gain competitive edge, with the aim of analyzing different strategic options adopted. The study aimed at describing or defining the respondents (banks) using various variables thus the researcher adopted the use of a cross sectional survey design. The conclusions were: the commercial banks had employed cost leadership strategy whereby they developed market driven products and services for their customers, they used differentiation strategy and strategic alliances whereby they collaborated with other companies in order to widen the market and increase the customer base. Diversification into new industries was cited to have been used to a great extent whereby the banks diversified into other fields of business e.g., insurance while merger and acquisition was seen as a strategy that was gaining momentum among commercial banks. Adoption of mergers and acquisition strategy increased profitability of the banks, as well as enabled retention of existing customers.

Wanjiru (2011) a study of Total Kenya Ltd on use of mergers and acquisitions as a strategy for gaining competitive edge; objective was to demonstrate a link between the two variables. A case study was used to allow for detailed information about the industry to be attained. The study concluded that mergers and acquisition were viewed as a strategic option for firms looking to attain a sustainable competitive advantage. The decision for Total Kenya Limited to undertake an acquisition was based on the organizations not performing, with the end result being improved performance and increased market shares. The transaction led to an increase in shareholders returns, and improved competitive advantage in the industry.

Gaiku(2018)conducted a study of Dell Emc Central, East Africa; the effects of mergers and acquisition on competitive advantage. The study was meant to analyze a connection between competitive advantage, mergers and acquisitions. The researcher used a descriptive research design because it enabled him to provide more details about the features of the population. The dependent variable was determined to be the effect of mergers and acquisitions while the independent variables were advantages acquired, obstacles experienced and five forces of competitive advantage. The conclusion was mergers and acquisitions had the organizations post-merger products/ services increased the competitive advantage status while the business model competitive advantage was not affected by the merger.

Omondi (2016) carried out a study on the influence of Merger and Acquisition Strategy on Competitive Advantage of ICEA and Lion Group, Kenya. A causal research design was used to show the cause- and -effect relationship between the variables being analyzed. It concluded that: mergers and acquisitions are used by companies aiming to improve their competitive advantage so as to maintain their operating status in an ever changing environment; the merger strategy is the favored compared to an acquisition because mergers occurs between companies on the same business level while an acquisition occurs when a bigger firm acquires a smaller firm with the acquired firm completely losing its identity; the study also determined merger and acquisition strategy increased the organization’s productivity, improved economies of scale, business expansions and increased market share.

(George, 2010) conducted research on the effects of mergers and acquisition on development on commercial banks in Kenya. A descriptive assessment was used to collect information from organizations that had successfully completed the transaction. The study was conducted to verify effects of mergers and acquisitions on commercial banks i.e., productivity, assets, synergy and shareholder value as agreed on by majority of the managers before undertaking of the merger. Positive changes in the market power were experienced as from the second year of the merger, hence the conclusion that the degree of growth of the market was affected by mergers and acquisition. It can also be concluded that mergers have no significant change in the percentage capital gains across the banking industry before and after merger, although changes in capital gains are experienced both before and after merger, these changes cannot be explained by the occurrence of merger in these banks.

Ansaril and Mustafa (2018) steered research on how the financial performance of the corporate sector in India was impacted on by merger & acquisition; with an aim of evaluating outcomes of mergers and acquisitions on productivity, influence and liquidity position on sample population, while proposing the most suitable approach that will improve the company's financial performance. The main source of data was the data that was retrieved from published reports and different websites. The study concluded that there was no considerable change in the companies pre- and post-merger financial status, this was done through the analysis of key financial ratios.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section provides an insight into the choice of research design and data collection methodology, processing and analysis.

3.2 Research Design

It is a conceptual outline that offers guidance on how the research will be conducted i.e., collection, presentation and analysis of data. It can also be described as a process of gathering and reviewing information with an aim of merging significance of the study while making procedure economically friendly (Kothari, 2004). Case studies involves a detailed assessment of an individual or individuals with an aim of providing an accurate and complete description of the case. The inferences of a case study are based on a detailed and all-inclusive data as compared to data collected by experimental and quasi-experimental studies (Marczyk G, 2005)

There are advantages of using a case study method but not limited to; it assists in articulating applicable theories together with data that can be helpful in testing them, the researcher is able to use one or more research approaches while using the case study method all these is dependent on the predominant situations. It allows the use of diverse data collection approaches e.g., surveys, documents, individuals' research work, and in-depth interviews. The case study method is used to comprehend the past of a study subject because it emphasizes of historical data analysis (Kothari, 2004).

3.3 Data Collection

An interview guide with open ended questions was used by the researcher to collect the data, the researcher used Google forms to create an interview guide, which was tested among a few respondents who verified that the questions were clear and easily understood. The respondents were 7 senior managers who were requested to respond to the questions and return the interview guide within a certain timeline. The interview guide comprised of a number of questions; information about the company, details about the organization before and after the merger and acquisition, the process that was undertaken, reasons of the merger and acquisition, challenges faced during the process and competitive advantage.

3.4 Data Analysis

According to (Geoffrey Marczyk, 2005) data analysis is a procedure involving data: preparation, analysis, and interpretation. Interview guides will be used to collect the data which will be analyzed using content analysis. The researcher will use qualitative research with an aim of learning and understanding the motives behind the merger/ acquisition at UAP OLD Mutual. Content analysis includes conversion of the collected qualitative data into quantitative data i.e., development and confirmation of reliability of the data coding processes and procedures, creating data screening and cleaning processes (Kothari, 2004).

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This section presents analysis and findings in respect to the objective: which was to determine the influence of mergers and acquisitions on competitive advantage in the insurance industry in Kenya; a study of UAP-Old Mutual.

4.2 Data Analysis.

The study covers the acquisition between UAP and Old Mutual Kenya, an interview guide was used as a tool of data collection. The respondents comprised the mid-level managers, they all had university degrees and over 5 years work experience thus had the required professional experience to respond to the shared interview guide on the merger and acquisition as a strategy for competitive advantage. The respondents redirected me to their website in order to get more information e.g. the financial reports, details about the merger.

4.3 Finding of the study

4.3.1 The strategic decision undertaken

Union des Assurances de Paris (UAP) and Old Mutual Kenya undertook an acquisition leading to the formation of UAP-Old Mutual Group. Old Mutual acquired a majority stake of 60.7 per cent in UAP for Sh25.6 billion in July 2015, but the two insurance firms have continued to operate comparable businesses (Authority, 2015) The acquisition announcement of UAPHL was made by UAP Holdings Limited (“UAPHL”) and Old Mutual Holdings Limited (“OMH”) subsequent to the purchase by OMH of 78,919,889 ordinary shares in UAPHL, 37.33% of the total issued ordinary shares in UAPHL from AfricInvest Fund II Limited, AfricInvest Financial Sector Fund, Aureos Africa Fund LLC and Swedfund International Aktiebolag (the "Acquisition"). The choice of an acquisition partner was influenced by how the two organizations complemented each other; UAP being an insurance brand with a major base in South and North of Africa, while Old Mutual, was a leading South Africa's insurance provider covering the global markets.

4.3.2 The reasons for the acquisition.

The acquisition was expected to result in better products and services offered to its current and prospective clients. The customers were to enjoy the value that would have been brought forth by assists from both organizations in form of upgraded information systems, delivery systems, a variety of products and services and a strong managerial team. Currently UAP Old Mutual Group has operations in Rwanda, Kenya, South Sudan, Uganda, and Tanzania. According to the respondents the objectives for undertaking the merger/acquisition was in order to increase their market share; UAP market share was at 4.5% while Old Mutual shares were at 2.91%. The other reason for the merger was for diversification of services and products by including Faulu Kenya which was an Old Mutual's subsidiary in the merger they would offering financial services to the customers of the UAP Old Mutual group thus making it an all-round organization offering insurance and financial services. The firms have a strong presence in banking, properties stockbrokerage, and wealth management besides underwriting.

4.3.3 The parties involved in the acquisition process.

The merger process involved different parties i.e. the Competition Authority of Kenya, Capital Markets Authority, Insurance Regulatory Authority, UAP and Old Mutual. Competition Authority of Kenya was notified of the proposed merger between UAP and Old Mutual in writing, it had the right to request for more information to be provided by either entities before proceeding with the process. If the Authority considered it merger/acquisition fitting, it called for a meeting to discuss the proposed merger, the Authority could either approve the for the involved parties to proceed with the merger or decline the application of the merger; while stating its reason for either of the decision made.

The Capital Markets Authority issued a public announcement on the acquisition of effective control of UAP Holdings Limited By Old Mutual Holdings Limited. As at 2014 UAP and Old Mutual issued out two separate financial statements while in 2016 after the merger, they issued one unaudited financial statement as UAP Old Mutual Group. There was a growth of 17% on their total assets, income increased to 27% and the loss after ta from 2015 declined by 68%. There was a significant growth in gross written premiums, net earned premiums, short term premiums and long term insurance, as at 2015 UAP and Old Mutual had a market share of 7.50.

4.3.4 Effect of the acquisition on performance and market share.

As at June 2022, UAP Holdings and Old Mutual Kenya was aiming to have the corporation listed at the Nairobi Securities Exchange (NSE) one the merger was completed. In January 202, UAP Holdings put on hold transaction of its shares from

NSE listing thus they were moved to the Over-The-Counter market, UAP-Old Mutual Group will be the seventh insurance company to be listed on the Nairobi Securities Exchange. As at 31st December, 2020 long term business gross direct premium for Old Mutual Life Assurance was at 2.17% and UAP Life Assurance Company 1.7% compared to 31st December, 2019 Old Mutual Life Assurance 2.22% and UAP Life Assurance Company 2.46%. According to the respondents the acquisition aimed at increasing synergies between the two organizations through customer retention, acquisition of new customers. It was meant to offer Sim less financial services across their various product i.e. asset management, unit trust, stock brokerage, life assurance, banking, property investment, general and health insurance to their existing and new customers. UAP used the idle recourse to expand into property business they have an ongoing large scale project i.e. the construction of the UAP Tower in Kenya and UAP Equatorial Tower in South Sudan, this project is expected to increase the revenue levels.

The respondents agreed that there was an increase in the customer base through acquisition of new customers and retention of customers from both organizations. In 2020 UAP Insurance Company Limited introduced 3 new products under their medial cover i.e. AfyaImara Junior, AfyaImara County and AfyaImara this was in order to provide a variety of products also increase their customer base by introducing new customers' also tapping into a niche market this promoted competitive advantage over the other insurance companies. In order to increase competitive advantage UAP Old Mutual Group increased their efficiency through reduction of operations costs through combining of the organizations offices, some employees were laid off to reduce on the duplication of functions. The process was to enable a seamless transition into one main organization.

4.3.5 Challenges experienced during the acquisition process.

UAP Old Mutual Group has been struggling to restructure their operations to form the only one-stop shop for financial services in the country after completion of the merger process. After the merger the two insurance firms have operated similar products while in the process of merging their internal processes and procedures. The deal also lead to the board approving the restructuring of the organization to accommodate both entities this leading to a layoff of 100 employees reasons being the organization was aiming at creating synergies, and competences that would ensure the growth of the group/new entity, reducing on duplication of duties, cost cutting and reinforcement the financial performance of the affected business. Another challenge experienced during the merger and acquisition is the blending of the company culture. UAP Old Mutual Group with the assistance of the Human Resource Department have worked closely to create a conducive environment in order to complete the merger smoothly through staff interaction by training employees on their new roles and responsibilities and communicating the changes.

4.4 Discussion of the findings

The objective of the study was to determine the influence of merger and acquisition on competitive advantage in the insurance industry in Kenya; a study of UAP-Old Mutual Group. From the findings, the financial performance of the Group has improved due to the merging of their financial status, thus creating a competitive advantage as well as meeting the government regulations. These finding were supported (Gichohi & Gesimba, 2020) states that the adjustment of the minimum capital requirements for financial institutions in the country was aimed at stabilizing the financial sector a process implemented by the government through the Central Bank of Kenya . In order to adhere to this government regulations the insurance sector has experienced a surge in competition, that has been attributed to an increase of taxation through introduction of new operating requirements thus the merger between UAP and Old Mutual Group.

The merger lead to a diversification of series in that the new organization provided insurance services, rental, and financial services through the merger with Faulu Kenya thus giving them an edge in the Insurance industry. These findings are supported by a research done by (Musau, 2015) stated that diversification through venturing into other industries like insurance, investment banking, acting as brokerage firms, and internet banking were ways of sustaining and increasing productivity. He noted that banks used merger and acquisition strategy through acquiring other institutions and banks that were experiencing poor performance, not conforming to government and industry regulations, financial challenges in order to gain competitive advantage and increase their market dominance.

The Group also experienced an increase in market share due to the merger or an acquisition, when both firms combine their market share they improve on their profitability due to economies of scale. There was an increase in their bargaining power through labor, suppliers and buyers through elimination of competition, the merged organization can increase its profit and engage the surplus funds to improve its market power (George, 2010). A research conducted by (Gichohi & Gesimba, 2020) indicated that the market share and competitive advantage in the case of UAP Old Mutual insurance firm in Kenya were interrelated. The increased market share improved the competitive advantage by providing a competitive edge through increase of the economies of scale, increase customer base, market supremacy. It's been noted that companies with high market share can create barriers of entry into their market in order to maintain their position. There was relation between competitive advantage and organizational performance through sales growth, market share and overall performance. This supports Resource Based View on the relationship between products and services and attaining the competitive advantage thus leading to increased organizational performance, this will improve the organization's competitive advantage to gain the higher organizational performance. (Michael Okonda, 2016)

The research aimed at establishing the relationship between mergers and acquisition and competitive advantage in the Insurance Industry in Kenya, the results indicate that there is a strong relation between the two factors.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The research was aimed at determining the influence of mergers/ acquisition on competitive advantage a case study of UAP OLD, the findings of the research are summarized, discoursed and recommendations were made concerning the use of merger/acquisition as a strategy among companies.

5.2 Summary of the study

The research was conducted for the purpose of determining the influence of mergers and acquisitions on competitive advantage, a case study methodology was used in the project. An interview guide with open ended questions was used to collect data, the respondents were seen managers who had worked for either of the organization before the merger thus they had experience of the pre and post-merger influence if competitive advantage. The conclusions of the research indicated that a relationship exists between merger/acquisition and competitive advantage.

The competitive advantage theory by Michael Porter indicates that in order for a company to gain competitive advantage, the new organization had to attract new and retain existing customers by offering better services or products. UAP Old Mutual group diversified on their products by offering financial services under Faulu Kenya thus gaining new customers and offering a new product that the competitors in the industry are not offering. Organizations are opting to generate new competencies/capabilities in order to remain competitive in an ever hanging operating environment, UAP Old Mutual have ventured into property management to generate more income as well as spread financial risks/losses involved as well as merger with Faulu Kenya to provide financial services to the existing and new customers. According to the RBV model, UAP Old Mutual group opted for the imitation test which is based on the duplication of resources i.e. are the competitors able to imitate the features e.g. the group has created a market in the financial and property industries while maintaining their main business which is in the insurance industry, they have also used their geographical location to their advantage. They experienced a few hitches here and there in combining their activities the process was managed effectively through constant communication to the employees and stakeholders. It is considered a major step by having UAP Old Mutual Group registered to trade in the NSE.

5.3 Conclusion

The study established mergers/ acquisition and competitive advantage are interrelated, there are various reasons behind organizations opting for mergers/acquisition as a competitive advantage strategy as shown by UAP Old Mutual group which includes increasing customer base, increase in income, diversification of the products and services offered. It also concludes that for an organization to remain relevant in the market as well as meet operating terms and conditions, they need to develop strategic options that will be beneficial to the employees, customers and shareholders. For a merger to be successful a few changes are expected in the organization to ensure a complete merging of the business activities. The merger between UAP and Old Mutual was initiated in 2015, they are being listed to trade at NSE in 2022, thus it’s noted that a merger is a process that requires time and commitment.

5.4 Recommendations

The study recommends that before a merger is conducted a research and due diligence should be conducted about the two organizations that want to merge, the merger regulations of the country and the impact of the merger/acquisition on the employees, stakeholders and their position in the market. The business industry in Kenya should be free and open minded in sharing information concerning their industry when conducting a research about their organization or industry. I would recommend that Insurance Regulatory Authority to provide more information on the strategic deals that are being conducted in Kenya

I would also recommended for further research on mergers and acquisition, the effect of the merger on different sections of the business, a follow up research few years after a merger/acquisition to be conducted to analyze the effect of the merger/acquisition on the organization and also how merger/acquisition have been implemented in other industries e.g. commercial banks, hospitability e.t.. A research has been done by (Irungu, 2017) to review the mergers and acquisition and performance of UAP OLD Mutual group, (Ajwang') conducted a research on the effect of mergers and acquisition on brand equity of UAP Old Mutual Kenya Limited, (Gichohi & Gesimba, 2020) conducted a research on the effect of the market share on competitive advantage of UAP Old Mutual Insurance Firm in Kenya. Further research should be conducted after a few years to analyze the status of the new organization and also the challenges they might have experience. The limitations of the study included; the organization wasn’t ready to divulge some information despite being aware that the research was being carried out for academic purposes, some participants were not ready to openly state their views on the deal.

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APPENDICES

Appendix 1: Interview Guide

1. What business strategy was undertaken a merger or an acquisition?
2. In your opinion what were the reasons that informed your choice of merger partner?
3. What were the objectives for undertaking the merger/acquisition?
4. How was the transition being managed?
5. How has the merger impacted on your performance of the organization?
6. How has the merger affected the market share and shareholders status?
7. What challenges were experienced during the merger/acquisition?
8. How true are the following in regards to the motives behind the merger/ acquisition strategy?
    i. To adhere to the new government policies.
    ii. To expand to geographical coverage to serve different customers' needs.
    iii. To increase revenue synergies through customer retention, new customers' acquisition and cross selling.
    iv. To reduce risk on earnings and cash flow of the organization.
    v. To acquire specific assets e.g., R&D, raw materials, managerial skills etc.
    vi. To use surplus/ idle resources to expand/ grow the business.
    vii. To increase financial capacity.
    viii. Increase in cost synergies through improved economies of scale and scope, productivity increase, cost savings etc.
9. How true are the following in regards to attaining competitive advantage from merger and acquisition strategy?
    i. The organization was able to expand into new territories or markets.

ii. There was an increase in customer base.

iii. There was an increase in the total revenue.

iv. New capabilities were acquired through human capital.

v. Increased profitability was experienced with Merger/ Acquisition.

vi. Increased market share upon the merger or acquisition.

vii. Efficiency was created through reduction of costs, duplication of functions.

viii. Employee’s growth was given top priority during the merger or acquisition.

10. What is your opinion on the use of mergers/acquisition strategy in the current and future business environment?

Appendix 3: Acquisition announcement

UAP

Better. Simple. Life.

Incorporated in Kenya under the Companies Act (Chapter 486, Laws of Kenya)
Registration Number 3/2012

OLDMUTUAL

Incorporated under the Companies Act (Chapter 486, Laws of Kenya)
Registration Number C. 48705

PUBLIC ANNOUNCEMENT

The Capital Markets Act
Chapter 485A of the Laws of Kenya
Regulation 63 of the Capital Markets (Licensing Requirements) (General) Regulations, 2002

ACQUISITION OF EFFECTIVE CONTROL OF UAP HOLDINGS LIMITED BY OLD MUTUAL HOLDINGS LIMITED

1. This announcement is made by UAP Holdings Limited ("**UAPHL**") and Old Mutual Holdings Limited ("**OMH**") in connection with the acquisition of effective control of UAPHL following the purchase by OMH of seventy eight million nine hundred and nineteen thousand, eight hundred and eighty nine (78,919,889) ordinary shares in UAPHL, being thirty seven decimal three three per cent (37.33%) of the total issued ordinary shares in UAPHL from AfricInvest Fund II Limited, AfricInvest Financial Sector Fund, Aureos Africa Fund LLC and Swedfund International Aktiebolag (the "**Acquisition**").

2. Further to the various public announcements published in the Daily Nation and The Standard newspapers by UAPHL and OMH in connection with Acquisition, UAPHL and OMH are pleased to announce that they have obtained all necessary approvals and the Acquisition has completed. Accordingly OMH, together with Old Mutual Life Assurance Company (South Africa) Limited, own an aggregate of one hundred and twenty eight million two hundred and fifty two thousand, three hundred and thirty four (128,252,334) ordinary shares representing a 60.66% of the issued ordinary shares in UAPHL.

3. UAPHL and OMH are mindful of the commitment made to investors during UAPHL's initial public offer to list its shares on the Nairobi Securities Exchange Limited ("**NSE**") and are determined to undertake listing as soon as possible. It is anticipated that, market conditions being favourable and subject to receipt of all required corporate and regulatory approvals, listing of the UAPHL shares on the NSE will be undertaken within eighteen (18) to twenty-six (26) months.

4. The timetable for the listing on the NSE will also be determined by a strategic group reorganisation to streamline the operations of subsidiaries of UAPHL and OMH that provide similar services. Further announcements on the strategic group reorganisation plans will be communicated as and when appropriate.

5. In the interim, UAPHL's shares will continue to trade on the Over-The-Counter market to provide shareholders with an avenue to realize their investment in UAPHL up until the listing of the shares on the NSE.

6. UAPHL and OMH are committed to the continued success of UAPHL and will ensure that UAPHL continues to comply with all applicable Capital Markets Regulations such as corporate governance guidelines and continuing reporting obligations.

7. OMH and UAPHL would like to take this opportunity to thank their respective shareholders, boards, management as well as the regulators for their support to date. The two companies look forward to the opportunity to pull together to create significant shareholder value and to build an African integrated financial services champion.

Dated: 26th June 2015

By order of the Board
UAP Holdings Limited
Nkirote Mworia Njiru
Company Secretary

By order of the Board
Old Mutual Holdings Limited
Pauline Ngonyo
Company Secretary

Legal Advisor to UAPHL

CH Coulson Harney ADVOCATES

Member of Bowman Gilfillan Africa Group

Transaction Advisers to OMH

Transaction Advisor	Financial Advisor	Legal Advisor
Standard Bank (Also trading as Stanbic Bank) / CfC Stanbic Bank (A member of Standard Bank Group)	icsecurities (fulfilling aspirations)	Daly & Figgis
Standard Bank / CfC Stanbic Bank Limited	IC Securities Limited	Daly & Figgis, Advocates

This announcement has been published with the approval of the Capital Markets Authority.

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OLDMUTUAL
Do great things