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A SURVEY OF EXPERIENCES OF MERGERS AND ACQUISITIONS BY KENYAN FIRMS vi

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This research project has been submitted for examination with my approval as a University Supervisor.

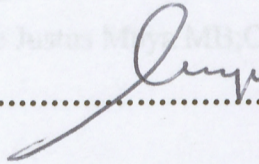
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MR. JACKSON MAAILE
UNIVERSITY OF NAIROBI

DECLARATION

This Research Project is my original work and has not been submitted for a degree course in this or any other University

To my three grandsons Muya, Kinyaqoi and Philip and in remembrance of my late husband, Doctor Willie Justus Muthoni, ChB(EA);DPM(London) (1941-1995)

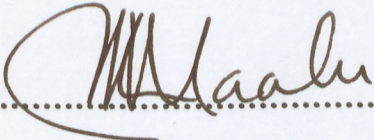
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DEDICATION

ACKNOWLEDGEMENTS

To my three grandsons Muya, Kinyanjui and Phillip and in remembrance of my late husband, Doctor. Willie Justus Muya MB;ChB(EA);DPM(London) (1941– 1995) my members, workmates and lecturers whose input I sincerely acknowledge, I wish to whole heartedly thank all of them in general. However, I feel obliged to thank the following individually for their special contribution.

First and foremost, I would want to appreciate and give thanks for God's grace and the precious gift of life and strength to undertake the whole of the MBA studies that has culminated to this research as the last part of the programme.

I would also like to acknowledge with gratitude the valuable contribution of my supervisor Mr. Jackson Maalu, whose patience, support and tireless guidance made a difference in the way this project was compiled.

My fellow MBA students for enhancing morale and encouragement during the group discussion. Special mention goes to all the students who I worked with during the group assignments for their support and contribution towards my achievements.

My children, Stephen, Vicky, Symon, Shiku, Wanja, Nyawira and a special friend Sam for their support and encouragement.

The CEO of various companies that responded to the questionnaire and the Commissioner of Monopolies and Prices for providing me with industry statistics which have been incorporated in this research project.

I am indebted to Ndegwa, Terry Hirst and Priscilla for their patience in reading and typing several drafts before this final research paper is highly appreciated.

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1.1 Background

LIST OF ABBREVIATIONS

Abbreviation	Meaning
CBA	Commercial Bank of Africa Ltd
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMP	Commissioner of Monopolies and Prices
DBK	Development Bank of Kenya Ltd
EABL	East African Breweries Ltd.
EPS	Earnings Per Share
FAB	First American Bank Ltd
FDI	Foreign Direct Investment
HFCK	Housing Finance Company of Kenya Ltd
ISG	International Steel Group
JIT	Just in time
MPC	Monopolies and Prices Commission
ROCE	Return on Capital Employed
RTPT	Restrictive Trade Practices Tribunal
SME	Small and Medium Enterprises
UN	United Nations

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Concepts of Mergers and Acquisitions

Acquisitions and mergers have been popular methods of increasing the size and value of firms in modern times. This approach, in contrast to the older system of increasing value through organic growth, is faster and in many cases cheaper. It is, however, important to observe that one of the greatest challenges of corporate raiding has always been identifying the business area in which a firm should participate in order to maximise its long-term profitability (Hill and Jones 2001). In this context, it would be appropriate to adopt a definition of corporate strategy that helps in understanding issues in mergers and acquisitions. One such definition has been given by Hax and Majluf (1996) as a means of establishing the organisational purpose in terms of its long-term objectives, action programmes and resource allocation.

Renowned authors such as Mintzberg and Quinn (1991), define strategy as a pattern or a plan that integrates an organisation's major goals, policies and actions. Strategic decisions as highlighted by Johnson and Scholes (2002) are based on building on or stretching an organization's resources and competencies to create new opportunities or capabilities based on these resources. Strategy therefore, may in some cases require major resources which are beyond a firm's existing capability. In such a situation, a merger or an acquisition may be the only available option. It may, therefore, for instance be an appropriate phenomenon for an organisation to merge with or acquire a supplier of its raw material so as to guarantee availability and quality of such raw material or with a competitor so as to expand its market share or with another firm in order to comply with changes in legislation. Many managers will today regard

buying a company for access to markets, products, technology, resources or management talent as less risky and speedier than gaining the same objectives through internal efforts or organic growth (Jemison and Sitkin, 1986).

A takeover or an acquisition, on the other hand, is defined as an acquisition by one company of

One of the important factors that influence corporate strategy is the environment in which a company is operating. It is, in the search of suitable responses to that environment, that an organization realises that it neither has the strengths needed, nor the time required to develop such strengths as the opportunity might get lost, that it seeks and identifies another firm with which to merge or to acquire, that has appropriate capabilities and competences. This approach fits well with the definition of a merger as given by Pike and Neale (2002) as the pooling of the interests of two companies into a new enterprise requiring the agreement by both sets of shareholders. Firms will thus seek that strategic position that will provide them with the maximum impact on the external environment, internal resources and competencies, and the expectations and influence of stakeholders (Johnson and Scholes, 2002). Mergers and acquisitions strategies are used by firms in strategic positioning. As early as 1986, Jemison and Sitkin recognised the importance of use of acquisitions and mergers to redirect reshape corporate strategy.

It is appropriate at this point to differentiate between mergers and acquisitions. David (1997) has stated that a merger occurs when two organizations of about equal size unite to form one enterprise. In support of this, Pandey (1999) has indicated that a merger is said to occur when two or more companies combine into one company. By definition, therefore, mergers involve friendly restructuring of each company's assets and resources into a new organisation. Majority

of mergers are friendly and are recommended by the directors and shareholders of both companies (Hill and Jones 2001).

A takeover or an acquisition, on the other hand, is defined as an acquisition by one company of the share capital of another in exchange for cash, ordinary shares, loan stock, or some mixture of this. This directly results in the identity of the acquired being absorbed into that of the acquirer (Pike and Neale, 2003). Another definition given by Hill and Jones (2002) of a takeover is when the acquiring company gains control of another without the co-operation of its existing management. The raider gets control of majority of the stock and ousts the existing management. The acquiring company usually join forces with the key shareholders, or purchase stock on open market or by soliciting proxies. Consequently, as highlighted by Pike and Neale (2002) many takeovers are hotly resisted by shareholders and the management of the entities.

According to Jemison and Sitkin (1986), people directly involved in the acquisition process often point to powerful forces beyond managerial control that accelerate the speed of the transaction. Researchers and financial analysts usually describe acquisition and merger strategies as calculated acts.

Acquisitions and mergers of other companies are investment decisions that should be evaluated on essentially the same criteria as when new assets such as machinery and equipment are purchased. Indeed, the 'make or buy' decision process can be conceptually applied to the acquisition process (Pike and Neale, 2002). Competitive advantage, according to Porter (1980), results from a firm's ability to perform the required activities either at lower costs than their

rivals or differentiating products that create buyers value so as they command a premium price. A company seeking to merge or takeover another firm will evaluate all options during the screening period so as to acquire these generic strategies. Gain may also emerge from a particular way of combining resources. Most mergers and acquisitions, therefore, will be pooled to the attractiveness of the target in areas like product design, manufacturer's technology, good management, tight financial discipline and the market share (Hill and Jones, 2001).

It would however be appropriate to point out that mergers and takeovers are sometimes used interchangeably as acquisition process. Other instances refers takeover as acquisition. The operational definition in the researchers view prefers the merger definition as defined above but use takeover and acquisition interchangeably.

Competition is best protected by having many small, viable, locally-owned competitors in each industry and cannot be created by the passage of a law. The antitrust laws will try to prevent actions that reduce the number of effective competitors. If a merger or an acquisition is proposed in an already dominated market by a few firms or the merger decreases the number of firms in an expanding market, or a merger or an acquisition makes entry of other firms quite difficult, the regulator will challenge such a merger or an acquisition (Hill and Jones, 2001).

1.1.2 Mergers and Acquisitions in Kenya

In Kenya, a mergers or an acquisition can be seen against the background of Kenya competition law as contained in the Restrictive Trade Practices, Monopolies and Price Control Act (Cap 504 Laws of Kenya). A survey of mergers and acquisitions experiences will not be complete in the

absence of a discussion around this Act as it is ideally the governing law of all mergers and acquisitions in Kenya. This law was enacted to encourage competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and for connected purposes (MPC Annual Report, 2000).

In section 22 (1) of Cap 504 dealing with mergers or takeovers, the emphasis is on interest which means ownership of shares or a proportion of the assets of an enterprise engaged in production, distribution or the supply of services. It can also mean control, that is, the power to make major decisions in respect of the conduct of the affairs of an enterprise after no more than minimal consultations with other persons whether directors or other officers of the enterprise. Section 27 (1) (a) gives the Minister for Finance powers to approve all mergers and takeovers between two or more independent enterprises engaged in manufacturing and which distribute substantially similar commodities or are engaged in supplying substantially similar services.

The second objective of the law is to set up the necessary institutional framework for effective administration and enforcement. When documenting merger or takeover experience in Kenya, it is important to discuss the approval process. Firms will make an application to the Commissioner of Monopolies and Prices (CMP) who investigates, evaluates and makes a recommendation to the Minister for Finance. The Minister may authorise or may reject and Gazette within reasonable time. There is a Tribunal, the Restrictive Trade Practises Tribunal (RTPT) to which an aggrieved party may appeal and may overrule the Minister or uphold his decision. If at this stage the aggrieved party wants to appeal further, the only option is to file an appeal to the High Court for final determination. In the period 2001 to 2004, the Monopolies

and Prices Commission (MPC) handled seventy five (71) Merger Control Notifications as shown in Appendix III (MPC Annual Reports, 2001-2004). These notifications formed the population of the study of the mergers and acquisitions environment in Kenya.

In contrast to the relatively small size of the mergers and acquisitions in Kenya, it is instructive to look briefly at some of the more celebrated international cases. As Stacey (1990) had predicted, the 1990s was to be a period of dynamic change in the environment with new forms of co-operation, cross shareholding and joint ventures all indicating more widespread interconnections between businesses. This is the period when the German automobile giant Daimler – Benz merged with Chrysler, the third leading automobile in the United States. The largest acquisition, however, was the US \$60 billion acquisition of Air Touch Communications of US by the British company Vodafone (Hill, 2003).

The merger between Proctor and Gamble and Gillette of US \$54 billion was hoped to kick start growth in the consumer industry (The Economist, 2005) while \$45 billion takeover of ISG in the US by Mittal Steel was intended to make the latter the world's largest producer of steel (Tomlinson , 2005). These are but a few examples which indicate that, once again, there is still an urge to merge and restore the aura of respectability in the corporate world, a respectability lost when so many of the previous wave of beautiful marriages like American Online and Time Warner crashed so soon and so spectacularly on to the rocks (The Economist, 2005).

1.2 Statement of the Research Problem

The global mergers and acquisitions cited above provide a journalistic profile because of their celebrity status. In Kenya, the business environment hardly gets to know what is going on until a merger or an acquisition is at the final stages of completion. The Central Bank of Kenya (CBK) is one institution that has urged the banks to merge in an effort to boost their capital base due to increased capital requirements, and hence curb the collapse of banks (Chesang, 2000). Consequently the sector has been very active in this respect as evidenced by three announcements of mergers and acquisitions proposals in the first quarter of 2005. These are Commercial Bank of Africa (CBA) with First American Bank (FAB), East African Building Society (EABS) with Akiba Bank, and Development Bank of Kenya (DBK) with Housing Finance of Kenya (HFCK).

There are quite a number of activities that go on behind the scene of these mergers and acquisitions which need to be known, but are apparently not easily available. The Restrictive Trade Practises Monopolies and Price Control Act (Cap 504) is the principal guide that gives guidelines and direct all processes of mergers and acquisitions in Kenya. This act has not been revised since 1989, seventeen years ago, yet the dynamic changes in the market place demand that such a law should be reviewed from time to time, to support and promote effective competition (MPC annual Report 2000). It is a law that is not in harmony with other sectoral laws, such as the Banking Act or the Trade Licensing Act. The law does not give a period within which ministerial approval should be given. Any delays could make firms loose out on a merger opportunity. There are heavy and punitive penalties that are imposed by this law if any merger or a takeover proceeds without such an approval.

It is universally recognised that target identifications evaluation and screening take up a lot of managers' time, and firms their substantial costs relating to professional services (Jemison and Sitkin, 1986). The least a company could expect is to undergo an unfriendly approval process. This study will document in a comprehensive manner the experiences of companies that have undergone mergers and acquisitions in Kenya. The documented experiences would focus on factors that would include the approval processes and creation of shareholder value. The study would also give an insight of processes, and highlight barriers encountered from the perspective of those who have 'been there'.

To establish and document some of the main experiences of Kenyan firms that have

A study was carried out by Mercer Management Consultants, who looked at 150 acquisitions worth more than \$ 500 million each that were undertaken between January 1990 and July 1995. The study concluded that 50% of these acquisitions ended up eroding or substantially eroding shareholder value, while another 33% created only marginal returns and just 17% of the acquisitions were judged to be successful (Hill and Jones, 2001). A study by Rene' Stulz of Ohio State University concentrated on 87 large deals in between 1998-2001 and found that they actually destroyed shareholder wealth of US \$134 billion (The Economist, 2005).

The findings of this study are important to the following groups of people:

It is evident from the above observations of these studies that mergers and acquisitions do not always result in creation of shareholders' value. In conducting this survey study among the Kenyan firms that have been involved in mergers and acquisitions activity, an opportunity to observe similarities, or otherwise, on these conclusions will be established and documented.

Chesang (2000) carried out a study on Merger Restructuring and Financial Performance of Commercial Banking in Kenya. Her study did not cover mergers and acquisitions in other sectors of economy. Consequently, this study will include an insight in the field of mergers and acquisitions as to the approval processes, creation of shareholders wealth and firms perception as regards to factors that contribute to the success or failure of mergers and acquisitions among a broader range of Kenyan firms.

iv. Academics who are interested in further research in this field.

1.3 Objectives of the Study

The objectives of this study are two-fold:

- i. To establish and document some of the main experiences of Kenyan firms that have undergone in the mergers and acquisitions process.
- ii. To find out from the management of Kenyan firms that merged or acquired other firms their perceptions that includes factors relating to the creation of shareholders wealth, factors that contribute to success and failure and management of post merger and acquisition activities.

1.4 Importance of the Study

The findings of this study are important to the following groups of people:-

- i. The various bodies within institutional framework created by Kenyan competition law in an effort to identify the limiting factors in-built in the mergers and takeovers process. Possibly there is a case that can be made to exempt small and medium enterprises, (SMEs) from the provision of law.

- ii. Individual Kenyan businesses which intend to merge or to acquire others in future - what can they learn from experiences of companies that have undergone mergers and acquisitions in the past?
- iii. The shareholders of the companies that intend to merge or undergo an acquisition. They will be more knowledgeable on risks involved and in particular, on value creation of their shareholding.
- iv. Academicians who are interested in further research in this field.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Mergers and acquisitions are used as tools of strategy. They are exciting and make headlines news. New thrusts in the growth areas are foreshadowed. The status, security and social relationship of many people are affected. A merger with or an acquisition another company is a major event in the life of an enterprise and may even be the key to success or failure. They involve complicated financial negotiations, an organisational re-vamping, and many career adjustments. When the corporate strategy indicates the kind of new business units desired, the management of a company's major decision is to decide whether the new business will be developed or be an acquisition. A merger or an acquisition must offer strong advantages over internal expansion as no justification would suffice when one considers the many challenging experiences in the process (Hill and Jones 2001). The managers appear to be driven by a belief that if they do not acquire a desirable target firm, then their global rivals will. The UN estimates that in 1999, some 80% of all Foreign Direct Investment (FDI) inflows were in the form of mergers and acquisitions (Hill, 2003).

The literature that has been reviewed in this chapter will highlight the reasons, the challenges, the types, the processes, the measures and strategic approach to the merger and acquisition activities.

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2.1 Theories of Mergers and Acquisitions

Managers seeking to maximize the wealth of the shareholders of companies continually seek to exploit value creating opportunities. They believe that two enterprises will be worth more if merged or acquired than if operated as two separate entities, i.e.,

$$V(a + b) > V_a + V_b$$

Where:

V_a, V_b = Value of company A, B, respectively. (Pike and Neale, 2002).

Mergers and acquisitions are used as growth strategies for companies that wish to increase their market share and revenues. For instance, the many mergers and acquisitions between US and European firms after the World War II, according to Ansoff and McDonnell (1990), were more to do with growth in volume and size than anything else. The current trend is a reverse by many European firms, which see the US as a growth environment in the area of food and consumer marketing chains. They have argued further, that improvement in profitability saw European pharmaceutical firms merge with small US firms; Japanese invasion of the profitable computer markets and global automotive market by firms whose domestic markets are no longer large enough to permit them to remain competitive, are some examples given of growth strategies. On the Kenyan scene, the acquisition of First American Bank (FAB) by Commercial Bank of Africa (CBA) will enable CBA to obtain the stock of corporate customers held by FAB. The Kenyan market is said to be very slow in creating an expansion of corporate customers (CBA Bulletin 2005).

Firms sometimes seek out under-developed, sick and threatened organisations because all they can see is the unrealised potential. The manner in which the top executives manage their businesses, in terms of a superior internal governance system, can create value by acquiring inefficient and poorly managed enterprises and improve their efficiencies by replacement of management, unproductive assets and set targets. A firm can transfer competencies in marketing, material management and create competitive positions for the new business. The manager also believes that the target company can be acquired at less than its true value. If a company is thought to be undervalued on the market, there may well be opportunities for asset stripping (Mintzberg and Quinn, 1999). As Hill and Jones, 2001 have indicated, and have re-emphasised, a takeover does serve as one way of deposing an inefficient management.

No company will attempt a takeover of another unless it sees an opportunity to substantially improve the return to its shareholders by better management and synergistic impact of the merger. A firm is therefore vulnerable to takeover when it shows poor performance relative to others in the same industry. This is especially so, when others are declaring dividend and the company is not. Secondly, it may have a surplus of liquid assets, and large unused borrowing capacity. The firm might be holding assets that could be sold for more than their present market value. There are instances therefore when such firms have potential synergistic benefits that are being disregarded (Hill and Jones 2001).

It was anticipated that, for example if the merger proposal between Housing Finance Company of Kenya (HFCK) and Development Bank of Kenya (DBK) was concluded, the synergies that existed between the two, such as bank licence, wide capital base, corporate customers, a large

stock of over 40,000 depositors, and wide branch network would be enjoyed by the merged firm (Kisero, 2005). Firms also make acquisitions because they believe they can increase the efficiency of the acquired firm by transferring capital, technology or management skills (Hill 2003). According to Boseman and Phatak (1989), managers believe that together they could achieve objectives and results far more efficiently and effectively than would be possible should they stay separate. This is where synergy occurs, and particularly in elimination of duplicate staff and departments and combining the sales forces and distribution systems. Tomlison (2005) sighted the takeover by Mittal of a 3.6 million ton capacity steel plant, from Czech government, in 2003 carried out staff rationalization, brought in new management from North America, and now the plant is turning out more higher-grade, higher-value steel for automobile and appliances manufacturers.

Ball and McCulloch (1996) have highlighted that mergers and acquisitions take place when a firm is faced with expanding global competition, the growth-cost of research, product development and marketing, and the need to move faster in carrying out their global strategies. The aim is to achieve faster market entry and start up, to gain access to new products, technologies, markets and to share costs, resources and risk. Pike and Neale (2002) emphasised that many product markets have become more global, and the life span of products has tended to diminish. Greater emphasis has been placed also on research and development activities. There are some industries such as aerospace, telecommunications and pharmaceuticals where small firms will not be able to generate the cash flows that are required to finance such research and development.

As emphasised by Porter (1980), competitive advantage starts from cost advantage and product differentiation. Exploitation of these creates value for the shareholders. When a company identifies the area of competitive advantage, it may decide to build on the existing strengths and to develop distinctive competencies through mergers and acquisitions. For a competitive advantage to be sustainable, the conditions of uniqueness associated with a business unit strategy should be preserved. It means that there should be no threat of competitive substitution or imitations. From the resource base point of view, the resources of a firm must have those attributes to hold the potential for sustainable competitive advantage. They must be valuable, scarce, and difficult to imitate and to substitute (Hax and Majluf, 1996). Merger strategies of businesses assess the competitiveness created.

Companies generate financial resources in excess of those necessary to maintain a competitive advantage in their original or core business. These become excess resources that can be used to create value by acquisitions through the internal generation funds. This is what happened in mid 1980s which saw 1980 acquisitions and mergers triggered by growth of real profitability and cash generation hence the ability of companies to internally finance acquisitions and mergers (Pike and Neale, 2002).

Mergers and acquisitions are a 'preferred entry mode', when the industry to be entered is well established, and incumbent enterprises enjoy significant protection from barriers to entry. Barriers to entry arise from factors associated with the product differentiation, brand loyalty, absolute cost advantages and economies of scale. When such barriers are substantial, a company will find it very difficult to enter through internal venturing. The company has to expend heavy

capital and resources outlay to establish the brand name or distribution outlets. An alternative route is for a firm to acquire or to merge with a market leader, already with the market benefits (Hill and Jones, 2001). The proposed merger between Commercial Bank of Africa (CBA) and First American Bank will enable CBA gain an interest in United Bank of Tanzania Limited, a commercial bank operating in Tanzania. This is an important step for CBA to extend its coverage within the East Africa region (CBA Bulletin, 2005).

The firm will enjoy economies of scale in manufacturing facilities, advertising, distribution and research and development. Business units naturally invest less in the shared functions because a merger or an acquisition allows the expanded group to better utilise existing assets. When Proctor and Gamble strategically merged and acquired consumer firms, it successfully realised economies of scale as regards to the shared cost of procuring raw materials, development of new technology for new products and processes, and a joint sales force and distribution system. Because of sharing cost, it achieves cost advantage that has enabled the company to undercut their less diversified competitors (Hill and Jones 2001). Financial economies easier enable a firm to access to capital markets on more favourable terms where size confers easier access to capital market. Financial economies would be achieved by mergers and acquisitions and favourable terms of loans can be achieved (Pike and Neale 2002). Boseman and Arvind (1989) have emphasised that a firm that is too small, cannot effectively compete as it lacks productive capacity and market strength.

Firms have a preference for mergers and acquisitions, as an entry mode into a market segment, when they feel the need to move fast as opposed that of internal venturing that can be a relatively

slow process. Mergers and acquisitions are a much faster way to establish a significant market presence and generate profitability. A company can purchase a market leader, in a strong cash position overnight, so when speed is important, mergers and acquisitions are favoured entry modes. One such example that can be cited is in the insurance industry. To build up new policy holders require substantial input of time and expense. This is the reason behind the takeover of ALICO Life Insurance by CFC life insurance in 2005 and it is also used as an international mode of entry in the foreign market (Hill and Jones, 2001). It is anticipated that Gillette will use the Proctor and Gamble distribution network to enter into China, one of the recognised world fastest growing 'big market' for consumer goods (Economist 2005). Pike and Neale, (2002) have emphasised that to obtain higher earnings it is obviously easier if there are fewer competitors. However Mintzberg and Quinn (1991) while highlighting the reasons for mergers have pointed out that most of the companies which opt mergers or acquisitions because of this reason, usually find difficulties in convincing the authorities that they are not creating monopolies.

Mergers and acquisitions are also often perceived to be somewhat less risky because they involve less uncertainty. A company can merge with a target where profitability, revenue and market share, are known, and this will reduce uncertainty. In contrast, an internal new venture is associated with large uncertainties, as depicted by projected cash flows, profitability and revenues (Hill and Jones, 2001). So when, considering an entry mode into the foreign markets (Hill, 2003) have stated that mergers and acquisitions are regarded less risky than 'greenfield' ventures. When a firm makes an acquisition, it buys a set of assets that are producing a known revenue, acquires a set of tangible assets such as factories, logistics systems, customer services

systems and intangible assets such as a local brand name, plus the manager's knowledge of the business environment.

The firm may have reached the maturity stage; growth rate is weakening, and it may look for younger and more dynamic companies both to obtain a quick short term growth "fix" and utilise their entrepreneurial ideas to achieve higher rates of growth in the longer term. (Pike and Neale, 2002).

When there is divorce of ownership and control, and a high level of managerial autonomy, managers are relatively free to follow activities and policies including acquisitions of other firms, enhancing their own objectives in monetary and non-pecuniary forms. Management salaries and other benefits are usually higher in large and growing firms. Since growth by acquisition is usually easier and swifter than organic growth, managers may view acquisitions with some eagerness (Pike and Neale, 2002). The greatest motivation for growth is the perception of individual managers. Many managers believe that a growing organisation is a healthy organisation (Boseman and Phatak, 1989). During the press conference on the proposed merger between East Africa Building Society and Akiba Bank Limited, for example Dhruv the Chief Operations Manager said optimistically that "We are building a formidable force in Kenyan Banking"(Riungu, 2005).

2.2 Types of Mergers and Acquisitions

There are a number of ways of categorizing mergers and acquisitions and can be distinguished between, domain strengthening, domain extensions and domain exploration, depending upon

whether they are aimed at acquiring a capability, a new platform, or an entirely new business position (Grundy 1995). Mergers are therefore split into four types.

The first type of merger is horizontal merger. Boseman and Phatak (1989) have described horizontal mergers as characterised by the combination of firms that have similar products or services and are in similar businesses. Such mergers allow a company to increase utilisation in production, marketing and other functional areas, and thus increase its profitability. (Pike and Neale (2002) have defined horizontal integration, as where a company merges with another from the same industry, and which is at the same stage of the production process. An example is of a supermarket merging with a competitor. However, if the authorities feel that a merger is reducing competition in the industry, an antitrust suit could result. Most of the companies which opt to merge horizontally usually find difficulties in convincing the authorities in the relevant countries that they are not creating monopoly. In the Kenyan system it is very difficult to push for a horizontal merger per se (MPC Annual Report 2000).

The second type is identified as vertical mergers. Vertical mergers are the commonest types of mergers. A company can merge upstream, that is backward integration to produce its own inputs, or downstream, to dispose of its own outputs. Typically the links in the vertical chain consists of raw materials purchasing, manufacturing, distribution and retailing. When a firm acquires one or more of these links in the chain, it is said to be involved in a vertical merger. The main objective is to create value through the integration and normally motivated by a desire to strengthen the competitive position of its original or core business. This is achieved by building barriers and gaining control over the source of critical inputs, as happened with Alcoa

and Alcoa when the company acquired bauxite deposits in Jamaica in 1930 -1950 (Hill and Jones, 2001).

Vertical mergers are also found where firm may want to protect product quality as commonly found in after sales services for complex products such as found in 1920's in Kodak outlets. Planning, co-ordination, and schedule of adjacent processes when effectively implemented, are important in Just In Time (JIT) inventory systems. A firm will find that a supplier is unlikely to make heavy investment on specialised asset, because of the risk of hold up that is being taken advantage of by a trading partner after the investment is made. This kind of investment is found in the motor industry on components parts, in steel production and computer companies in cheap production (Hill and Jones, 2001).

Mintzberg and Quinn explain vertical merger as the management of inter dependence with either sources of input, or purchases of output, by absorbing them. Hax and Majluf (1996), see vertical mergers as where the target is in the same industry as an acquirer but operating at a different stage of the production chain mergers.

Concentric mergers involve firms that have a common thread between them. This common thread could be in technology, marketing and channels of distribution or customer service. In such mergers, one or more aspects are related between the merged or acquired firms. Common threads can range from marketing skills and channels of distribution. This is usually found in marketing oriented companies in consumer products with strong brands (Boseman and Phatak, 1989).

strategic rational acquisition focusing on the criteria of financial position, product market

Conglomerate mergers involve combinations of firms that are in unrelated businesses. Such mergers do not seek functional synergy through relatedness among the merging firms. The principal motive for conglomerate mergers is diversification of financial risk (Baseman and Phatak, (1989). These kinds of mergers are said to lack industrial logic but can lead to economies of head office administration and access to capital market (Hax and Majluf, 1996). One of the reasons given by firms that merge is to diversify operations and thereby lessen dependence on the present organisations with which it exchanges (Mintzberg and Quinn, 1991). This is a strategy used by Lonrho CEO Tiny Rowland in Group expansion in 1960's and 1970's in Africa, which has since unravelled.

2.3 The Process of Mergers and Acquisitions.

The second stage is the bidding process in respect of mergers and acquisitions. The bidding

According to Jemison & Sitkin (1986), most analysts on mergers and acquisitions stress on strategic fit between the firm's and the need to achieve an organisational strengthen by matching administrative system, corporate cultures or demographic characteristics. A sufficient degree of strategic and organizational fit ought to guarantee an acquisition success. Yet even friendly acquisitions that apparently satisfy this advice, often fail to work out. The managers therefore must look beyond strategic or organisation fit to the process itself.

The first initial stage on any merger or acquisition is the target identification, evaluation and screening process. This process increases a company's knowledge about the potential acquisition, heading to a more realistic assessment of integration problems and a lessening the risk of merging with or acquiring a 'potential problem business.' A detailed assessment of the

strategic rational acquisition focusing on the criteria of financial position, product market position, competitive environment, management of capabilities and corporate culture is one of crucial assignment in the pre-merger process (Hill and Jones 2001). However, this is dominated by managers and analysts with specialised skills, because of the technical complexity of the required analysis, and the number of tasks to be accomplished. Consequently, this leads to a problem of fragmented views in the process. Jemison & Sitkin (1986) refer to a Chief Executive who had to assemble one hundred and fifty specialists to complete an assignment in six days, and the team had not worked with each other before, did not use the same jargon and communicated only in most standardized information that undermined the process.

The second stage is the bidding process in respect of mergers and acquisitions. The bidding strategy is characterised by pressure to conclude the transaction. Jemison & Sitkin (1986) have identified forces that increase the momentum in the acquisition process. First, once the possibility of transaction is known, a period of uncertainty sets in for shareholders, suppliers, customers, employees and competitors. Any merger or acquisition involves two packages of assets, two sets of owners and the value both parties attach to the business being traded is different and so is the mode of payment (Hill and Jones, 2001). There is therefore, a high degree of secrecy and concentration. It is said that the deal between East African Breweries Ltd (EABL) and Castle Breweries Ltd. was not known to the employees, or in the Kenyan market, until the day the final announcement was made.

The amount of time spent on analysis and negotiations frequently require a substantial, uninterrupted time commitment from the participants. The managers will hurry to conclude the

deal as they have put their reputation at stake and are often not willing to accept any criticisms. The managers see acquisitions as a stepping stone to personal rewards, advancement and enhancement of their reputation. Furthermore, the specialist and especially the Investment Bankers are compensated on transaction basis which does not vary dramatically if a deal takes three weeks or nine months to close. So it is in their personal interest to close the process quickly (Jemison and Sitkin, 1986). (Pike and Neale 2002).

The process of integration is a very wide area still to be researched on. However this study will cover limited scope of integration. Integration planning should begin at the point at which a target is identified. If a target is likely to be inherently difficult to integrate, this has an immediate bearing on its value. The most difficult part of a merger or an acquisition strategy and execution is the integration of the newly formed firm (Pike and Neale 2002). Post-acquisition management is often a complex and lengthy process and calls for project management techniques and skills of high order (Grundy, 1995). A poor planning and executed integration period are the commonest reasons for failure with mergers and acquisitions. As soon as the merger is sealed, Senior Management attention is on the next adventure, rather than on developing adequate resources to absorb newly acquired company operations (Hill and Jones, 2001).

Positive steps need to be taken to integrate immediately after the mergers or acquisitions. Integration should centre on the source of the potential strategic advantages of acquisition and opportunities to share in value chain activities. This means the elimination of any duplication of facilities and functions and the disposal of any unwanted activities (Hill and Jones 2001).

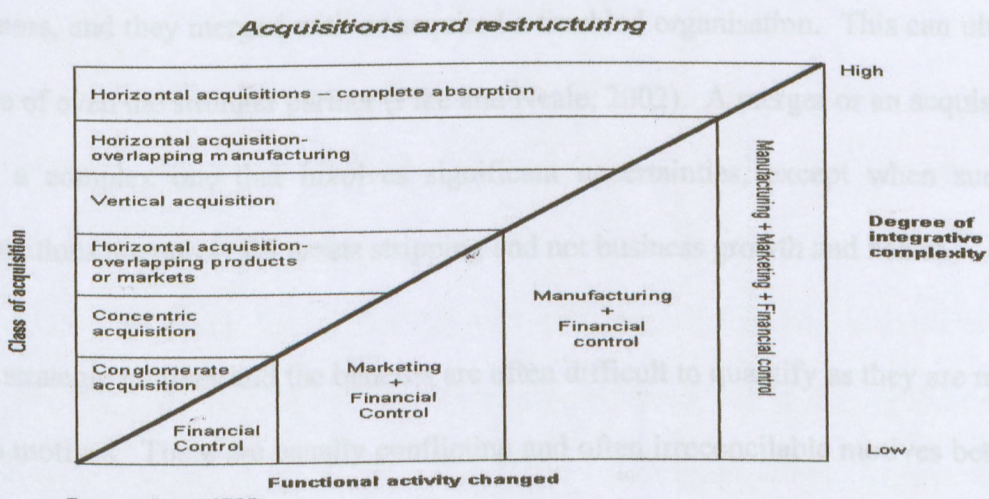
Normally there is a limited amount of information to guide the integration plans and management should not be too shocked to encounter some 'nasty' revelations regarding the quality of assets and some personnel. The difficulty of integration depends also on the extent to which the control of the operations stems from both entities. If only limited control is required, as in case of unrelated acquisitions, the integration is probably restricted to the financial reporting systems of the component companies (Pike and Neale 2002).

The integration sequences have been highlighted by Hill and Jones (2001) as the process to decide and communicate reporting relationships, achieve rapid control of key factors, review the resource base by resource audit, define corporate objectives, develop strategic plan and revise the organisation structure. The employees want to know what are the incentives, pension schemes and career prospects in the newly formed enterprise. (Jemison and Sitkin, 1986) has emphasized the inclusion of operating managers on the negotiating team to ensure management continuity.

The diagram below demonstrates the degree of integrative complexity.

Figure 1

Type of Acquisition and integration complexity (Pike and Neal 2002)



Source: Jones 1986

Diagram: Type of Acquisition and integrative complexity

2.4 Challenges of Mergers and Acquisitions

According to Grundy (1995), it is very hard even with the best of intentions, to maintain objectivity and complete clarity about the rationale and value of an acquisition once the process gets under way. As Hill and Jones (2001) have emphasized, a merger or an acquisition signals change and because of uncertainties, anxiety builds up in many people whose jobs might be affected. Rumours substitute for facts and spread rapidly. It is therefore important to manage pre-acquisition activity, especially in the area of communication with employees. Value does not come easily through acquisitions and mergers because of these challenges of the pre-and post-acquisitions process.

During the screening process, firms often have little or no access to intelligence about their targets beyond published financial and market data. There is often inadequate or unavailable of

information. The due diligence examination will be able to assist, and this is essentially a "search for skeletons in the cupboard". Firms often acquire other firms without adequate and thorough analysis only to discover after acquisitions are completed, that instead of a well run business, and they merged with or acquired a troubled organisation. This can ultimately destroy value of even the stronger partner (Pike and Neale, 2002). A merger or an acquisition decision is thus a complex one that involves significant uncertainties, except when such mergers and acquisitions are purely for assets stripping and not business growth and health.

The strategic motives and the benefits are often difficult to quantify as they are mostly for longer term motives. There are usually conflicting and often irreconcilable motives between managers, shareholders and other stakeholders. This will then de-motivate the managers of a firm that had only anticipated short term gains. Thompson and Strickland (1996) indicated that building a stronger long term competitive position is more likely to benefit shareholders than merely improving short term profitability.

The greater the scale of acquisition activity, the greater the resulting financing burden placed on the firm and the greater the impact of diverting managerial capability into solving integration problems. Firms usually experience a financing gap and are financially incapable of managing acquisitions and mergers. Acquisitions also require substantial funding and very few companies can finance acquisitions out of their own cash balances (Pike and Neale, 2002).

When companies are merging, some of the managers in both firms will not support it, particularly if the future does not look good for them. This is where there is proposed lay off of staff due to the implicit duplication of jobs. If an acquisition is managerially generated, the

managers may be prepared to expend more than necessary amounts to gain ownership of target companies, simply to secure deals which promote managerial well-being but at the expense of shareholders value (Pike and Neale, 2002).

Hill and Jones (2002) argued further that problems of the post acquisition integration period will pose a great challenge to the emerging new management. Integration can entail the adoption of common management and financial control systems, joint operations and establishment of linkage to share information and employees. Differences stem from the two corporate cultures. Failure to plan and the integration execute properly, frequently neglecting the organisational and internal cultural factors, becomes a challenge to the merged firm. This is brought about by inadequacy in the knowledge of the other's business and which should be corrected in the process of due diligence (Pike and Neale 2002). Johnson and Scholes (2002) have defined a culture as co-ordination between various activities that occurs naturally because people know their part in the wider picture, or it is simply taken for granted that activities are done in particular ways. There is usually high management turnover, as employees may not like the way things are being done by the merged firm, or the acquirer. Management of the post acquisition is an area that can provide further research, as it is both broad and contains major challenge to the success of any merger or an acquisition.

There is a tendency of over-estimating the potential for creating value, and the strategic advantages. Managers typically over estimate their ability to create value from an acquisition, primarily because the CEO's have given themselves an exaggerated sense of their own capabilities. This is what happened to Coca Cola, in 1975, when it embarked on the acquisition

of several medium sized wine- making companies. Coca Cola was taking advantage of their marketing competences. Little did they know that soft drinks and wine are very different products, with different kinds of appeal, pricing systems and distribution networks. Eventually Coca Cola sold these companies at a loss. Acquisitions are frequently mismanaged because of the build up of untested commitments, over enthusiasm, and the “thrill of the chase” (Grundy, 1995)

There are also elements of exaggerating the price, especially where there are more companies that want to expand their market share during the time of mergers and acquisitions boom. In any case, the capabilities of both firms may not be the same as should become apparent during the negotiations which take place before a merger or an acquisition is concluded. Therefore, the firm may have paid too much for their targets as a result of a flawed evaluation process, which over estimated the likely benefits or as a result of getting caught up in the mechanism of a competitive bidding situation, where to withdraw from bidding is regarded as a sign of corporate weakness (Pike and Neale, 2002).

Acquisitions of companies whose stock is publicly traded tend to be very expensive, and there may be market imperfections inbuilt within the share price. The price of the target company's stock will go up and especially if there are contested bids. In 1980, an average of 40% to 50% premiums was not uncommon. The debt taken on to finance such expensive acquisitions can later become “a noose around the acquiring company's neck” particularly if there are interest rates rise (Hill and Jones, 2001).

There are challenges that face firms that merge vertically. If there is a change in technology, the company will find it difficult to change its supplier and its distribution systems having already invested heavily in the preceding technology. In unstable and unpredictable demand conditions, a vertical merger may be difficult. The problem is to balance capacity among different stages of the demand of the product (Hill and Jones, 2001).

Mintzberg and Quinn (1991) have emphasised that while absorption of supplier or a distributor will reduce the firms' uncertainty by bringing critical contingencies within the boundaries of the organisation, this strategy has some distinct costs. One danger is that the process of vertical mergers creates a larger organisation, which is increasingly tied to a single industry.

Cost disadvantage once the investment is made, will lock the company's activities with the inputs produced in house. This usually does not happen where an external source from supplier exists. For example, in 1990, General Motors used 68% components from in-house compared to Toyota's 28%. In 1992, General Motors was paying \$ 34.60 to unionisable workers, while non-unionised suppliers were paying half the rate (Hill and Jones, 2001).

2.5 Measure of Success of Mergers and Acquisitions.

Hill and Jones (2001) have indicated that many mergers actually fail. The anticipated benefits do not develop at least to these defined, predicted and unforeseen problems arise due to poorly conceived combinations and 'marriages of convenience' that were never clearly thought through.

The definition of success may vary, but any activity that fails to enhance shareholders interest, is unlikely to be regarded favourably by capital market. While it is often difficult to assess what would have happened had a company not embarked on the takeover trail, if post acquisition performance is inferior to pre-acquisition performance, or if the acquisition actually leads to a fall in shareholder wealth, it is difficult to argue that the acquisition has not been a failure (Pike and Neale, 2002).

The success of any mergers can be measured by the core competences generated to create value or enhance value. It can be measured using the parameters such as market attractiveness and competitive positioning. Hence creation of competitive advantage as a result of cost leadership and product differentiation. This will result in the long term profit sustainability and the creation of shareholders wealth (Grundy, 1995).

Ansoff and McDonnell (1990) describe environmental turbulence as 'a combined measure of the changeability and predictability of the firm's environment'. The firms will face different, continually changing, challenges and those challenges of tomorrow will be different from those of yesterday. Each firm needs to diagnose its unique pattern of future challenges, threats and opportunities, and their design and implement its unique response to these challenges. In the

process of this diagnostic process, firms realise that each has different strengths and if they merge, or an acquisition is undertaken, the new firm will be able to combine and adapt to environmental constant changes, instead of going it alone. Therefore, the ability of the combined firm to respond to the environmental turbulence can be considered a parameter of success.

The success of mergers and acquisitions can be measured quantitatively in terms of increased profitability and share price, by comparing pre and post-acquisition performance. Mintzberg and Quinn (1991) state that the classic expressed rationale for mergers have been to increase profits and shareholder value. In the series of studies that have been carried out elsewhere since 1921, researchers have been unable to demonstrate that merger active firms are more profitable, or have higher stock prices, following the merger activity. Lucey (2000) indicated that the financial performance of the company can be expressed in terms of income generated from its operation, after offsetting expenses when the profitability of the firm is arrived at. Atrill, et al (1991) has split ratios into the profitability and growth ratios. One of the profitability ratios is return on capital employed (ROCE) is arrived at as follows:-

Profit before interest and Taxes %

Total Assets

One of the growth rates Earning per Share (EPS) is arrived at as

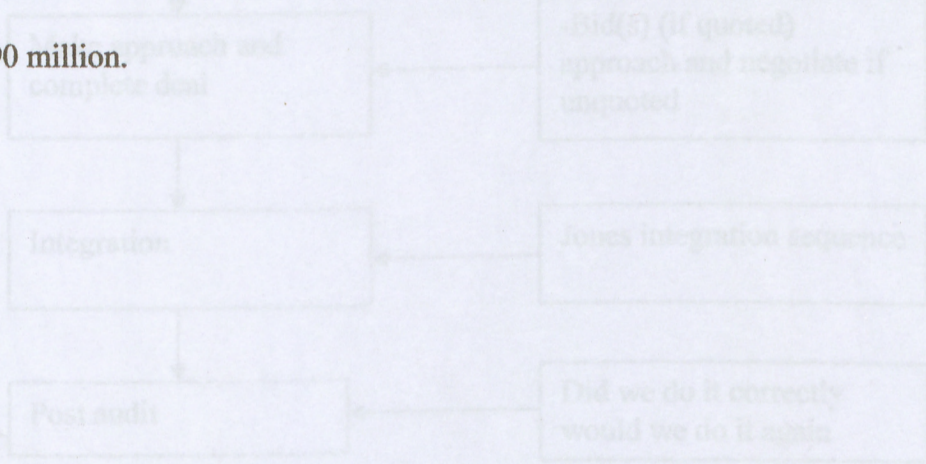
= Net Earnings after Tax

Number of Ordinary shares

A comparison of these ratios, pre and post acquisition will indicate whether new

Value has been created.

In a study carried out on bank mergers, Chesang (2000), concluded that financial performance of some banks in Kenya improved, while that of others deteriorated. However, Merger restructuring should still be a considered and recommended option to improve Banks performance. This is more so in the case of small medium sized banks, or weak or ailing financial institutions with a narrow business base. Another conclusion made in the study was that small and medium sized banking system institutions have been forced into mergers and acquisitions essentially for survival. Smaller Banks have especially been prone to liquidity problems due to their weak capital base, imprudent lending policies, and inefficient management. The study also cited some strategies, which have been used by the bigger banks, such as Barclay's Bank Corporate Restructuring merging with Barclays Merchant Finance Limited, due to dwindling business and its increase in capital base. Fusion then was an easier option. Habib A.G. Zurich and Habib Africa Bank Limited merged resulting in an increase to capital base of Kshs. 290 million.

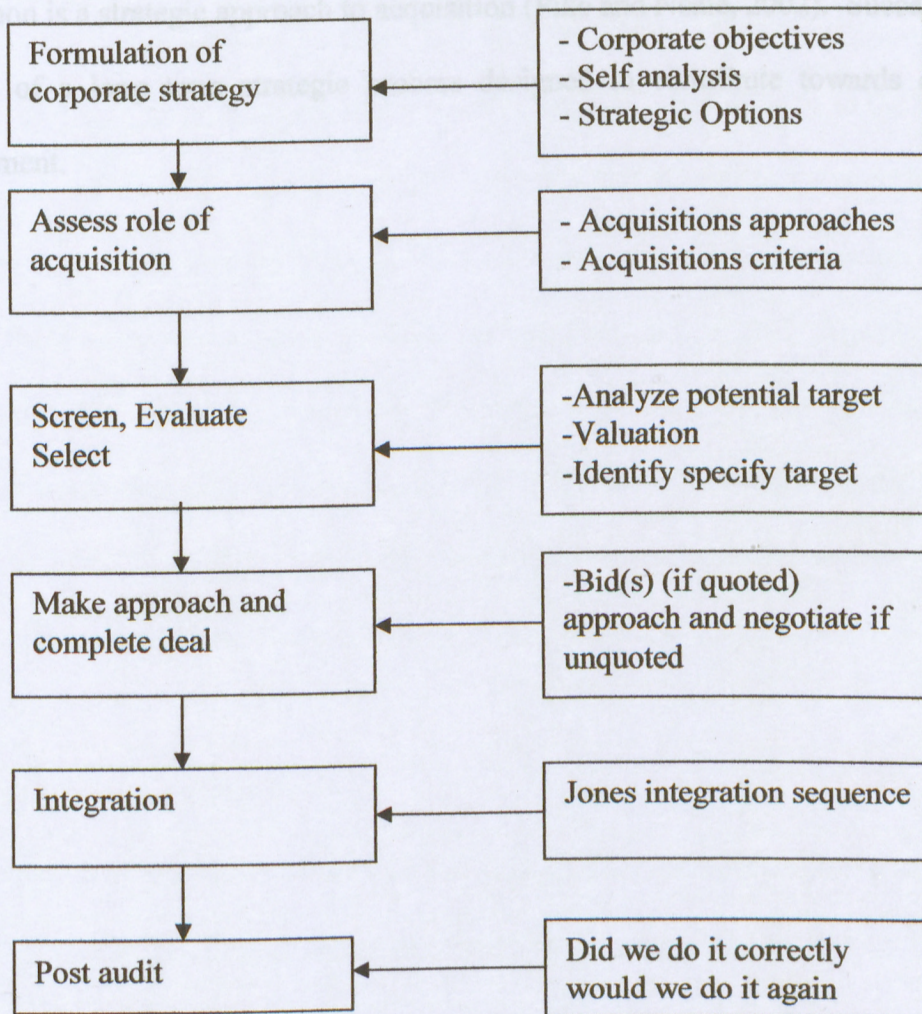


Source: Based on Payne (1995)
 (Pike and Neale 2002)

2.6 Strategic Approach to Mergers and Acquisitions.

The strategic approach to mergers and acquisition is best demonstrated by the figure below.

Figure 2. Strategic framework of Mergers and Acquisitions



Source: Based on Payne (1985)

(Pike and Neale 2002)

3.1 Research Design

The design of this research was a survey research. A survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitude, behaviour or values (Mugenda and Mugenda 2003). This survey is a descriptive study that collected data from the firms that submitted Merger Notification to the MPC in the years 2001 to 2004. This study has documented the firm's experiences in the mergers and acquisition processes. It also endeavoured to establish the managers' perception on whether the shareholder's value was created or destroyed after the merger and acquisition activities were completed. The study also sought to document what were the management's most or least important factors that in their view, contributed to the success or failure in the implementation of these strategies. The other factors that were sought and included in this study were the management's perception in on importance of post merger and acquisition activities.

3.2 Population of Study

The population of the study comprised of all Merger Control Notification received and processed by the Commissioner of Monopolies and Prices in the years 2001 to 2004 as shown in appendix III. This data has some limitations. The distinction between takeovers and mergers in some years was not indicated. The firms that were listed in MPC reports included either public, private own, foreign owned, locally owned, or both. No distinction was made. It was found appropriate to incorporate some questions relating to the firms' profile in the first part of questionnaire. Consequently, a census survey was carried out. The available data at the time of this study was

for the years 2001 to 2004. It was therefore not possible to expand the size of the population beyond this period.

3.3 Data Collection Methods and Instruments

Primary data was collected using structured undisguised and self-administered questionnaire. The questions were both open ended and close-ended. By included were closed-ended questions, the researcher hoped that the response rate would increase. The researcher felt that the respondents had practical experiences on the full process of the mergers and acquisitions and crystallized their opinion. One of the objectives of this study was to document the perceptions of managers as to creation of shareholders value and the most important factors and least important factors that contribute to the failures and successes of mergers and acquisitions. The likert scale is used to measure perception, attitude, values and behaviour; helps minimize the subjectivity and make it possible to use quantitative analysis (Mugenda and Mugenda, 2003). The respondent was to check one of the offered five fixed alternative expressions such as strongly disagree, disagree, neither agree or disagree, agree and strongly disagree comprising of a continuum. In this five point continuum, values 1, 2,3,4,5, were assigned. These values express the relative weights and direction, determined by the favourableness or unfavourableness of the item (Nachamias and Nachamias, 2003). Likert scale is useful for a manager when the organization plan to conduct an experiment or undertake a programme of change or improvement (Cooper and Schindler, 2003). Mergers and acquisitions of firms are such programme of change within the two firms. Likert scale produces interval data.

The questionnaire was distributed through postal mail with an enclosed self-addressed return envelope to help increase the response rate. The researcher followed this with telephone calls and personal visits.

3.4 Data Analysis Methods

The shareholders of the company must be convinced that once the businesses merge, or there is an acquisition, value will be created. It is therefore very difficult to convince the shareholders of both companies to merge or carry out an acquisition transaction if they do not foresee any benefits. The Board of Directors will therefore through the CEO, be involved in a merger or an acquisition process. It was therefore, appropriate to target the CEO, as respondent to this questionnaire or a Senior Partner in partnership business as they were the most appropriate persons to complete the questionnaire.

The questionnaire was developed and consisted of three parts. The first part of questions was to tap into the relevant information and the profile of the respondents. This was to assist the researcher on the background information of firms that merged or acquired a target firm.

The second set of questions sought to establish the experiences of the firms in the merger and acquisition process and reasons for adopting these strategies. The questions also addressed the approval process within the Competition Law.

The third part of questions sought to investigate what the respondent's perceptions of mergers or acquisitions as regards to the factors contributing to the success or failure, post merger activities,

turnover of the staff and creation of shareholders wealth as a result of merger and acquisition.

These were sets of questions that were designed to seek the perceptions of the managers.

3.4 Data Analysis Methods

Once the data was collected using the questionnaire, it was converted to numerical codes representing attributes. Coding is the process by which responses are classified into meaningful categories. To assign meaningful numbers to responses, variables, must have been measured at interval or ratio scales. Assigning numbers to responses is easily accomplished if the items or questions in the questionnaire are close ended (Mugenda and Mugenda 2003). This is very appropriate to this study as most of the questions were close ended. Likert scale was used to measure the perception of the top management of the firms that participated in the research study.

Editing and cleaning the data are important steps in data processing that should always precede analysis of the collected information. Data editing was therefore carried out that checked omissions and completion of the data. This being a survey study each completed questionnaire was evaluated as to its reliability and for inconsistencies in responses. Data cleaning was performed using SAS Statistical System software which is one of the most popular and widely available software packages for preparing and executing computerised data analysis.

Before data can effectively be used or analysed, it is normal to group or arrange the view data into a manageable form. Frequency distribution was used to examine the pattern of response to

each of the independent and dependent variables under investigation. In establishing the profile of the firms, the data was in the nominal scale.

4.1 Introduction

Graphs were used as an additional alternative method of displaying the information organised in frequency distribution. This increased effectiveness of communication of the data. Pie and bar charts were used in this research study.

In most distribution, the observations tend to cluster around a central value. A measure of central tendency will reflect a single value. For the purpose of this study, the mode which was the category or observation that appears most frequently in the distribution was used on nominal variables.

4.2 Firm's Profile

The first part of the research findings consisted of the general information which gave background information of the firms. This information was not readily available from the MPC Annual Reports. The data assisted in understanding the nature of the firms such as legal and ownership structures. It also showed the operational period of the firms in respect of number of years in existence in Kenya and the business sector the respondents were operating in.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

There were seventy one firms that submitted the merger notifications to MPC in the years 2001 to 2004 as shown in the appendix 2. The researcher decided to carry out a census survey of all the seventy one firms. Sixty eight firms were located and questionnaires delivered or posted. Twenty three responded or approximately 32%. Ten firms out of twenty three indicated that they abandoned the acquisition and merger process before conclusion.

Category	Count	Percentage
Adopted both names of the two firms	3	23%
Adopted the name of the acquirer	10	43%
Adopted the name of the acquiree	7	30%
Did not indicate	3	13%

Out of the firms that had indicated non completion of the merger or takeover process, three firms indicated that most of the top managers involved in the process had left the firms, and therefore did not know the reasons for not concluding the process. The remaining firms did not give the reasons. One of the thirteen firms that responded gave very limited data. The researcher therefore proceeded to analyse data of thirteen firms. (Not indicated in the analysis in most cases refers to this firm).

4.2 Firm's Profile

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4.2.1 Adoption of the Trading Name after the Merger/Takeover

It was found appropriate at this early stage of research to find out the names of the firms pre and post merger or acquisition process. It is an acceptable practise after a merger or an acquisition to adopt either one or both names of the firms. It is very rare to find firms abandoning both trading names. The researcher aimed at finding out whether the firms that completed merger and acquisition process adopted this common practise. Table one below were the findings:

Table 1 – Adoption of the Trading Name after the Merger/Takeover

Types of Adoption of names	Frequency	Percentage
Adopted both names of the two firms	3	23%
Use of one name of the firms	6	46%
Different names	3	23%
Not indicated	1	8%
	13	100%

Source: Research Data

It was observed from the table above that, out of the thirteen firms that indicated had completed a merger or a takeover, three adopted the names of both the firms' names, six adopted the name of one firm and three adopted the different names completely. 69% of the firms retain identity of the name known in the environment. The findings have shown that most of the firms adopted either one or both names after the mergers and acquisitions were completed. It can equally be expensive to use other trading names as a firm risks loosing its market share especially if the firm has been operating in a certain market for a considerable period. Change of trading names can necessitate re branding of the firms products, which is expensive in terms of advertising

costs. It can be concluded that retention of trading name after the merger or a takeover is the norm particularly with partnership firms.

4.2.2 Existence of the Firms

The firm's existence since incorporation and before undertaking a merger or an acquisition was apart of background information sought in this research. This is particularly important as merger and acquisition strategies are used to redirect firm's long term goals and objectives after operating for a considerable period. The table below indicated the number of years the respondents had operated in this environment.

Table 2: Existence of the Firm (Years)

Existence of firms	Frequency (years)	Percentage	Cumulative (years)
Over 20 years	4	30%	4
10 – 19 years	2	16%	6
Less than 10 years	2	16%	8
Not responsive	5	38%	13
	13	100%	

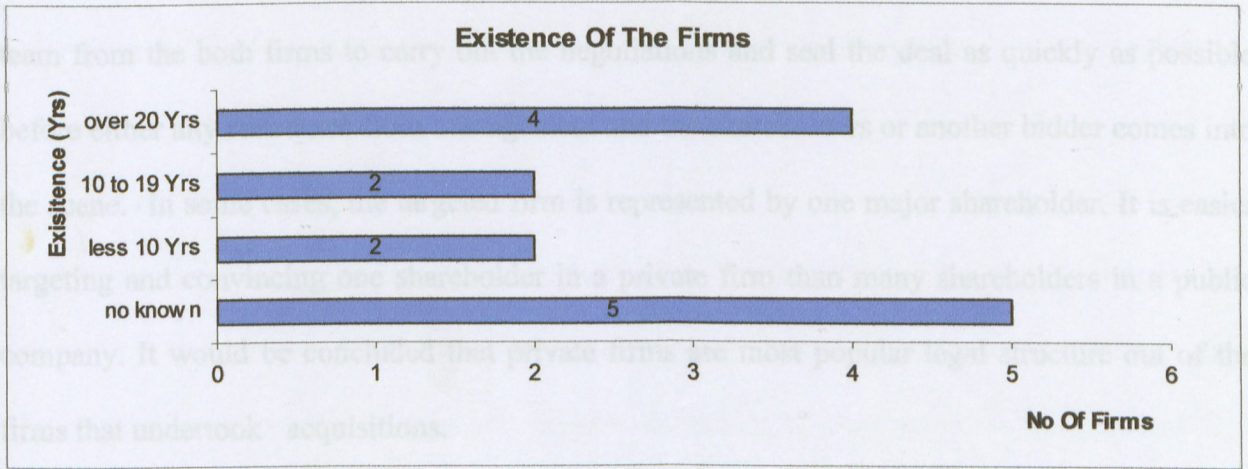
Source: Research Data

Four firms had been in existence for over twenty years, two have been operating between 10 years to 19 years, and two have operated less than 10 years. 46% of the firms that responded had operated over ten years. Merger and acquisition process from the research results is common with the companies that have operated over twenty years in Kenya. The process is a major change in any firm operational history and it appears that the longer the firms have operated in

the environment, the more confident they are in carrying out this type of strategy to re-align their operations. However, five of the firms that responded did not indicate the year of incorporation.

This can be illustrated further in the bar chart 1

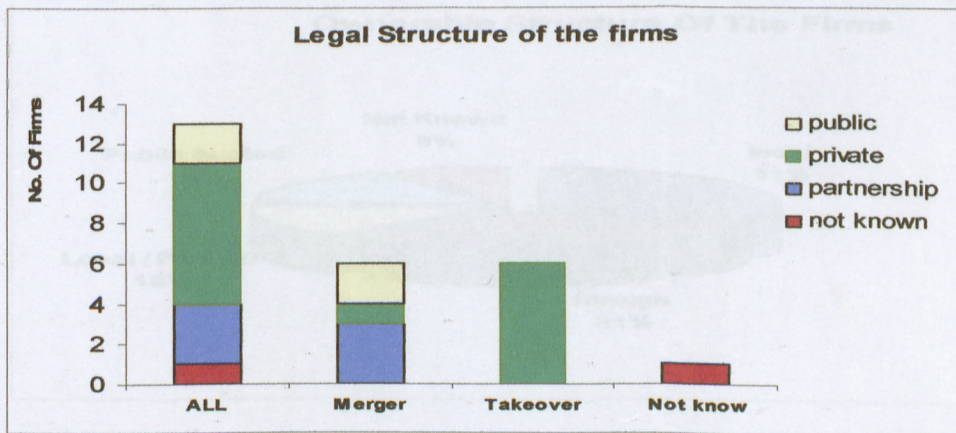
Chart 1: Existence of the Firm (in Years)



4.2.3 Legal Structure of the firms

The legal structure of the firm is the third component of the firm's profile. This information will reinforce the data so as to establish the mode namely partnership, private or public firm, of the legal structure. The legal structure of the firms is illustrated in the following bar chart below.

Chart 2: Legal Structure of the firms

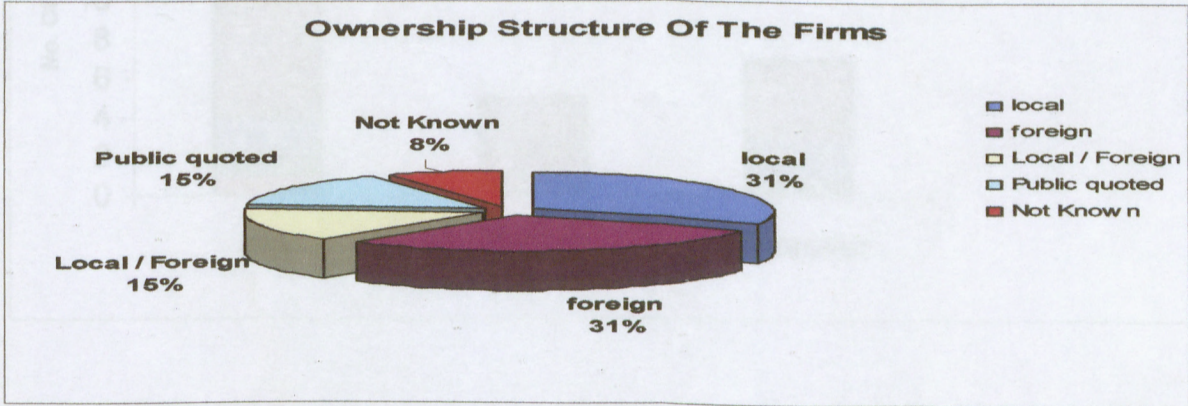


Out of thirteen firms that completed merger and acquisition process, three were partnership, two were public owned and seven were private firms and one was not responsive. Further analysis showed that two public, three partnership firms and one private firm merged. All takeovers were completed by privately owned firms. The process of a takeover usually involves a small team from the both firms to carry out the negotiations and seal the deal as quickly as possible before either any resistance from management and the shareholders or another bidder comes into the scene. In some cases, the targeted firm is represented by one major shareholder. It is easier targeting and convincing one shareholder in a private firm than many shareholders in a public company. It would be concluded that private firms are most popular legal structure out of the firms that undertook acquisitions.

4.2.4 Ownership structure

The ownership structure of the thirteen firms was analysed so as to establish which of the firms were either locally, foreign, or both local and foreign owned. Some firms only indicated that they were public quoted companies. The data relating to ownership structure was illustrated in the following chart.

Chart 3: Ownership Structure of the firms

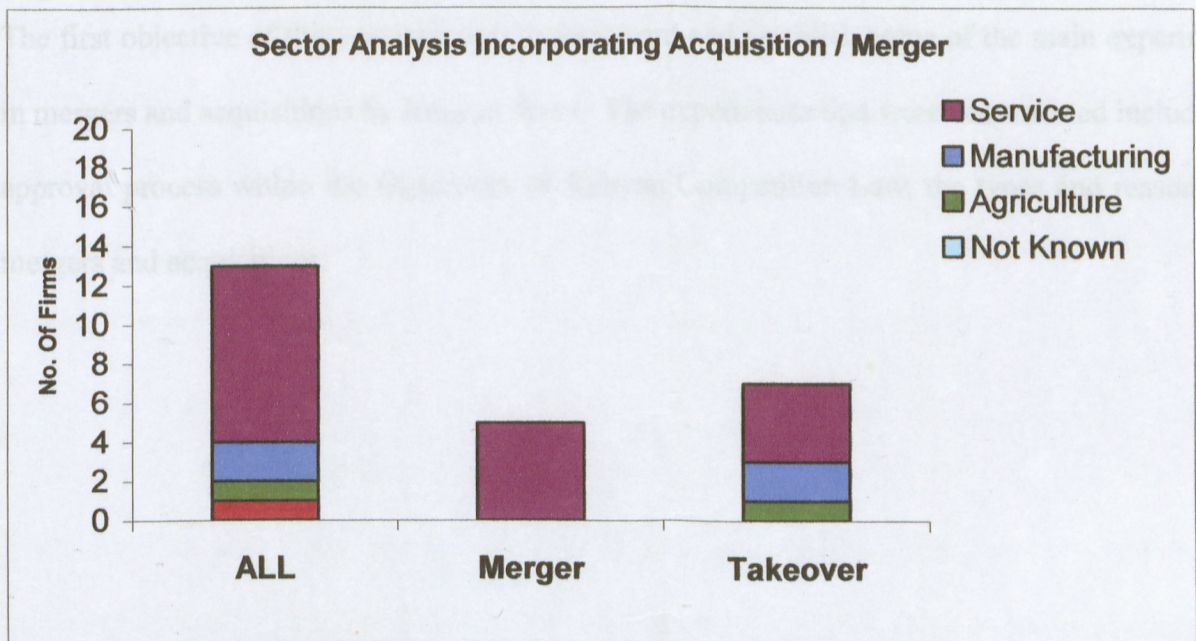


This research has shown that out of the thirteen firms that completed merger and acquisition process, 31% were locally owned, 31% were foreign owned, 15% were both locally and foreign, 15% were public companies and their ownership was not disclosed. There is a perception in this environment that only foreign firms carry out mergers and acquisitions. The data that was analysed showed otherwise, as the locally owned firms were equally represented in the research.

4.2.5 Business Sector Analysis

The researcher found appropriate to identify the business sector in which mergers and acquisitions occurred most. The specific sectors relate to service, agriculture and manufacturing. The data was further analysed as to compare the mode of the mergers and takeovers in a particular industry. The analysis was shown in Chart four below:

Chart 4: Sector analysis



The analysis showed that 75% of the firms indicated that mergers and takeovers occurred most in the service industry. One acquisition took place in the agricultural sector and two firms in manufacturing sector. It was observed that all mergers were undertaken by firms in the service sector. The firms had been requested to indicate the sub sector in which they operated. Further analysis in respect of the business sub-sector of the firms showed that within the service industry, mergers and acquisitions occurred most in the banking sub sector. An observation made by the researcher in chapter one of this study, the policy and institutional framework and effort made by the Central Bank of Kenya geared and urged the banks to merge so as to mitigate on weak capital base. CBK aimed at eliminating a repetition of collapse by the local banks that happened in the eighties and nineties. From the findings, it can be concluded that effects of CBK efforts are now bearing fruits.

4.3 Firm's experience in Mergers and Acquisitions

The first objective of this research was to document and establish some of the main experiences in mergers and acquisitions by Kenyan firms. The experiences that were documented include the approval process within the framework of Kenyan Competition Law, the types and reasons for mergers and acquisitions.

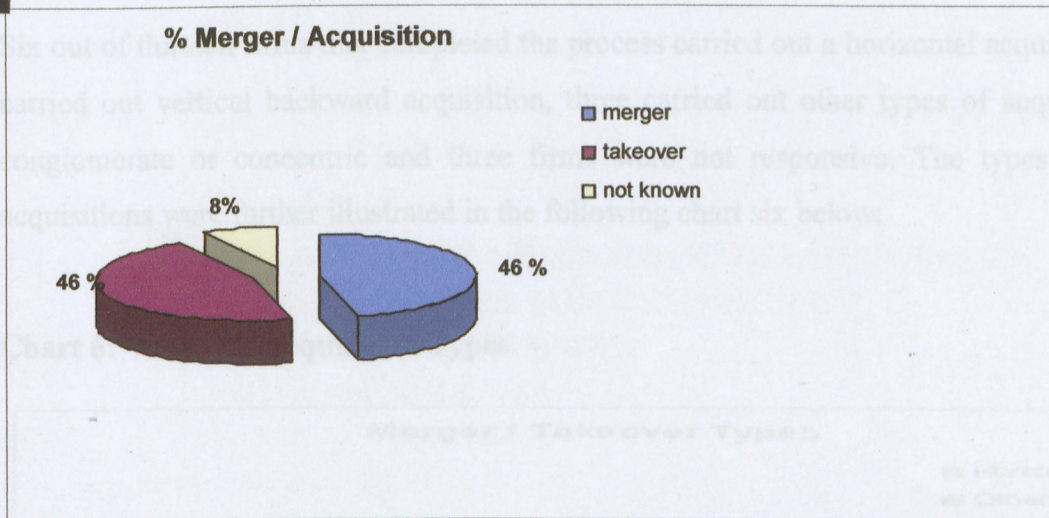
4.3.2. Types of Mergers/Takeovers

There are four main types of acquisitions or mergers namely horizontal, vertical, conglomerate and concentric as highlighted in chapter two of this study. The researcher aimed at documenting the most common type of merger or acquisition experienced by the Kenyan Firms. The analyzed data that was shown in the following table four and chart as below:

4.3.1 A Merger or a Takeover

There are distinctive business definitions of a merger and an acquisition as highlighted in the chapter one of this study. The first experience to be analysed from the data is to document how many firms merged or acquired another firm. This would demonstrate the mode adopted in this environment by the firms as a strategy. The analysed data was shown in the chart below:

Chart 5: Percentage of Mergers / Takeover



Out of the firms that responded, six firms in each indicated they either merged or undertook a takeover. One firm however was not responsive. Mergers and takeovers each represented 46% of the firms that completed the merger or acquisition process. The findings from the analysis showed that both mergers and takeover are equally common in this country.

4.3.2. Types of Mergers/Takeovers

There are four main types of acquisitions or mergers namely horizontal, vertical, conglomerate and concentric as highlighted in chapter two of this study the researcher aimed at documenting the most common type of merger or acquisition experienced by the Kenyan Firms. The analysed data that was shown in the following table four and chart six below:

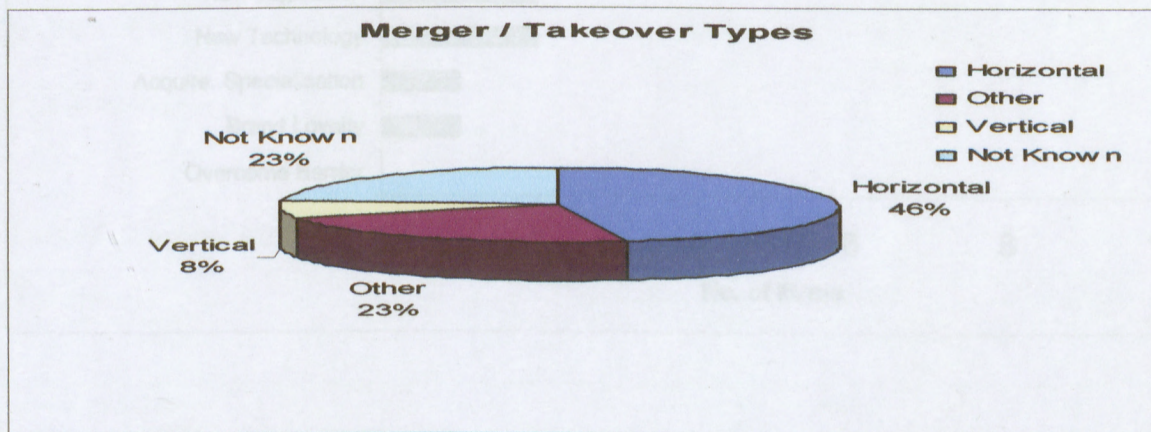
Table 4: Merger / Acquisition Types

Type	Frequency	Percentage
Horizontal	6	46%
Vertical forward	1	8%
Other	3	23%
Non responsive	3	23%
	13	100%

Source: Research Data

Six out of thirteen firms that completed the process carried out a horizontal acquisition, one firm carried out vertical backward acquisition, three carried out other types of acquisition such as conglomerate or concentric and three firms were not responsive. The types of mergers or acquisitions were further illustrated in the following chart six below:

Chart 6: Merger / Acquisition Types



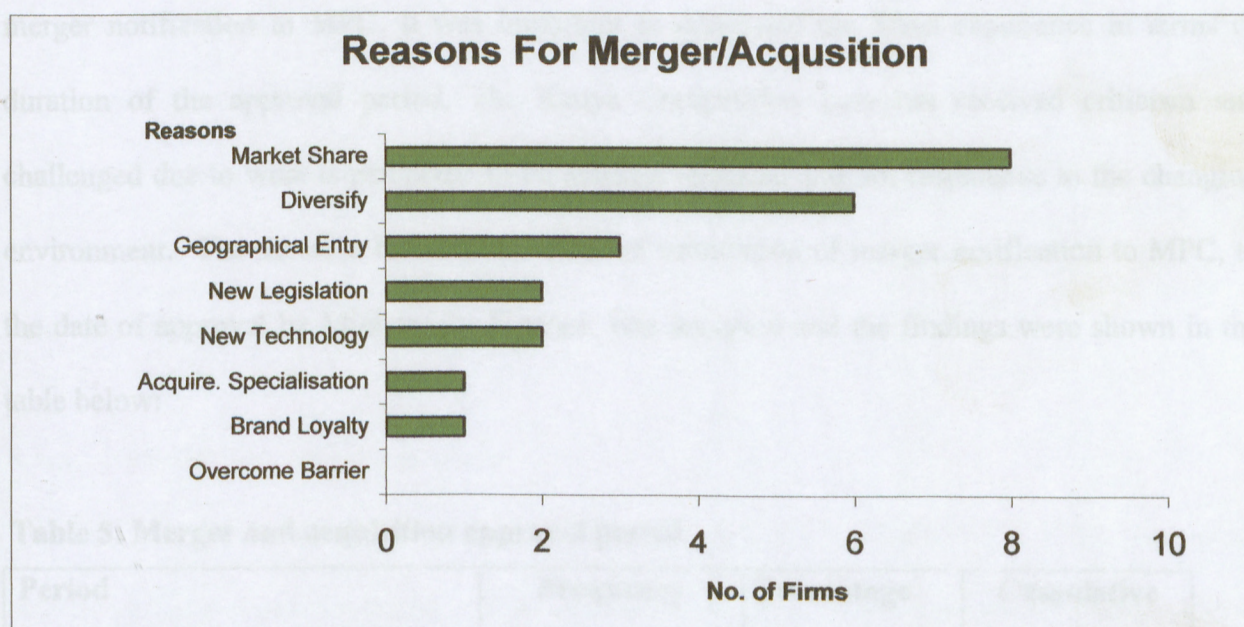
The pie chart showed that 46% of the firms undertook horizontal mergers and 8% were vertical mergers. 23% of the firms indicated that they undertook other merger types such as conglomerates and concentric. However, 23% of the firms were not responsive. Most mergers and acquisitions were horizontal. Horizontal acquisitions are known to trigger monopolistic behaviour if not handled properly and especially when a market is controlled by too few firms in

an expanding market. It is the responsibility of the Office of Commissioner of Monopolies and Prices to ascertain that this was not the case before an approval is given.

4.3.2 Reasons for acquisition/merger

In chapter two of this study, theories of mergers and acquisitions were exhaustively discussed. These theories are well documented in various literatures. In this study, the data relating to the reasons that led the firms to adopt these strategies was analysed and shown in chart seven below:

Chart 7: Reasons for Mergers / Acquisitions



Eight firms stated that the reason to carry out an acquisition or a merger was driven by the desire to increase the market share, six firms indicated that the strategy was based on the need to diversify and growth of business, three firms saw the need to enter into a new geographical area and two firms were forced to merge so as to comply with a new legislation. Two firms saw the need to acquire the state of art technology. One firm each indicated that the reason to merge was

driven by the need to acquire brand royalty and to facilitate specialization. There was no firm which used the strategy to overcome barrier to entry. It was observed that several firms indicated more than one reason. These reasons are the most common cited globally and the Kenyan firms were not exceptional.

4.3.4 Approval Period

Any firm that intends to adopt merger and acquisition strategies so as to redirect its long term goals and reposition and achieve competitive advantage over its competitors has to submit a merger notification to MPC. It was important to document the firms experience in terms of duration of the approval period. The Kenya Competition Law has received criticism and challenged due to what is perceived to be lengthy, outdated and not responsive to the changing environment. The duration between the dates of submission of merger notification to MPC, to the date of approval by Minister for Finance, was analysed and the findings were shown in the table below:

Table 5: Merger and acquisition approval period

Period	Frequency	Percentage	Cumulative
0 – 6 months	6	46%	6
7 – 12 months	2	16%	8
Over 12 months	1	8%	9
Not responsive	4	32%	13
	13	100%	

Source: Research Data

Six firms received approval within six months representing forty six percent (46%), two firms received the approval within a period of seven to twelve months representing sixteen percent (16%). Only one firm received approval after twelve months. Four firms were not responsive. Approximately sixty two (62%) of the respondents received approval within one year after submitting the merger notifications to the MPC. This is contrary to the belief that the approval process as in built in the Act is cumbersome. There was no undue delay in the approval process as it took fairly a short duration. It is an indication that the approval procedures are not a hindrance to the acquisition and merger process. All the approvals were by the Minister for Finance and therefore there was no need for any appeal either in the High Court or Tribunal. The appeal process usually takes a long period. It can be interpreted that MPC reviews thoroughly these notifications before submitting them to the Minister for Finance. Merger and takeover strategies require immediate decision making so as to take an advantage of an opportunity in the environment.

4.3.5 Negotiations with target firms

Negotiation with the target firm whether it is a merger or an acquisition is a pre transaction activity and if not well managed can be a challenge to the process. Correct bid price, terms of payments or exchange of shares if settlement so demand and management structures after the completion of the merger or takeover have to be negotiated and agreed on. The data relating to negotiation period was analysed as shown in the table six overleaf:

Table 6: Negotiation period

Negotiation Period	Frequency	Percentage	Cumulative
1-6 months	6	46%	6
7 – 12 months	3	24%	9
Over one year	2	15%	11
Did not indicate	2	15%	13
Total	13	100%	

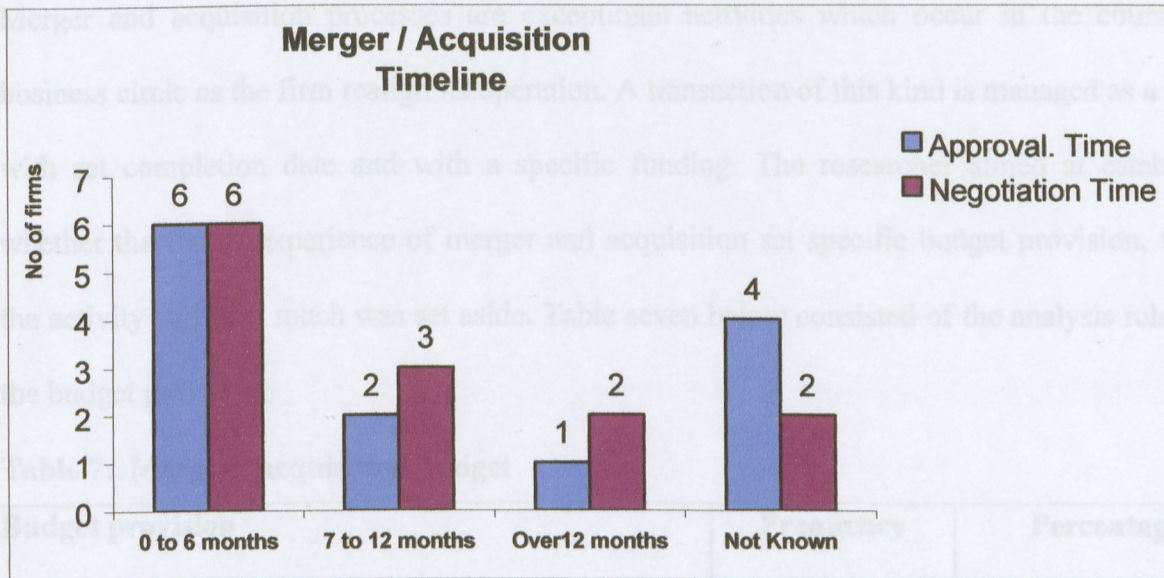
Source: Research Data

Six firms representing forty six percentage (46%) out of the firms that responded to this research took six months to negotiate the terms of the transaction with the other target firms, three firms took between seven to twelve months to negotiate, two firms took over one year to complete negotiations, and two firms did not indicate the period taken to complete the negotiations. Most of the firms that responded took less than one year to complete negotiations with the target firms. This can be considered a fairly short period considering the lengthy discussion and negotiations involved at this stage. Firms have to agree on proposed management structure and the bidding price which as mentioned latter in this research contribute to the success of mergers and acquisitions.

4.3.6 Comparison of Negotiation and Approval Period

The findings discussed in 4.3.4 and 4.3.5 above were interpolated in the Chart eight below. A comparison of the two processes was necessitated as to determine which of the two took longer than the other. Normally negotiations commence earlier than approval process but a firm cannot seal a deal before an approval is received. The strong relationship between the two processes was worthwhile documenting.

Chart 8: Negotiation and approval time lines



The Bar chart above is meant to compare the period of negotiation and that of approval process. Six firms took equal time to negotiate and to have the process approved that is within six months, three firms as compared to two firms took a period of between seven months to one year to negotiate and have the process approved respectively. There is no significant variation in duration between the approval and negotiation periods.

4.3.7 Appeal to the Tribunal (RTPT) and to the High Court

An aggrieved party has recourse to appeal to first the RTPT and if not satisfied can move to the High Court. This is a legal due process that is provided by the Act. The information and the data given by the respondents showed that none of the firms that responded in this research proceeded to any appeal either to the Tribunal or the High Court.

4.3.7 The Transaction Budget

Merger and acquisition processes are exceptional activities which occur in the course of a business circle as the firm realign its operation. A transaction of this kind is managed as a project with set completion date and with a specific funding. The researcher aimed at establishing whether the firms' experience of merger and acquisition set specific budget provision, to fund the activity and how much was set aside. Table seven below consisted of the analysis relating to the budget provision:

Table 7: Merger / acquisition budget

Budget provision	Frequency	Percentage
Did not indicate	7	54%
Did not indicate but gave the reasons	4	30%
Spent under Kshs.1 million	1	8%
Spend over Kshs.1 million	1	8%
	13	100%

Source: Research Data

Seven firms did not give an indication of the amounts spent in the acquisition and merger transaction. Four firms indicated that matters relating to such a budget were confidential information that was discussed between the shareholders. One firm spent over Kenya shillings one million and another one firm indicated a budget under Kenya shillings One million .The scanty data could be a result of either the data was not readily available, or it was considered confidential as indicated by the four firms or the firms did not make any budget provision.

4.3.9 Management of takeover process

This section and 4.3.10 deal with takeover and challenges associated with the strategy. This section should demonstrate the firm's experience in management of takeover process and resistance which is very common in acquisition process. It was established that only six firms undertook acquisition strategies. Takeover can be forced which is termed as hostile bid or systematically purchase of shares in the market or agree with the shareholders. Only three firms responded and stated that to conclude the takeover process, they agreed and negotiated with a major shareholder.

4.3.10 Management of Resistance

It is usually known that takeover triggers hostile resistance among the management and also the existing shareholders who are usually the minority. The three firms confirmed that they used change management techniques to minimise this resistance and a lot of discussion with the shareholders and the management.

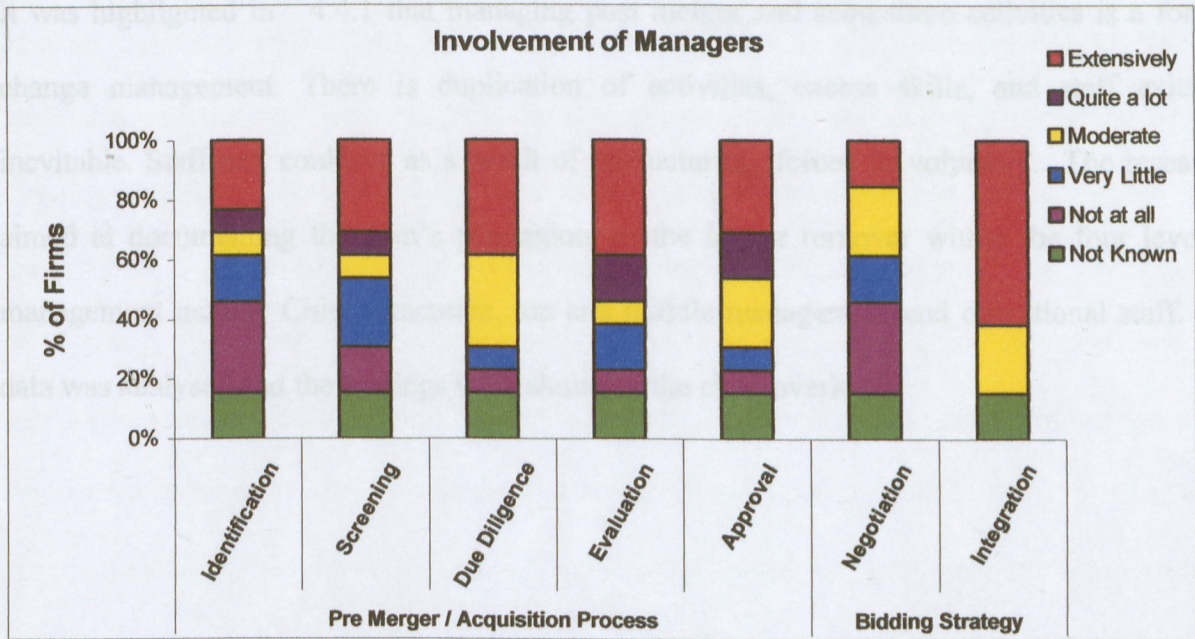
4.4 Perception(s) of the Firm

The second objective of the study was to find out from the top management of the firms that undergone mergers and acquisitions their perceptions on the degree of importance of some the factors that are within the process that create value for the shareholders, the factors that contribute to the success of the process, management of post merger activities and the degree of staff exit. There is no doubt that the merger and acquisition processes are major events in an organisation operating history. The researcher therefore devoted this part of the study in asking the firms that have undergone mergers or acquisitions what their perceptions are in some of the key issues relating to mergers and acquisitions.

4.4.1 Involvement of Managers

There are several stages in a merger or an acquisition process that need to be managed. The process is a strategic change in a business set up. It will therefore encompass the techniques of the change management and one such technique is involvement of the managers. It was important to request the firms to give their perception on the degree of involvement of the managers in pre merger and acquisition, bidding and integration stages. The involvement of managers in the merger and acquisition process was analysed and the findings were shown in the bar chart below:

Chart 9: Managers involvement in the merger/ acquisition process



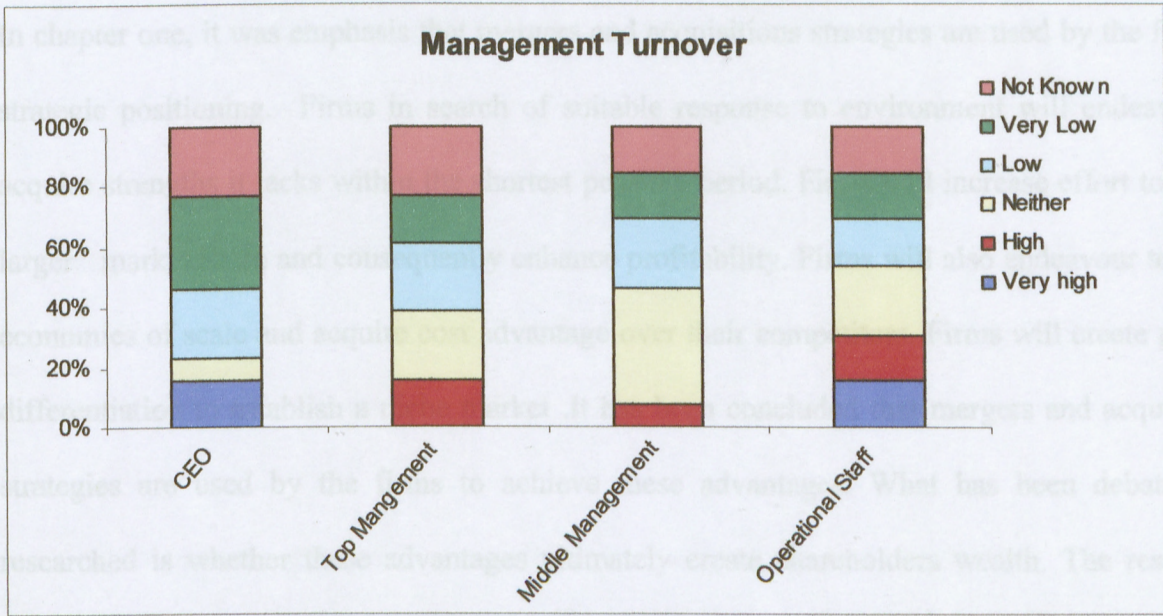
The data analysed showed that the managers' involvement in the identification process is very limited. At the stage of screening that involves due diligence, evaluation and approval process managers were used extensively. In the bidding process, that involves negotiations, managers' involvement was limited but their participation was extensively demanded in the planning of

post integration activities. The managers are the implementers of post mergers and acquisitions activities and therefore have to own the process and more importantly to manage efficiently and effectively the post integration activities. However, in areas on identification and negotiation, manager's participation was limited. This is understandable as these activities reside with the owners of the business and rarely are the tasks handled by the management unless the owners are also managers. It would be concluded that the manager's expertise was demanded in those activities in the process of acquisitions and mergers which were less sensitive and with what the shareholders regard as having limited confidential information.

4.4.2 Turnover of the Management during and after Merger/Takeover

It was highlighted in 4.4.1 that managing post merger and acquisition activities is a form of change management. There is duplication of activities, excess skills, and staff exits are inevitable. Staff exit could be as a result of restructuring, forced or voluntary. The researcher aimed at documenting the firm's perception on the labour turnover within the four levels of management namely Chief Executive, top and middle management and operational staff. The data was analysed and the findings were shown in the chart overleaf:

Chart 10: Management turnover

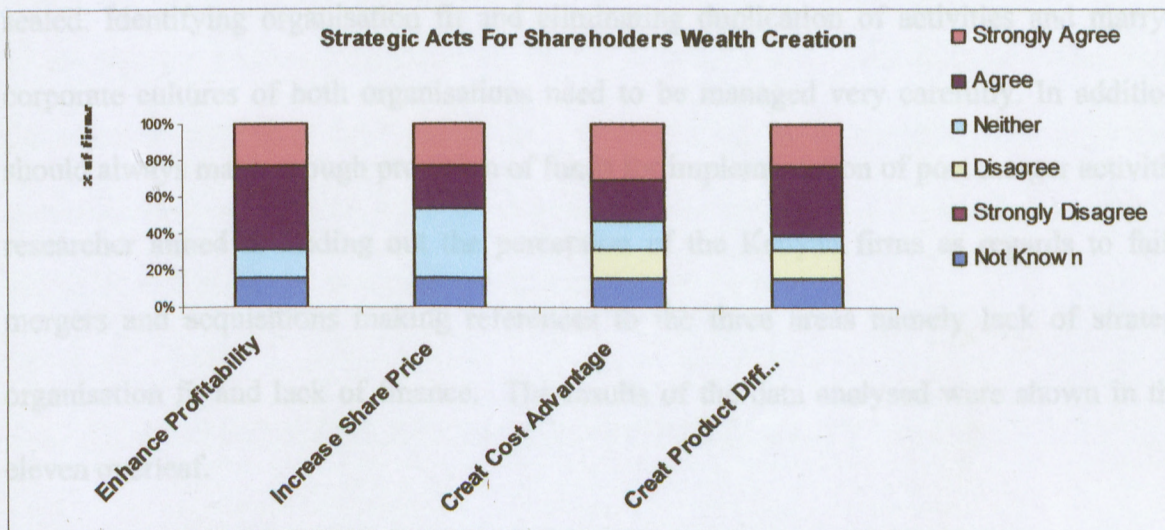


The perception of most firms indicated that the turnover of CEO and operational staff was moderate, and in both top and middle management, the staff exit was average. The top management plays a key role in the implementation of mergers and takeovers strategies. They are involved in the screening, approval and post merger and acquisition planning. For continuity of operation, it is considered important to retain the key management staff. It is also considered that duplication of some key functions would be eliminated during the integration process. It is therefore a challenge to the management as to design and develop balancing strategies. It would be concluded that the firms in Kenya that have undergone mergers have not experience that exceptional exodus of labour during and after a merger or an acquisition.

4.4.3 Merger and acquisitions are Strategic Acts that create wealth for Shareholders

In chapter one, it was emphasized that mergers and acquisitions strategies are used by the firms in strategic positioning. Firms in search of suitable response to environment will endeavour to acquire strengths it lacks within the shortest possible period. Firms will increase effort to gain a larger market share and consequently enhance profitability. Firms will also endeavour to gain economies of scale and acquire cost advantage over their competitors. Firms will create product differentiation to establish a niche market. It has been concluded that mergers and acquisitions strategies are used by the firms to achieve these advantages. What has been debated and researched is whether these advantages ultimately create shareholders wealth. The researcher posed this question to the Kenyan firms having undertaken mergers and acquisitions. The chart ten below represents the analysis of the firms' perceptions on wealth creation when one considers advantages created as a result of mergers and acquisition strategies.

Chart 10: Strategic acts for wealth creation



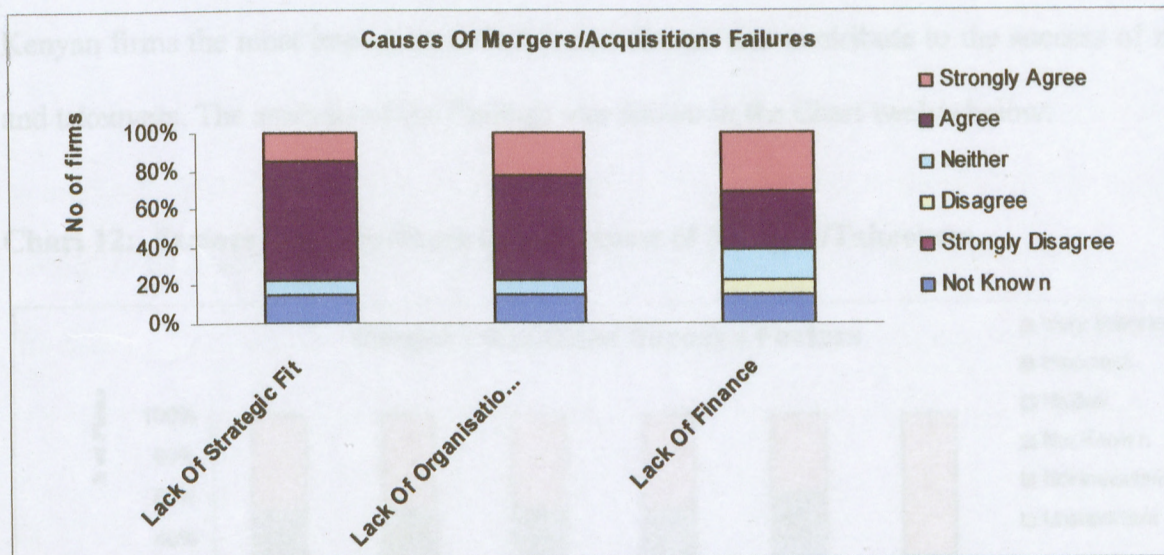
Approximately seventy (70%) of the firms agree and strongly so, that merger and acquisition strategies create shareholders wealth through enhancing profitability. The same perception is not

supported as far as increase in share price and creation of cost advantages as only 50% believe that such strategies create wealth. 65% among the Kenyan firms believe that once product differentiation is created by a merger or an acquisition, it may create wealth for the shareholders. It would be observed that about 10% of the firms that responded disagreed that creation of cost advantage and product differentiation creates shareholder value. Few firms did not strongly support that increase of the share price of the firm as result of mergers and acquisition result in creation shareholders wealth.

4.4.4. Management of Post Merger and Acquisition Process

It is known that mergers and acquisitions fail. It has been cited that if post merger and acquisition activities are not well planned, this can be a source of failure. Post acquisition management as highlighted in chapter two is a complex and a continuous process. Identifying the strategic advantages of acquisition and opportunities is a task that is embarked on soon as the deal is sealed. Identifying organisation fit and eliminating duplication of activities and marrying the corporate cultures of both organisations need to be managed very carefully. In addition firms should always make enough provision of funds for implementation of post merger activities. The researcher aimed at finding out the perception of the Kenyan firms as regards to failures in mergers and acquisitions making references to the three areas namely lack of strategic and organisation fit and lack of finance. The results of the data analysed were shown in the chart eleven overleaf.

Chart 11: Causes of Mergers and Acquisition failures



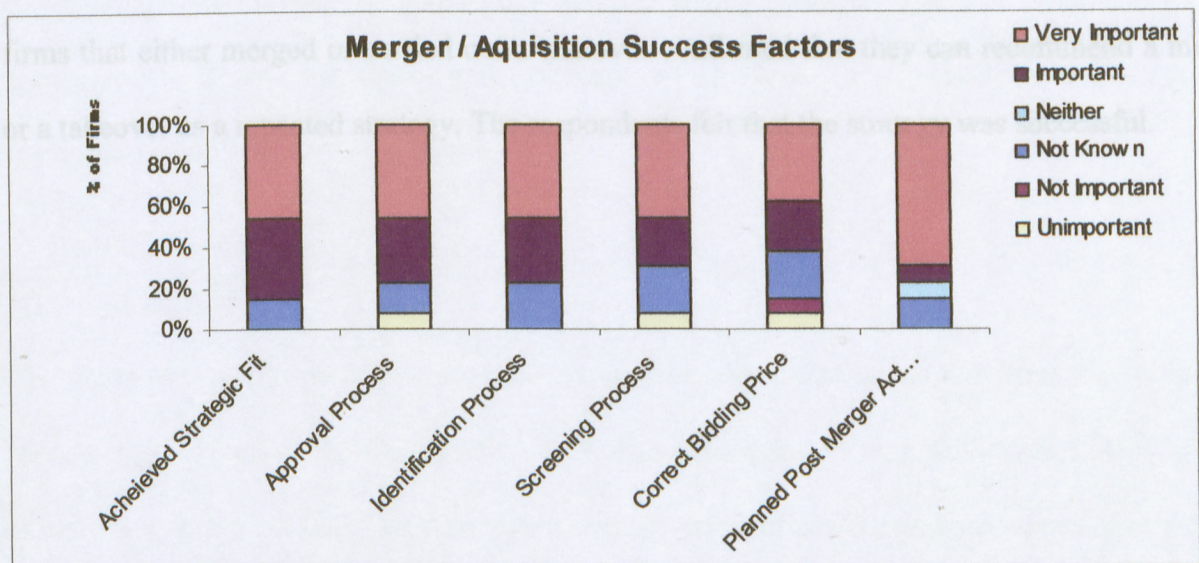
Most of the firms that responded agreed and strongly so that the management of post acquisition is very important. Approximately eighty percent (80%) of the firms that responded to this study agreed that post acquisition activities when not well planned were the main cause of failures in most mergers and takeovers and in particular in instances such as lack of strategic and organisation fit. Sixty Percent (60%) of the firms agreed that failure to provide adequate finances to manage the process contribute to failures in mergers and acquisitions .The findings as documented reaffirms the importance of identifying both strategic and organisation fit immediately after concluding the transaction. Equally important is for the firm to make enough provision of finances to be used in implementation of the process.

4.4.5 Factors that contribute to the success of Mergers and Takeovers

A merger or a takeover involves several processes before a firm can firmly confirm a successful completion of the transaction. Among these processes, it is expected that some will take priority and are more important than others. It may well turn out that all the factors and activities cannot

be singled out as less important. The questionnaire was designed to find out the perception of the Kenyan firms the most important activities and factors that contribute to the success of mergers and takeovers. The analysis of the findings was shown in the Chart twelve below:

Chart 12: Factors that contribute to the success of Mergers/Takeovers



All factors and activities namely achieving strategic fit, approval, identification and screening process, ascertaining the correct bidding price and planned post merger activities, are perceived important and very important by seventy percent (70%) of the respondents. Each activity contributes to the success of any merger and an acquisition. Such activities such as identification, screening and approval process are pre transaction, correct bidding price is crucial for both firms as commercial value is regarded as investment and as highlighted above planning for post merger activities plays an important role in the process. The findings have shown that none of the factors and processes takes a priority over another.

4.5 GENERAL ASSESSMENT CHAPTER FIVE

Upon completion of any project or strategy, an evaluation is carried out to assess among other aspects the general feeling of the stakeholders. In this research study, the respondents were asked to confirm whether the merger or the acquisition undertaken was successful. The respondents were also requested to confirm whether they can repeat merger and acquisition strategies. All the firms that either merged or carried out a takeover confirmed that they can recommend a merger or a takeover as a repeated strategy. The respondents felt that the strategy was successful.

5.2 SUMMARY

The study was a census survey and the population was made up of the firms that submitted merger notifications to the Commissioner of Monopolies and Pricing in the years 2001 to 2004 as shown in appendix III. The study used primary data collected using structured questionnaire appendix II containing both close and open ended questions. Data was then edited for completeness and consistency entered into a data entry system and analysed using SAS Statistical System.

The terms mergers and acquisitions are usually used interchangeably unknowingly ignoring the distinctive business definition of each phenomenon. It is therefore possible that the respondents understanding the terms of merger or acquisition might have been used interchangeably despite their distinctive strategic business definition.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter gives a summary of the research conclusions. It also offers a number of recommendations useful to scholars, planners, policy decision makers, shareholders, top management Board members and Partners of a firm. This chapter also highlights recommendations for further research.

5.2 SUMMARY

The study was a census survey and the population was made up of the firms that submitted merger notifications to the Commissioner of Monopolies and Pricing in the years 2001 to 2004 as shown in appendix III. The study used primary data collected using structured questionnaire appendix II containing both close and open ended questions. Data was then edited for completeness and consistency entered into a data entry system and analysed using SAS Statistical System.

The terms mergers and acquisitions are usually used interchangeably unknowingly ignoring the distinctive business definition of each phenomenon. It is therefore possible that the respondents understanding the terms of merger or acquisition might have been used interchangeably despite their distinctive strategic business definition.

The study gives a number of findings from which various conclusions are based. From these, recommendations and practical suggestions for those in search of knowledge in the field of mergers and acquisitions in the context of experience gained are offered.

It has been established that the approval process as demanded by the Restrictive Trade Practises, Monopolies and Price Control Act Cap. 504 are not cumbersome contrary to the perception highlighted in the research problem. It has also been established that the firms that completed mergers and acquisitions process perceived that the process consists of activities of strategic nature that create shareholders wealth. Yet in this market, the explosive mergers and takeovers as popularly experienced and cited globally are not common. Then there must be other factors that contribute to this apathy among the Kenyan firms.

5.3 CONCLUSIONS

This section will give a summary of key conclusions made from the findings of the study as exhaustively discussed in chapter four. The three areas of study are divided in three parts namely firm's profile, the experience of the firms in the merger and acquisition process among other factors and the perception of the merger and acquisitions that includes factors that contribute to the success or failure of the strategy.

The Act that governs mergers and acquisitions stipulates that approvals be sought from the Minister for Finance before the firms commence the process. This research has shown that not all firms that had submitted Merger Notifications concluded the process. The Commissioner of Monopolies and Prices would design a method of confirming whether the firms completed the process or not, so that the data relating to the mergers and acquisitions is more complete.

The findings relating to the firms profile in respect of the adoption of firms trading names either one or both is one of the aspects of mergers and acquisitions that was important as to retain firms identity in the market. It was also established that the longer the firm has operated in this environment, the higher is the likelihood of adopting a merger or a takeover strategy to redirect firms' objectives, goals and activities.

Most of the firms that are privately owned have completed the acquisition and merger process. However, the research showed that mergers and acquisitions strategies are not common among the partnership and public owned firms in this country. This research has however dispelled the notion that mergers and acquisitions are not common among the locally owned firms. Mergers and acquisitions occurred mostly in the service industry banking sub-sector. This demonstrates that whenever a regulator steps in to re-direct the course of business firms tend to comply as Central Bank of Kenya urged the banks to merge and enhance their capital base.

The second part of the conclusions has highlighted the findings of the study as they relate to the experience of the Kenya Firms in respect of the types of the merger and takeovers, the reasons of adopting the strategy, approval and negotiation process. The findings indicate that the firms completed approval and negotiation process within a reasonable period and no firm appealed to the Tribunal or to the High Court. The study has shown that the approval process is not cumbersome as the market is made to believe.

It would also be concluded that both merger and takeover strategies are equally common in Kenya. The horizontal takeovers and mergers though very difficult to obtain approvals as they would trigger monopolistic environment were the commonly cited category as shown in findings. MPC has to manage the process very effectively so as block creation of any monopoly in the market.

The need to increase the market share and diversity in growth business, were the highest cited reasons for merger and acquisition strategy. Yet increase in market share comes under heavy scrutiny by the MPC as this would trigger monopolistic environment. It would be concluded that firms merge or acquire another for more than one reason of adopting the strategy.

Most firms indicated that they used change management technique to reduce the resistance of the management and the shareholders in a takeover strategy. They also agreed with the major shareholder to carry out the takeover strategy. Consensus as a technique is a preferred mode of negotiations and agreement.

The third set of findings relate to the perception of the firms that merged as it relates to creation of shareholders wealth, management of the post acquisition activities and factors that contribute to success or failure. It has been established that involvement of managers in all the stages of the mergers and takeover process is very important. However, in screening and post merger management, managers' participation is extensively demanded.

Most of the firms agreed that mergers and takeovers are strategic acts. These acts enable the firms to adopt activities that can result to enhanced profitability, increase in share price, and create cost advantage and product differentiation. The research however has shown that not all of these factors that equally will contribute the creation of the shareholders wealth. This is especially in the aspect relating to increase in the share price. It confirms the conclusions that were made in the studies cited in chapter one of this study

This study might not have fully reviewed the experiences of the firms that merged or undertook a To identify the strategic and organisation fit during the planning for post acquisition activities is very important. Equally important is making provision for financing the integration process as this is not usually the normal activity. The respondents to this study strongly agreed on the importance of proper planning of post acquisition activities in areas of strategic and organisation fit and availability of finance. It is however shown in the findings that the data relating to budget provision was very limited.

can also be carried out to establish the reasons of popularity of acquisitions amongst the firms that have been in existence for a long period and privately owned Merger and acquisition process has to be managed. The findings of the study has shown that to achieve a strategic fit, obtain proper approvals, identify the target firm appropriately, and screen the activities of the other firm , arrive at the correct bidding price and proper planning for post merger activities all these factors contribute to the success of mergers and acquisitions and none is inferior to the other The general assessment of the firms that completed the mergers and acquisitions from the findings was that these strategies were successful and would recommend a repeat at a future date.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH

It is a truism that no research is an end in itself. Therefore what this research has achieved in this area can only be considered to be little requiring further research work. From the insights gained in the course of the investigation, the researcher offers the following suggestions which should act as a direction to further researchers.

This study might not have fully reviewed the experiences of the firms that merged or undertook a takeover. This research to the knowledge of the researcher is among the first to document with this subject matter and therefore there is a wide field that remain untouched. Further research can be carried out on the reasons by the firms for failure to complete merger or acquisition process. It is also suggested that more recent mergers and acquisitions for the last one year will be useful as the likelihood of finding the senior managers involved in the actual exercise is very high. A further research can also be carried out to establish the reasons of popularity of acquisitions amongst the firms that have been in existence for a long period and privately owned firms.

The study was cross sectional survey on all the firms that submitted merger notification from 2001-2004. It would be recommended that a study that concentrates in one particular sector can address in details factors that were not covered by this survey. Documenting the experience of all the firms is an assumption that the experiences are uniform which necessarily does not hold true. It would also be importance to carry further research on the popularity of the process amongst the private owned companies. A detailed case study of a firm that has undergone merger or a takeover would give deeper experience of that particular firm.

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APPENDIX I of the firm after the merger or take over

A SURVEY OF EXPERIENCES OF KENYAN FIRMS IN MERGERS AND ACQUISITIONS

Questionnaire

Completing the questionnaire

Yes	No

Your firm is one of the companies, which submitted Merger Control Notification between 2001 and 2004 therefore forming part of the population study. I humbly request for your valuable time in assisting to complete the attached questionnaire.

Once you have completed the questionnaire, please mail it to the researcher in the enclosed self-addressed envelope.

Thank you for taking time to participate in this important process.

Disclaimer

Information you provide in this questionnaire will be privileged and shall not be used or divulged to any other parties for the purpose other than which it is intended for.

PART ONE - FIRMS PROFILE

(1) Names of the firms before the merger or take over

(i).....

(ii).....

(2) Date of Incorporation of your firm.

(3) Name of the firm after the merger or take over

(i).....

(4) Did your company complete the merger or acquisition to its conclusion?

(Please tick appropriately)

Yes	No

If No please state the reasons and send back this questionnaire

.....
.....
.....

If yes then proceed and complete the remaining part of this questionnaire.

(5) State the legal structure of your firm

(Please tick where appropriate)

(i) Partnership

(ii) Privately owned company

(iii) Publicly owned company

If your firm is (i) or (ii) above please complete (6) below.

(6) How would you classify your organisation in terms of ownership?

(Please tick where appropriate)

(a) Locally Owned

(b) Foreign Owned

(c) Both Local/Foreign Owned

(d) If (c) above Foreign Owned

Ownership

(e) Local Owned

Ownership

(7) The sector your organization is operating in.

(Please tick where appropriate)

Manufacturer

Agriculture

Service

(8) Which sub sector can you accurately describe your company operating in e.g. Pharmaceuticals?

PART TWO -----EXPERIENCE OF THE FIRM.

(9) Could you say if your firm was a Merger (M) or a takeover (T)

(Please tick appropriately)

M	T
<input type="checkbox"/>	<input type="checkbox"/>

(10) What sort of merger or acquisition did your company undertake?

(Please tick where appropriate).

Horizontal Merger

Vertical Merger

Backward

Forward

Concentric Merger

Conglomerate Merger

(11) Please state reasons why your organisation undertook merger

(Please tick where appropriate.)

(a) Increase market share

- (b) Acquire the state of the Art technology
- (c) Diversify in a growth Business
- (d) Overcome barrier to entry
- (e) Acquire brand loyalty
- (f) Entry to a new geographical area
- (g) Comply with a new legislation.
- (f) Any other (specify)

(12) Approval Process within the framework of Kenya Competition law.

(a) How long did you take to receive an approval from Commissioner of Monopolies and Price? Months

(b) Was your firm subjected to appeal to the Tribunal.

(Please tick where appropriate). Yes No

(c) If yes – How long did you take for the appeal to be concluded by the tribunal? Months

(d) Did you appeal to the High Court? Yes No

Give reasons for appeal.....

If yes, how long did it take to conclude the appeal in the High Court?

Months.

(13) Negotiation with the Target firm.

(a) How long did your firm take to conclude the negotiation with the other firm?

Months

(b) Give an estimate of the Merger or Acquisition Budget.

(14) To what degree did you involve your managers in the acquisition or merger Process?

(Please indicate by a tick on the table overleaf using the following scale).

Not at all - 1

Very little - 2

Moderately - 3

Quite a lot - 4

Extensively - 5

A. Pre-merger/acquisition Process

	1	2	3	4	5
1. Identification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Screening	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Due diligence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Evaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Approval Process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B. Bidding Strategies

1. Negotiations

C. Post integration activities

1. Integration Planning

(15) To what extent do you agree with the following statement in questions (14 and 15)

Mergers and acquisitions are strategic acts that create wealth for the shareholders through the factors described below.

(Please indicate by a tick in the right box using the scale below).

Strongly disagree 1

Disagree 2

Neither agree nor disagree 3

Agree 4

Strongly Agree

5

Very important

1 2 3 4 5

- | | | | | | |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. Enhanced Profitability | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Increase in share price | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Create cost advantage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Create product differentiation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- (16) Post acquisition activities when not well planned are the main cause of failures in most mergers and acquisitions in areas as the detailed below.

(Please indicate by a tick in the right box using the scale below).

- | | | |
|---------------------------|---|---|
| Strongly disagree | - | 1 |
| Disagree | - | 2 |
| Neither agree or disagree | - | 3 |
| Agree | - | 4 |
| Strongly agree | - | 5 |

Low

Very Low

1 2 3 4 5

- | | | | | | |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. Lack of Strategic fit | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Lack of Organisation fit | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Lack of finance | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- (17) The factors listed below contributed to the success of the merger/ acquisition of y your firm.

(Please tick against each factor using the scale below).

- | | | |
|----------------------------------|---|---|
| Not important at all | - | 1 |
| Unimportant | - | 2 |
| Neither important or unimportant | - | 3 |

Important - 4

Very important - 5

(Please tick where appropriate).

Yes	No
-----	----

	1	2	3	4	5
Achieved strategic fit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Approval Process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Identification Process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Screening Process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Correct bidding Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Planned post merger activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(18) Turnover of the Top Management staff during and after merger / acquisition.

(Please tick against each category using the scale below).

- Very high - 1
- High - 2
- Neither high nor low - 3
- Low - 4
- Very Low - 5

	1	2	3	4	5
CEO	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Top Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Middle Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Operational Staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

GENERAL ASSESSMENT

(19) Would you term the merger or acquisition undertaken by your firm a success?

(Please tick where appropriate).

Yes	No
-----	----

(20) Would you recommend a merger or an acquisition again?

(Please tick where appropriate).

This area is only for those firms which have gone through a takeover.

(21) How did you manage the takeover process?

Please tick as appropriate

Agreeing with major shareholder

Buying stock in the market

Obtaining proxies from the shareholders

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

(22) State how your firm managed the resistance from other shareholders or management.

MERGER CONTROL NOTIFICATIONS

SOURCE MPC ANNUAL REPORTS 2001 - 2004

	Name of Institution	Sector Affected	Year
1.	Bidco(K) Ltd. & Elianto (K) Ltd	Cooking fat and edible oils	2001
2.	Crown Berger & Barclays holdings	Paints	2001
3.	Johnson & Johnson Ltd. Direct Sales and Distribution	Baby Care products	2001
4.	Raymond Woollen Mills & Heritage Woollen Mills	Textiles	2001
5.	Securicor Security Serv. & Express Escorts	Private Security	2001
6.	Elf Oil (K) Ltd & Total (K) Ltd	Petroleum	2001
7.	SmithKline Beecham & Glaxo Wellcome (K) Ltd.	Pharmaceuticals/ healthcare products	2001
8.	Crescent Construction Ltd & Cabro Works Ltd. Receivership	Building & Construction	2001
9.	Lonrho Motors E.A. Ltd & Toyota E. A. Ltd.	Motor Industry	2001
10.	Lelkina Dairies Ltd & Brookside Dairies Ltd	Dairy	2001
11.	Lonrho Hotel Africa & Starwood Hotel	Hotel	2001
12.	Lonrho Motors & Lima Farm Machinery	Agriculture	2001
13.	Africa Online Ltd & Net 2000 Ltd	Telecommunications	2001
14.	Masai Mara Sopa Lodge & Safari Retreat	Hotel	2001
15.	SCB & Bullion Bank	Bank	2001
16.	Kapila Anjarwalla & Khama	Legal Consultancy	2002
17.	EABL & UDV Ltd	Manufacturing (Brewing)	2002
18.	Kaitet Tea Estate & Eastern Produce Kenya Ltd	Agriculture	2002
19.	Paramount Bank & Universal Bank	Financial (Banking)	2002
20.	Kakuzi Ltd. & Socfinaf Ltd		2002
21.	Unilever Vs Best Foods Ltd	Manufacturing	2002
22.	Kenya Breweries & Castle Brewing	Manufacturing	2002
23.	Iseme Kamau & Maema Advocates	Legal Consultancy	2002
24.	Barclay Trust Investment & Old Mutual Assets Managers	Financial	2002
25.	Bank of India & India Finance Ltd	Financial	2002
26.	Stewart Scott Motors & Mitsubishi Motors Ltd.	Automotive	2002
27.	ABN-AMRO Bank & City Bank Ltd.	Financial	2002
28.	Fidelity Bank & Southern Credit Ltd	Financial	2002
29.	Nampak S. Africa/Carnaud Metal Box & Crown Cork Ltd.	Manufacturing	2002
30.	Masai Mara Sopa Ltd & Tunu Ltd.	Hotel	2002
31.	Aventis Crop Science & Agro Chemical Business of Bayer E.A. ltd	Agricultural Chemicals	2002
32.	Co-op Bank & Co-op Merchant Bank Ltd.	Banking	2002
33.	BASF & High Chem E. A. Ltd	Agriculture (Agro-Chemical)	2002
34.	Primarosa, Mwaridi, Stone Athi & King'orani	Agriculture	2002
35.	Hotel Span & Spire Properties	Hotel Industry	2002
36.	Kenya Commercial Bank and Savings and Loans	Financial Services	2002

37	Securicor Services and Falcon and Karen Langata Guards	Security Services	2002
38	Trust Finance Ltd and Trust Bank Ltd	Banking Sector	2002
39	Africa Online and Three Mice Interactive Media Ltd.	IT (Internet Service Provision)	2002
40	Kenol Kobil (K) Ltd & Mid Oil Africa	Petroleum	2003
41	Crown Berger (K) Ltd and Unibuilt (K) Ltd	Manufacturing	2003
42	SJ Johnson Wax and Bayer East Africa	Pharmaceutical	2003
43	Brac Budget Rent a Car International & Avis Europe Plc	Transport	2003
44	Eustoma K. Ltd & Penta Tancom Ltd Penta Flowers	Horticulture	2003
45	East African Packaging		
46	Canadian Overseas Packaging industry – Manufacturing 2003		
47	Manu Spices and Millers Ltd & Spice World (K) Ltd.	Food	2003
48	ICL(K) limited and Sameer ICT Ltd	Information Technology	2003
49	Resort (K) Ltd & MS Family Town 2002 Ltd.	Hotel Industry	2003
50	Nairobi Bottlers & Anspar Beverages Ltd	Soft Drink	2003
51	Beta Healthcare International and Shellys Pharmaceutical Ltd	Pharmaceutical	2003
52	Alexander Forbes Financial Services E. A Ltd. Bank of India and Pension Trust Services	Insurance	2003
53	Flower Wings K. Ltd Etcoville Investments Ltd	Horticulture	2003
54	Pan African General Insurance Ltd & Apollo Insurance Company Ltd	Insurance	2003
55	Crown Berger & Devas Ltd & Aziz Tanners	Manufacturing	2003
56	Greenlands Dairy & Westlands Dairy Ltd	Dairy	2003
57	Alexander Forbes & Hyman Robertson (K) Ltd	Insurance	2003
58	Muya & Ass. and Koimhuri Tucker Associates	Accountancy	2003
59	Group 4 FALCK and Securicor Plc	Security Services	2004
60	Trans-Century Ltd and Cable Holdings Ltd	Manufacturing	2004
61	Bank of Africa Kenya Ltd and Credit Agricole Indosuez Kenyan Branch	Banking Service	2004
62	MSKK Guards Security Group and EARS Group Ltd.	Security	2004
63	MTN International Mauritius Ltd. & Kenyan Telkom B.V. (Ken Cell)	Telecommunication	2004
64	Kemia International Ltd & Poly Synthetics Eastern Africa Ltd.	Manufacturing	2004
65	Sameer Telecom Ltd & Kenya Telecon BV	Telecommunication	2004
66	Shell & BP Malinda and Oil Com.	Petroleum	2004
67	Homegrown Kenya Ltd & Kijabe Ltd (“Kijabe”)	Horticulture	2004
68	Dawa Pharmaceutical Ltd & Medisel (K) Ltd.	Pharmaceutical	2004
69	Fresh Del Monte Produce Inc. & Del Monte Kenya Ltd	Horticulture	2004
70	Coast Silos (K) Ltd and Kenya Ports Authority	Transport	2004
71	ALICO & CFC Group	Insurance	2004