MERGERS AND ACQUISITIONS STRATEGY AND PERFORMANCE OF UAP OLD MUTUAL INSURANCE COMPANY

BY

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DECLARATION

I the undersigned declare that this research project is my original work and has not been presented for a degree qualification in any other university or institution of learning.

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D61/85563/2016

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

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DEDICATION

This project is dedicated first to God who has seen me through from the beginning to the end; indeed the Alpha and Omega.

To my family who have offered tremendous support during the period of carrying out the study. It meant a lot.

Thank you all and may God bless you.

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ABSTRACT

Various studies have been done on mergers and acquisitions by different researchers leading to diverse finding on the impact they have on performance of an organization. Although mergers are not the only contributor to high firm performance, scholars argue that it is a strategic way to gain an advantage and perform better than their peers in the industry. This study investigated the effect of mergers and acquisitions strategy on performance of UAP Old Mutual insurance company and that formed the objective of the study. The study used a case study of the company. Primary data was collected by use of an interview guide and secondary data was collected by obtaining information from financial statements of the company from their websites as well as industry information available on the AKI website. From the secondary data, the study was able to look at the expenses, gross written premiums, loss ratios and profit realized. Data was analysed using content analysis. The findings of the study were that the performance of the company improved as was seen in the increase in total income by 1.15% to 19.4 billion after the merger as compared to before the merger. The loss ratios of the company also decreased in 2016 compared to previous years indicating an improvement in performance. By focusing on the customer, the internal business processes, the financials, learning and growth, the organization was able to improve their performance in the period after the merger. The study gave the following recommendations: organizations undergoing mergers should ensure to find a way to incorporate the existing personnel without having to lay off many employees. Another recommendation is to ensure that the systems are integrated as soon as possible so as to reap the synergies arising from a merger. The main limitation of the study was the respondents not being willing to provide information for fear of revealing too much information and exposing company secrets. This was mitigated by the researcher having proof that information was purely for academic purposes by virtue of a letter from the university. It impacted the research in that the information provided was based on observations and experience during the period. Further research can be done in future using a different methodology such as regression analysis showing cause and effect in the same context but after several years to find out how the merger is doing and whether time factor has contributed to changes in findings. A similar study can be done to investigate the effect of mergers and acquisition on performance using a similar methodology but in a different context and in a different industry.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The business environment in the world today is very competitive. This has necessitated organizations to act fast so that their market shares are safeguarded and secure. It is important for an organization to identify their internal strengths that will enable them to provide more customer value, achieve strong differentiation and extendibility (Hamal & Prahalad, 1994). Organizations choose mergers and acquisitions (M&A) as a strategic management tool to have a competitive edge in the market they operate in. This advantage is gained by the involved parties being able to expand their operations, realize synergies and improvement of financial strength (Gaughan, 2007). Therefore by meeting these goals a company is able to be ahead of its peers in the industry. When done effectively, the merger or acquisition will improve the performance of an organization.

In his study, Chartterjee (1991) found that a merger by one firm represents increased barriers to entry which strengthen the oligopoly's ability to maximize joint profits which increases its combined market power. This can be achieved by having control of scarce resources, technological superiority and increasing returns to sale. Firms always want to be above the industry average and have above average profitability. The fundamental basis for long run above average profitability is sustainable competitive advantage. There exist two main kinds of competitive advantage namely; low cost strategy or differentiation that a company may have. When these two types of advantage are added to the scope of activities for which a firm intends to accomplish it leads to guiding strategies namely low cost strategy, differentiation strategy and focus (Porter, 1980). This study was based on strategic management theories namely; resource based theory, stakeholders' theory and market power theory. A resource based view of a firm was first brought forward by Wernerfelt (1984) when he proposed that firms should be looked at from the resource side of its operations.

The resource based theory explains the ability to deliver an advantage that is competitive and sustainable when resources are managed well therefore having barriers to competitors. Freeman (1984) is seen as the father of stakeholder theory. Stakeholder theory states that an organization has several parties involved and who are affected by the actions of the organization such as customers, employees, suppliers, government bodies, the community, trade associations and financiers. Management must therefore formulate and implement steps that make all who have an interest in the business happy in a way that provides long term success of the firm. It must play an active role to appeal to the groups in a strategic manner (Freeman & McVea, 2001). M&A motivation can be explained by the market power theory. Charttejee (1991) has supported market power. It is the ability of a firm to profitably raise the market price of a good or services over marginal cost. The participants in the market are either price takers or price setters. The key to market power is to have barriers to entry for the competitors.

1.1.1 Mergers and Acquisitions

Mergers & acquisitions are often used interchangeably even though they are not synonyms. A firm participates in an acquisition when it buys another firm. A buying firm can use money it has made from its operations to buy the target firm; it can go into debt arrangements to acquire the target firm; it can use its own equity to buy the target firm or utilise a combination of all the options to acquire the target firm (Barney & Hesterly, 2010).

Mergers and acquisitions are essentially about survival. Horne (1993) defines a merger as the coming together of two companies where only one continues to exist. The combined company stops existing and leaves its assets and liabilities to the bidding company. A merger or consolidation starts with negotiations between the involved companies' managements. It is one of the trends for companies the world over today, joining other trends such as strategic alliances, acquisitions and joint ventures, with the main purpose of a merger being to form one strong and large entity. Such an action is more specifically referred to as a merger of equals. Stock belonging to both companies is surrendered and new stock replaces it.

Historically, organizations have achieved growth and expansion through mergers and acquisitions. Financially strong companies move to acquire other weaker companies to be more competitive and efficient in cost to capture a greater market (Gupta & Banerjee, 2017). There are different types of mergers namely horizontal mergers, vertical mergers, product expansion mergers, market expansion mergers and conglomerate mergers. A vertical merger occurs when one company purchases a former supplier or customer. Horizontal mergers arise when a company buys a former competitor, for example, Adidas acquired Reebok.

A product expansion merger is when a firm gains access to markets that complement its already existing market through an acquisition while a market expansion merger is when a firm gets access to additional markets through an acquisition. Conglomerate mergers are whereby there is no relatedness strategically between a bidding firm and the target firm (Barney & Hesterly, 2010).

1.1.2 Firm Performance

Firm performance is the overall health of a company. There are various ways of determining performance of a company as outlined in the balanced scorecard. It takes into account the various aspects of company operations. The balanced score card categorizes the firm's activities into four broad areas namely: internal processes, learning and growth, financials and customer satisfaction. The customers play an important role in the success of a firm such that the organization must take into consideration what the customers want and ensure they create value thus promoting satisfaction with products or services. Customer needs fall into categories of time, cost, quality and service (Kaplan & Norton, 1992).

The internal business processes of the company are also important in influencing the performance of the firm requiring them to be tied to the customer needs to provide the greatest satisfaction. To remain relevant an organization is expected to be innovative in its product development and ensure continuous improvement of the existing products. The scorecard also takes into account the learning and growth of the employees, which is also a determinant of firm performance. An organization that emphasizes on the growth of its employees and their increase of knowledge ensures the company has qualified and experienced staff who can contribute to product development (Kaplan & Norton, 1992). When it comes to the financial aspect, there are various indicators of financial performance, which are liquidity ratios, profitability ratios and insurance ratios. Profitability ratios are financial metrics that are employed to assess the ability of a business to generate earnings or revenues in excess its expenses. The following three ratios illustrate alternative ways of expressing profitability namely return on equity, return on assets and return on revenues. Return on assets measure the profitability in relation to the total assets. The numerator of these ratios is usually net income available to common shareholders that is after preferred dividend payments (Foster, 1986).

Various ratios can be used to measure insurance performance such as expense ratio, loss ratio, combined ratio and net written premiums to Policyholder surplus. For example, the expense ratio shows percentage of the net earned premiums that is paid out to acquire and service payments (Intelligent investor, 2010). The loss ratio is calculated by dividing the total incurred losses by the total collected insurance premiums. The lower the loss ratio the more profitable the insurance company and vice versa. When the loss ratio is above 1 or at 100% the company may be in poor financial health showing it is paying out more claims than premium received (Nickolas, 2015). Combined ratio is a reflection of the underwriting expenses as well as other operating expenses. It is different from the loss ratio because it takes into consideration the expenses. A combined ratio of below 100% means an insurance company is operating at an underwriting profit (Lole, 2012).

1.1.3 Insurance Companies in Kenya

The insurance companies in Kenya are governed by the Insurance Act Cap 487. The Insurance Regulatory Authority is a government institution that was created by an Act of parliament. It is charged with the authority to regulate, supervise and develop the industry while ensuring the interests of the stakeholders are considered. According to the AKI report (2015) the insurance industry in Kenya is among the highly attractive markets with a high growth potential. As a result, foreign investors have entered the Kenyan market by buying stakes in existing local companies. An example is Prudential UK insurance that bought out Shield Assurance. The acquisition was aimed at taking the business to the next level and developing innovative products for customers.

According to IRA CEO Sammy Makove Prudential move to enter the Kenyan market was seen to be a boost to the life insurance market in Kenya (Daily Nation, 2014). Some mergers and acquisitions were due to legal requirements that any one person should not have more than 25 per cent of the share capital of an insurance company. According to world portfolio, between 2010 and 2014 the value of premiums increased from $983 million to $ 1.8 billion, the largest in sub-Saharan Africa outside of South Africa. Other foreign interests have been from investors such as Saham Finance of Morocco and Sanlam of South Africa.

The industry has been facing challenges such as a negative outlook from potential policyholders who do not see a need for insurance services. There are rising cases of fraudulent claims whereby assessors and garages are colluding with fraudsters. These cases are costing the industry millions of money. According to Association of Kenya

Insurers (AKI, 2015), the body is in the process of implementing a system that is aimed at centralizing motor insurance data. It will be aimed at helping insurance companies to detect claims that are fraudulent and also assist in motor certificates management. Another important feature will be availability of vehicles that have been write-offs in other companies so that as the owners move from company to company they are charged a higher premium due to the moral hazard they present. The system is called the Integrated Motor Insurance Data System (IMIDS). It will encourage professional practices in the industry by having standard formats for processing underwriting and claims information, facilitation of information sharing through AKI members and encourage good governance by complying with regulatory issues. This will improve the speed of claims processing which will then greatly improve customer service delivery levels in insurance companies in Kenya.

In a bid to increase penetration of the insurance market in Kenya, various strategies are being employed by insurance companies such as mergers and acquisitions to have a wider network of branches and innovation of insurance products for the customer. These strategies are aimed at increasing market share. Kenyan companies have also expanded beyond their domestic market to set up operations in neighbouring countries such as Tanzania, Uganda and Rwanda to have a competitive edge in the market (AKI, 2014).

1.1.4 UAP Old Mutual

UAP and Old Mutual were individual insurance companies before they merged in 2015. UAP was locally incorporated in 1978 and has a wide range of products for their clients. They are customer focused and this forms the basis of their inspiration. Old Mutual has been divided into four major businesses which are the emerging markets, Nedbank, wealth and asset management. The four separate businesses each have their own capital and strategies to achieve their objectives. UAP had Centum Investment as one of its major investors who wanted to exit the investment after 13 years. They looked for an ideal investor to buy its stake and Old Mutual was found to be compatible due to its similarities. Old Mutual was an expert in technical matters owing to the long time in business and brought in financial muscle that was necessary for advancing UAP's expansion mission. UAP wanted to have an influence over the key markets in East and Central Africa (Sunday, 2015).

Old Mutual was aiming at regional expansion by acquiring a major stake in UAP Holdings of 60.7% whereas UAP wanted to fuel its vision of being Africa's revolutionary financial services group. The merger was aimed at increasing revenue generating capabilities (Wakoba, 2015). In his first address about the combined business, the UAP Old Mutual Group CEO, Peter Mwangi reiterated that for customers the merger meant a wider range of professional services, from general insurance and life insurance to banking and asset management, and a more accessible distribution system as well as more digital innovations. It provided career growth opportunities for employees and world class skill transfer.

The CEO Old Mutual Emerging Markets Ralph Mupita further supported the merger by stating that the potential for growth and expansion for the combined business was large, and there was no doubt that as a team the two companies were greater than the sum of each part. He expressed confidence that through their combined strengths and talents they would have great things done for the benefit of all their clientele, employees and other interested parties in the region. Old Mutual and UAP formed a merger to increase accessibility in the market and attract more customers. These various strategic positions are aimed to contribute towards a better firm performance.

1.2 Research Problem

M&A in the insurance industry are strategic options utilized by firms to achieve different goals such as meet capital requirements among other requirements imposed by the regulator IRA, to improve financial stability, to improve penetration of products in the market resulting in a bigger market share and to improve on performance of the company overall. A good acquirer should get detailed information about the target company including market trends, customer attitude towards the company, and financial data (Ramu, 1998).

M&A have become a recent development in the Kenyan insurance industry where firms have merged to form larger companies for example Apollo and Pan Africa to form APA and Insurance Company of East Africa and Lion Group of Kenya to form ICEA Lion Group. There has been an interest from foreign investors due to the conducive Kenyan economy jolting this strategy. Foreign companies use mergers and acquisitions as a way of growing their market and presence in a local industry. Growing companies use this strategy to achieve greater strides in their growth.

A study on the performance of Pakistani banks after mergers and acquisition was conducted by Abbas, Hunja, Azam, Ijaz and Zahid (2014) who specifically studied the financial aspect of the M&A transactions. The study found that M&A in Pakistan had not fully matured as it had in the rest of the world mainly due to nationalization by the

Pakistan government. The findings were that there was a decrease in return on equity for a majority of the banks whereas there was an increase in the return on equity for three out of the ten banks studied. The return on assets ratio decreased for a majority of the banks except Dubai Banking Group and HSBC Bank whose ratios increased. The study concluded that there was no improvement in the financial performance of banks after the M&A. There was a decrease in efficiency, profitability, liquidity and leverage ratios in most of the banks. Overall, there was negative improvement in the performance of banks in Pakistan after the M&A.

Studies done in regard to mergers and acquisitions have mostly focused on the banking industry which has had successes. Such a study was the CFC and Stanbic merger by Oyuke (2009) which resulted in CFC Stanbic bank that is now Stanbic bank Ltd. The study found the merger to have been successful but some benefits namely lower costs and advanced technological skills would be realized with time. Mergers in the insurance industry have been studied with an aim of looking at the qualitative and quantitative impacts of the mergers. A study of APA conducted by Lole (2012) found a positive relationship between the merger and financial performance post-merger where an increase in the unit underwriting ratio and a decrease in management expense ratio led to an increase in financial performance. The study concluded that overall firms performed better in financial terms after a merger or acquisition. Ngahu (2016) in his study on the effect of mergers and acquisitions on the financial performance of insurance firms in Kenya found that in ICEA Lion and Britam insurance companies the expense ratios and claims ratios increased in the short run but had increased market power. The short run effects of the mergers and acquisitions were negative on the financials.

This study focused on the Old Mutual and UAP merger to assess whether the findings would be similar or differ with previous studies done taking into consideration the foreign investment of Old Mutual which is a South African company. Unlike the previous studies done in the area of M&A, the studied companies were both local. However, this study involved a wholly owned local company and a foreign company. South African mergers have been known to overhaul the entire local operations arrangement to adopt that of the parent company as was seen in the CFC Stanbic merger (Oyuke, 2009). This study therefore sought to answer the research question, what is the effect of mergers and acquisitions on the performance of UAP Old Mutual insurance company?

1.3 Objective of the Study

The objective of this study was to analyse the effect of the merger of UAP and Old Mutual on the performance of the company.

1.4 Value of the Study

This study aims at contributing to the resource based theory by looking at a different approach of increasing resources through mergers. A firm that has a wide range of resources is able to compete well in an industry. By combining their entities, UAP Old Mutual was able to realize more resources to help in carrying out their business that includes financial strength and experience. Mergers have become a global phenomenon with insurers from advanced countries continually focusing on overseas expansions in highly growing markets. In the same way, mergers and acquisitions provide the opportunity to grow the various markets due to increased resources.

This study will be of value to practitioners in the insurance industry who want to consider M&A as their strategic option to grow and have sustainable competitive advantage. Mergers and acquisitions do not always result in financial gain and have to be properly analysed to achieve the desired objectives of growth. This will be supported by the study by analysing the findings showing whether the performance improves or declines after the mergers have taken place. Systematic steps need to be taken to ensure the process does not do more harm than good.

It will also be of value to the regulators in coming up with policies to guide merger and acquisition transactions to promote business efficiency and customer satisfaction while growing the economy. Not all M&A transaction result in efficiencies in the industry. Policymakers are able to analyse the viability of this option as a strategy for growth in support or discouragement of the practice. They are also able to advise the merging companies to incorporate the local culture in the area of practice especially for foreign investors coming to Kenya to ease the operations. With the proposed increase in minimum capital as per the Finance Bill, 2015 there is expected more M&A in the industry therefore the regulator needs to be prepared for the adjustments.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers literature on mergers and acquisitions by various scholars and researchers. Various theories supporting the study are put forth as a guideline to achieving certain goals. The reasons behind mergers and acquisitions are assessed and how they are expected to improve a company's status.

2.2 Theoretical Foundation

The study was built on three major theories namely resource base theory, stakeholder theory and market power theory. Resource based theory is necessary as it analyses the resources available internally in an organization and emphasizes resources and capabilities in formulating strategy that aims at achieving competitive advantage in the market. Stakeholder theory addresses the morals and values in managing an organization. Management of an organization must act in consideration of its stakeholders especially those whose support the company needs to survive. They are primary stakeholders (Benn, 2013). Market power theory is the ability of an organization to profitably raise the market price of a good or service.

2.2.1 Resource Based Theory

In a firm, products and resources are like two sides of a similar coin. Resources are the tangible and intangible assets that a firm controls and can be used to implement its strategies. Capabilities are a subset of firm's resources. Resources comprise of physical resources, financial resources and human resources (Barney & Hesterly, 2010). A number of products need the input of several resources and most of these are useable in multiple products. By determining the size of the firm's activity in different product markets, it is possible to determine the minimum resource commitments that are necessary (Wernerfelt, 1984). Barney (1991) further supported this theory by stating that there are four empirical indicators of the firm's potential for having a sustained competitive advantage which are rareness, imitability, value and substitutability. This theory is used to determine the available resources to a firm that are strategic and can be used to achieve a sustainable competitive advantage. These resources can be a barrier of entry to other firms that may be a competition to the organization's operations. There are several barriers to entry into an industry namely economies of scale, product differentiation, capital requirements and government policies (Porter, 1980).

By undertaking mergers and acquisitions, a firm is able to meet some of these barriers of entry into a market such as achieving economies of scale and meeting capital requirements. M&A transactions improve the resource availability of a firm ensuring economies of scale, synergies, reducing competition and diversification. When the organization has more resources at its disposal it is able to offer more value by drawing from the economies of scale and synergies achieved. Value addition is an important factor in attracting and sustaining customers to purchase your products that will seem different from the competitors.

2.2.2 Stakeholder Theory

A stakeholder is an individual or a group that has one or more different kinds of stakes in an organization. Freeman (1984) defines stakeholders as any person who has an interest in the organization's objectives or is affected by the accomplishments of the same. These stakeholders may also affect the organization's actions and decisions. Traditionally, stakeholders were only thought of as those people who supplied resources or bought products and services. As time has gone by firms began to see a responsibility towards other groups if they were managed successfully.

There are primary and secondary stakeholders. Primary stakeholders are customers, the communities, shareholders and investors, employees, suppliers and other business partners. Secondary stakeholders are the government and regulators, trade bodies, competitors and civic institutions. An organization should be able to employ strategies that are beneficial to the company and the stakeholders (Caroll & Buchholtz, 2009). The strategy of M&A during implementation should bring benefits to the involved organization's stakeholders. In UAP Old Mutual, one of the goals of the merger was to combine their individual company strengths and talents to offer a wider range of services that would be beneficial to customers as one of their stakeholders. They also wanted a more accessible distribution system. The employees would benefit as stakeholders by having better career growth opportunities resulting from the merger. As the firm performance improves, the shareholders will reap from their investment in the company in form of dividends after approving the merger to go ahead.

2.2.3 Market Power Theory

In perfectly competitive markets, market participants have no market power. There are various sources of market power such as few resources, superior technology, increasing returns to scale and barriers to entry by the government. According to Choi and Weiss (2005) mergers and acquisitions are of value when market power is multiplied as a result. Chatterjee (1991) in his study suggested that firms can use vertical integration as a strategy to increase market power if their base and adjacent industries have certain characteristics. Findings suggested that acquiring firms gain more when they come from a concentrated market while the target firm comes from a fragmented market. However, there was no direct evidence showing that vertical mergers increase market power.

Mergers and acquisitions can improve the market power of an organization by helping them to get superior technology, having increased returns to scale and meeting the barriers of entry imposed by the government (Pandey, 2008). The study looks at UAP Old Mutual which has gained an advantage by combining two huge businesses into one, meeting the capital requirements imposed by the government. As a combined entity, they have been able to have innovations that make it easier for customers to transact with them (Wakoba, 2015).

2.3 Mergers and Acquisitions Strategies

M&A are an important strategic option open to firms that are pursuing diversification and vertical integration. Vertical integration is the combination of distinct production in terms of technology, dissemination, selling, and/or other economic processes within a single firm. Companies may use acquisitions as a strategy of entry into a market. In most industrialized countries specifically in the United States, there exists an active market for companies and they are bought and sold each year. Their market is arranged with middlemen seeking to match interested sellers and buyers (Porter, 1980). In the first 11 months of 2008, there were 8,190 mergers or acquisitions done in the United States, with a total value of $ 1.1 trillion. It is clear that it is a common strategy used in the United States but whether the mergers generate value for the involved firms remains unclear (Barney & Hesterley, 2010).

There are various types of mergers as categorized by the Federal Trade Commission (FTC). A vertical merger is when a firm acquires a former supplier or customers for example eBay and Skype. A horizontal merger is when a firm acquires a former competitor. A product expansion merger is when a firm gains access to markets that complement its already existing market through an acquisition while a market expansion merger is when a firm gets access to additional markets through an acquisition. Conglomerate mergers are whereby there is no relatedness strategically between a bidding firm and the target firm (Barney & Hesterley, 2010). Rumelt (1974) found that related diversification provided better performance than unrelated or narrowly related diversification. It was significant at a time when there was debate on whether strategy follows structure or structure follows strategy. Top management support and involvement is necessary for the success of any strategic management system. There is also need for involving the lower management levels in the strategy formulation because they will be the implementers of the strategy. If they are not included, they may be asked to carry out programs they do not believe in (Freeman, 1984).

There are various reasons for mergers and acquisitions according to Barney & Hesterley (2010) such as to ensure survival, agency problems whereby managers benefit without directly benefitting the bidding firm's equity holders, a potential for making economic profits, and managerial hubris. In some instances, the M&A transaction may not result in economic profits for the bidding firm but is necessary so that it survives. If the bidding firm's competitors have been able to increase their efficiency and effectiveness through acquisitions this puts the bidding firm at a disadvantage. It becomes necessary to have a merger or acquisition to gain competitive parity (Barney & Hesterley, 2010).

2.4 Mergers & Acquisitions and Firm Performance

There are several measures of performance that have been advanced in the past such as the balanced score card by Kaplan & Norton (1992). It measures all aspects that are considered important for organizational success which are categorized into four areas: financial showing shareholder expectations, customer satisfaction to create value, learning and growth and internal processes. It can be used in addition to financial measure to know how well or not a company is doing. They advanced five major principles for aligning an organization's measurement and management systems to strategy which are mobilizing change through executive leadership, translating strategy into operational terms, aligning the organization to strategy, motivating to make strategy everyone's job and governing to ensure the strategy is a continuous process.

Chrysler Group, the U.S. automobile division of DaimlerChrysler, faced a forecast loss of $ 5.1 billion in 2001. A new CEO to the division understood that success of a company relies on various aspects not just financials. He used the balanced scorecard to have a turnaround strategy that involved cost reductions and future growth through new product development. As a result, Chrysler generated $9.1 billion in profits in 2004 despite a weak automobile market (Kaplan & Norton, 2006).

Mergers and acquisitions are strategic methods used by organizations to create synergies that boost growth in terms of profitability, market share and shareholder wealth. M&A should constitute positive net present value projects that bring in value to the overall organization. Ramu (1998) states that M&A are expected to result in synergy. Synergy refers to the complementarities between merging firms. This synergy can result from operational or financial gains due to low cost of capital. Operating synergy is mostly in the form of cost reductions resulting from economies of scale or economies of scope. Economies of scale help in spreading the overhead costs therefore reducing per unit costs. Economies of scope occur when a firm is able to utilize a given set of inputs to provide a wider range of products and services. Operational synergies reduce the cost of the company while increasing productivity that results in production efficiencies that help to foster growth in terms of market share, shareholder's wealth and improved market power. All these together improve the financial performance of a firm (Ramu, 1998).

Financial synergy is the impact of a merger on the costs of capital for the merging partners. It is usually easier for a larger company to access capital at a lower cost compared to a small company and to have better access to financial markets (Ramu, 1998). Empirical studies have been done to assess the returns of strategically related mergers and acquisitions. A firm should aim to invest capital that has been raised bring in maximum return on investment. In this sense the firm's performance is measured in line with the perspective of the shareholders (Hoorn and Hoorn, 2011). M&A are also used to reduce competition which explains why they occur in distinguishable cycles. The resulting company has an attractive portfolio of assets that help the company to perform better than the competing rivals in the same industry (Picardo, CFA).

2.5 Empirical Studies and Research Gap

Researchers have done studies in various industries to find out the impact on M&A on the resulting companies' performances. The findings differ from company to company. Gupta & Banerjee (2017) did a study in India on the effect of mergers and acquisitions on financial performance and sampled seven companies representative of the different industries namely automobile, steel, agribusiness, aluminium, energy, wind turbine and telecom. The findings from this study were that three of the companies had deteriorating operating profit whereas five of the seven ROCE significantly fell. There was no improvement on their earnings per share. This is an indication of mergers that did not result in increased profitability as would be expected. The study had been conducted to investigate the impact of mergers on the performance of the bidding firm during the period of 2006-2012. The selected sample showed a decline in profitability performance showing that not all mergers and acquisitions result in improved performance and other methods of growth should be explored such as consolidation and reorganizing (Gupta & Banerjee, 2017).

Oduro & Agyei conducted a study on the firm performance of companies listed in the Ghana Stock Exchange in 2013. The study strongly suggested that M&A's harm the return on equity of the merged firm. Reasons brought forward as possibly contributing to this were loss of experienced top executives through redundancy schemes, lack of proper road maps to effectively implement the merger and acquisition strategy, inability to cash in fully on the synergies that the M&A bring in and improper handling of post-merger boardroom conflicts. Therefore, it was recommended that managers need to take conscious efforts to maximize on the benefits as they are not automatic (Oduro & Agyei, 2013). Having participated in a merger does not mean that a company will reap the fruits.

Ireri (2011) did a study of M&A in the oil industry in Kenya using a causal design to establish the effect of mergers and acquisitions on the financial performance of oil companies in Kenya. In his study he found that companies need to merge so as to achieve economies of scale, higher bargaining power and have increased business expansions. Generally, there was an improvement in the financial performance of Total after acquiring Chevron. The impact of M&A needed to be studied in other industries as well. The study however was carried out in a different context of the oil industry and this study was conducted in the insurance industry, which is a service industry and is different from the oil industry.

In his study on the effects of mergers and acquisitions on financial performance of banks (a survey of commercial banks in Kenya), Gwaya (2015) found that majority of banks merged to raise their profitability through expanding their market share. This major reason accounted for 76% of the reasons for merging in the banking sector in Kenya. The mergers also increased shareholders' value through increasing demand, price and earnings per share. The M&A had a positive effect on profitability. However, the mergers and acquisitions did not have a significant effect on the amount of dividends declared and frequency of issuing dividends. The number of account holders in a majority of the banks increased but it is not clear if this resulted in an increase in profitability. The context of the study was in the banking industry and there is need to replicate the study in the insurance industry.

Oyuke (2009) in her study of the merger between CFC and Stanbic bank sought to find out how effective M&A strategies are in achieving competitive advantage as well as the challenges encountered in the implementation. She found that CFC and Stanbic bank had synergy and were able to consolidate existing products, rebrand some existing products and introduce new products for the benefit of their customers. Their client base post-merger also increased significantly from 50,000 to over 200,000. The merger led to the bank having new competitors which were the tier I banks in addition to their already existing competitors. The merger was seen to have improved the presence of CFC bank in the banking industry and it became more visible to potential customers. A South African model was adopted in regards to job realignments, reporting lines as well as performance and salary scales. These changes were aimed at making this partnership successful and ensure a smooth transition. Mmbone (2016) did a study on the effects of mergers on the performance of companies: a case of CFC Stanbic bank limited to find out the impact of the merger on the financial performance of CFC Stanbic bank. The findings were that there was no significant influence on profitability and share price but there was a significant influence on cash flows.

Studies that have already been done have mostly focused on the financial aspect of M&A whereas these transactions affect more than the financials of a company. Performance can be measured in non-financial ways to conclude whether it is successful or not. The previous research papers done on the subject draw different conclusions, which makes the topic attractive for conducting more research. There is no one conclusion or outcome of mergers and acquisitions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology provides a guide on the process of the study that will ensure the objectives of the study are met. The chapter looked at the research design of the study, techniques of data collection and analysis of data.

3.2 Research Design

Research design is the arrangement of collection and analysis of data with the aim of combining relevance to the research being carried out and economical in procedure. A research problem should have a means of obtaining information, availability and skills of the researcher and the objective of the study (Seema, 2008).

The study was conducted through a case study of the merger between Old Mutual insurance company and UAP insurance to assess the influence of the merger on the performance of the combined company. A case study involves a careful examining a social unit and embraces depth rather than breadth of the study (Mugenda & Mugenda, 2003). A case study was appropriate for this study as it allowed for an in depth analysis and investigation of the effects of mergers and acquisitions on the performance of insurers in Kenya.

3.3 Data Collection

Data can be collected as primary data or secondary data. Primary data is collected first hand and is specific to a particular study. There are various ways of collecting primary data such as by observations, experiments, surveys, questionnaires and interviews. Secondary data is data that has been gathered and recorded by another person in a prior period and is not confined to just the project at hand. It can be used for several other projects over time. It is data that is being re-used in a different context for example financial statements of listed companies in the Nairobi Securities Exchange (NSE).

There are various sources of secondary data, which can be internal sources such as sales records, marketing activity and customer feedback. External sources of secondary data are usually for financial application and are found in journals, books, magazines, newspapers, libraries and the internet (Kadam, Shaikh & Parab, 2013).

This study used both primary and secondary data to analyse the merger and acquisition strategy of UAP Old Mutual Company and its impact on performance. Primary data was obtained through personal interviews of the various managers namely finance manager, customer service manager, business development manager, claims manager and underwriting manager who have worked at UAP Old Mutual before and after the merger. These managers were interviewed because they are in management level and were expected to have knowledge of the merger process. They are also representatives of their departments that have directly felt the impact of the merger. This data was helpful in understanding the reasons that motivated the merger and the performance this far and why the two companies felt they were a good fit for each other.

Secondary data was retrieved from annual published financial statements of UAP and Old Mutual companies before and after their merger. These statements are publicly available by law as they are companies listed in the NSE and are financial institutions that have the public interest. The financial statements are available in their company journals and on the internet. Information about the net premiums earned and losses incurred can be obtained from Association of Kenya Insurers journals and online articles on the AKI website regarding their historical market statistics. The financial information in the financial statements of the companies was combined and analysed two years before the merger / acquisition that is 2013 and 2014 and compared two years after the merger (with the two separate companies conducting operations as one) that is 2015 and 2016. The data from these documents was used to compare the underwriting profits in the periods before and after merger and to compute ratios namely return on assets and loss ratios for the same periods.

3.4 Data Analysis

The data collected by the researcher was analyzed using content analysis for the primary data. Content analysis was appropriate for qualitative data because it provides a record of the responses given by the interviewees without restricting their answers. This helps in having more information from the respondents. The secondary data was analyzed by descriptive analysis of the financial information gathered from which the expenses, gross written premiums and loss ratios were assessed, and evaluation done to help the researcher in assessing the impact of M&A on the financials of the insurance firms.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study. The objective of the study was to find out the effects of the merger between UAP & Old Mutual on its performance of UAP Old Mutual insurance company. The data was both primary and secondary.

Five respondents were targeted for the study concentrating on the management staff that was in place before and after the merger and acquisition process. Four out of the five intended interviewees were available namely the claims manager, the underwriting manager, customer service manager and business development manager. This turn out made the response rate at 80%. One respondent declined to participate in the interview process.

4.2 Effects of Mergers and Acquisitions on the Performance of UAP Old Mutual

The study looked at the effect of M&A as a strategy on the performance of UAP Old Mutual. The merger was a horizontal merger because the two companies were in the same industry before and in the same line of business. The effects are broad in terms of non-financial aspects and financial aspects. Non-financial parameters of measure include customer satisfaction, internal business processes, learning and growth. The financial measures include the loss ratio, expense ratio and return on assets, which were calculated from the financial statements of the companies. Interviewees gave their account of the merger which were categorized under four major categories: internal business processes, customer perspective, financial perspective and learning and growth perspective.

4.2.1 Internal Business Processes Perspective

This perspective looks at what an organization needs to excel in. The internal business processes are guided by the overall objectives of an organization so that all activities done are working towards achieving those goals. UAP Old Mutual have the same goal of customer focus and their operations are aligned towards putting the customer needs first. The customer is king and without their support, the business will not flourish. The merger sought to establish a wider range of services for its clients and offer all round financial solutions. Various innovations have been adopted that involve digitizing processes such as claims reporting where one can lodge a claim online and attach photographs and the claim is received by UAP Old Mutual without having to physically go to the offices.

Previously, claims could only be reported manually by coming to the offices. Clients are kept up to date with the progress of their claims via short messaging where once something has been done like an approval the client is notified. The clients feel a sense of care from the team making them more satisfied with the process. They have set up assessment centres that clients can take their vehicles for assessments. They have been adopted from the South African practice as a way to stand out from competitors. These centres have UAP staff as the assessors while some other services are outsourced. Before taking up these assessment positions the staff have to be trained on the same and have experience in the field as internal assessors.

UAP Old Mutual are in the process of digitizing their current products to have a better appeal to the market especially those found in areas not near the UAP Old Mutual outlets. The world is becoming digital and tech savvy, which necessitates the company to put in place systems that incorporate this shift in market trends. It will appeal to the younger generation without having to fill in forms and go through lengthy procedures. Such steps are helping the company to remain relevant in a dynamic environment. As the company works towards getting more young people on board for insurance services the earned premiums will increase contributing to improved performance.

Another important internal business process is communication of objectives to everyone in the organization. Communication makes employees aware of what is expected of them and what is to come. Before the merger started, there was communication to the employees on the future expectations. Various channels were in use to ensure this such as companywide meetings, departmental meetings, anonymous sites for posting concerns and an internal weekly magazine called SISI. By doing so, the organization promoted a sense of concern for the welfare of employees promoting their peace of mind in carrying out their daily duties. Through these efforts it was found that the company was able to maintain its customers at 1.2 million. Retention of existing customers is just as important as having new customers as the same customers can purchase different products resulting in the more premiums realised. The expenses for the company however more than doubled after the merger compared to before the merger. UAP expenses were 2,395,514 in 2013 and in 2014 they were 2,384,060. After the merger, the combined expenses were 7,831,123 in 2015, which was a 3.28% increase from 2014 and further increased by

1.07% to 8,361,413 in 2016. The increase in expenses was expected due to the changes that were happening in the company.

4.2.2 Customer Perspective

The customer perspective concentrates on how the customers view an organization. Old Mutual pride themselves in their strong brand. They have a multinational presence and want to ensure their staff are competent as they are a representation of them. The strong UAP brand in Kenya has aided in the process of uptake despite initial reservations by the clients about the merger. Other players in the industry took this opportunity to discredit the UAP business stating that South African companies do not do well in Kenya as seen in previous businesses. However, the strong brand and commitment to clients helped to weather this storm and the clients started coming back after experiencing the new UAP Old Mutual and their commitment.

UAP Old Mutual shared the same values of customer service and striving to make customers comfortable. They also shared a vision of expansion in the markets and being the preferred financial solutions provider. The group launched a new customer drive that wanted to consolidate the gains realised by the merger. The group launched the Integrated Financial Services Centres that offer financial solutions all under one roof namely insurance, investment management, banking and securities brokerage services. The first centre was launched in August 2016.

The organization has a presence in six countries namely Kenya, Uganda, Tanzania, Rwanda, South Sudan and Democratic Republic of Congo. This has ensured they have a wide distribution network of over 160 outlets. The company has a customer affairs committee that assists in identification, evaluation and monitoring of the changing customer trends, issues and concerns. The committee reviewed the treating customers fairly principles to promote fair treatment of customers regardless of who they are. The company did not create new joint products for their clients. However, the organization is making efforts to digitize their current products so that they are all available online. This will mean increased convenience to the customer whereby they do not need to go to the UAP Old Mutual offices to get an insurance policy.

Old Mutual launched i-invest, a mobile based UT account that offers customers a platform to register and manage a unit trust account from the convenience of their mobile phones. All instructions to invest, withdraw, switch between selected funds and static information change can be submitted and processed over the Kenyan registered mobile phone. Old Mutual also launched a Personal Pension Plan (PPP) in order to provide a retirement savings vehicle to Personal Financial Advisors (PFAs) and other independent individuals. The product allows for optional pension savings for retirees and those without access to pension funds.

UAP Old Mutual has ensured it has maintained its responsibility to its stakeholders. An annual general meeting was held with the shareholders to give their consent for the merger to take place. Approvals from the regulator IRA were also complied with before starting the process. The company has also maintained its responsibility to the community through its continued participation in the Ndakaini half marathon every year since 2004. The staff collaborated with Kenya Wildlife Services to plant a record 19,000 seedlings in the Aberdares forest in December 2016. The marathon has improved their visibility in the country as the event is a nationwide attraction. The visibility has improved customer curiosity on their products resulting in sales. Customers trust a brand that is giving back to the community and want to be associated with it.

With the growing number of outlets to reach more customers, the study found that the gross written premiums have steadily increased from sh. 12.7 billion in 2013, to sh. 14.8 billion in 2014 to sh. 16.9 billion in 2015. The gross written premium increased by 1.14% in 2015 compared to 2014. The gross written premium in 2016 was sh.19.4 billion which was a 1.15% increase from the 2015 premiums. Focusing on the customer has been able to translate to premiums underwritten. UAP Holdings had a 5% market share in the industry whereas Old Mutual had a 2.5% market share. After the merger, their combined market share is 7.5% (Gikang'a, 2016).

4.2.3 Learning and Growth Perspective

This perspective focuses on how an organization can continually improve its resources namely people, systems and organizational procedures to create value. The employees need continuous training and skills, while ensuring there is employee satisfaction and retention. The merger saw a lot of interference in the day to day lives of the employees of UAP Old Mutual. The merger brought together people who performed the same duties from both companies which led to redundancies in some positions due to duplication of roles and responsibilities.

A new structure was adopted to fit in with the South African model which is a multinational company. There were new job grades to streamline operations where UAP previously had 22 job grades listed in numbers. The managers were all ranked together instead of having several levels of managers for example under grade K. this new structure ensured that everyone's job description is clearly outlined which makes it easier to evaluate performance because the comparatives are similar. A new reward system was adopted where the bonus system was better for the UAP employees compared to what they previously had. They experienced a boost in bonuses which was done to motivate the employees to work exceptionally well at their duties and promote excellence. This has helped in making the employees more settled and focused on their jobs rather than the dynamics of the merger.

Several training programs have been introduced mainly focusing on change management. Those in positions of leadership such as managers and supervisors are signed up for the change management programs which are continuous so that they have the necessary skills to deal with the transition issues that may arise from the merger and how to manage the employees' expectations. Some managers have undergone training programs in South Africa where the parent company of Old Mutual is located to help in distribution of knowledge across the entire company and all the subsidiaries. From these programs, innovations like the assessment centres have been developed to fit the Kenyan market. The managers have also been undergoing a change management program that helps them to understand how to manage the expectations of their specific teams.

The learning and growth combine to support strategy. Performance of the company has improved due to the training that the staff been undergoing. They are now able to provide integrated financial solutions through their centres that resulted in increased profits before tax to sh. 1.2 billion in 2016 as compared to sh.0.7 billion in 2015.

4.2.4 Financial Perspective

Loss ratio	2013	2014	2015	2016
UAP Life	142.84%	119.13%	-	-
UAP General	341.39%	67.63%	-	-
Old Mutual	241.67%	167.92%	-	-
UAP Old Mutual	-	-	66.17%	63.76%
Premium Growth rate			1.53%	1.28%

The loss ratio for UAP life in 2013 was 142.84% and in 2014 it was 119.13%. The loss ratio for UAP general business was 341.39 in 2013 while in 2014 it was 67.63%. Old Mutual loss ratio in 2013 was 241.67% and in 2014 it was 167.92%. The companies were doing poorly before the merger. After the merger, the loss ratio for the combined company in 2015 decreased to 66.17% and in 2016 it decreased further to 63.76%. The loss ratio for the company has decreased showing they have taken measures to keep their claims in check. A low loss ratio shows a company is becoming more profitable as it spends less on settling claims therefore the lower the loss ratio the more profitable the insurance company. The premiums for UAP and Old Mutual when they were operating as separate entities in 2014 was sh. 7,857,955 whereas in 2015 it was sh.12,069,426 and sh. 15,427,036 in 2016. The gross written premium (GWP) and net earned premium of the company has increased steadily over the years. GWP grew by 15% to 19.4 billion in 2016.

The total income grew to 19.4 billion increasing by 17.6% attributed to growth in revenues and steady investment income. The group registered a 76.1% growth in profit before tax in 2016 at sh.1.2 billion compared to sh.693 million in 2015. The net claims increased but the short term loss ratios decreased due to claims review exercises, review of underwriting practices and better claims management. With fewer claims paid, the company was able to have more premium retained within the company improving its profitability.

4.3 Challenges of the Merger

Every merger and acquisition is faced with problems they must deal with for the transaction to be successful in the long run and when such challenges are ignored they will turn into major problems that stand in the way of reaping the benefits of the merger. A company must always be ready to face some challenges during its merger process and should have contingencies to manage these challenges. The identified challenges at UAP Old Mutual are as below:

4.3.1 Cultural Differences

From the findings, it was clear that there were cultural differences between the culture at UAP and the culture at Old Mutual before they merged. The reporting channels were synchronized and adopted the Old Mutual system that proved to be an adjustment for the

UAP staff. Many employees did not easily adjust to the new way of doing things. The HR manager indicated that communication was important and they shared as much information about what was happening and, most importantly, how the changes would affect individual employees. Employees were taken for trainings and companywide meetings were called to reassure them of company stability.

4.3.2 Staff Turnover

Dealing with the staff from both companies was a major challenge due to the overlapping in job descriptions and titles. Many people had to be laid off from both UAP and Old Mutual and among the most affected departments was the Information Technology department. There were staff exits during this period as well by staff who did not feel comfortable with the changes going on. Some employees felt they were being undermined in their positions due to clustering together with staff who were previously under them but performing the same job.

There were also redundancies in some positions and staff had to be let go from both companies. It was not possible to have two managers being the heads of the same department and as a result, some staff were redeployed to other areas. Where redeployment was not possible they had to leave the company. This proved to be challenging on the performance as the remaining staff feared they would be next to go and being uncertain of their future in the company. This uncertainty promoted a culture of employees not giving their best with the uncertainty of leaving at any time and not reaping the fruits of their labour. The retrenchments resulted in reduced staff doing the same jobs. The employees feel overwhelmed and need to work extra hours to cover the workload as needed. When people are stretched the productivity is not optimum which can lead to errors when underwriting business. It can also have an impact on the motivation levels of the staff and thus firm performance.

4.3.3 Integration of Systems

The company has not been able to fully integrate their systems into one major system. This is due to the fact that different functions do different things. However, a new medical system was purchased which cost a lot of money. This purchase was during the merger period which made the company opt to halt the system purchase for the whole company. Some functions such as human resources are combined whereas departments such as finance are still in the process or integrating the system.

The lack of integration of systems has resulted in the company still operating as two entities due to the separate systems whereas everything should be linked. It has increased the number of reconciliations that need to be done especially for public reporting purposes which in turn has doubled the workload of the current employees. Information may be lost when migrating to a new integrated system which is a risk the company must factor in when synchronizing the system so that policyholders do not lose their policy information. This can affect performance in that the actual business done may be lost in the reconciliations and the premiums realised either double booked or left out.

4.3.4 Legal Framework

UAP Old Mutual had overlapping business in life insurance and asset management which have been operating separately since the merger due to the complex merger approval process. Substantial progress has been made in trying to integrate those businesses and the company has formally approached the regulators and shareholders to give their formal approvals for completion of those processes. This process is time consuming and affects the realization of synergies that come with consolidating the costs into one. The first step that will be taken to realize this will be for UAP Holdings to acquire the Old Mutual subsidiaries and overlapping business like life business. After that, the company will merge the two life businesses of UAP life and Old Mutual life to create one life business.

4.4 Discussion of Findings

From the findings, UAP Old Mutual has improved in its financial performance since the merger happened. There has been growth in gross written premiums, total income and net earned premiums. The growth was attributed to the merger undertaken by the company. Other factors have contributed to the increase in profits other than the merger. These findings support the illustration of Pandey (2008) that the ultimate goal of Mergers and Acquisition is the generation of synergies that can foster growth, increase market power, improve efficiencies and boost profitability.

With regard to the effects of mergers and acquisition on market perspective, findings showed that the merger of UAP Old Mutual improved customer loyalty and helped in acquisition of new markets that ultimately boosts their market share. These findings are in line with the market power theory as well as the study of Kogut and Zander (1996) that illustrated that firms engage in M&A to deal with the dilemma of how to achieve superiority over markets as productivity grows with the division of labour but specialization increases the costs of communication and coordination.

The findings on the internal business processes showed that there have been noted some improvements in the procedures. The merger led to enhanced internal processes and procedures. The study further confirmed that integrated operating system is a key requirement for growth of merged entities. The findings validate Chunlai and Findlay's assertion that the main purpose for conglomerate is to help firms reduce capital costs and overheads and achieve efficiency (Chunlai & Findlay, 2003).

The organization has ensured to develop their staff skills through training and redeployment to new workstations as well as implementing a bonus system in place that motivates the employees to perform well. As one of the stakeholders in the entity it is important to make them comfortable with the changes happening. In line with the stakeholder theory, the merger has also added value to the various stakeholders in the business namely the staff, shareholders, government, the community and many others. The financials of UAP Old Mutual have increased since the merger as can be seen in the upward trend of increase in net premiums. Their assets base has also increased showing agreement with literature on stakeholder theory where an organization should be able to employ strategies that are beneficial to the company and the stakeholders (Caroll & Buchholtz, 2009).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter looks at a summary of the findings of the study on the effects of mergers and acquisitions on the performance of UAP Old Mutual. It also outlines the conclusions from the study and gives recommendations that may be implemented based on the findings of the study and the limitations as experienced by the researcher.

5.2 Summary of Findings

The study revealed that mergers and acquisitions are sometimes necessary and do not always have to be hostile. The merger of UAP Old Mutual was not a hostile take-over despite a few employees losing their jobs in the process. The interviewees acknowledged that for a merger and acquisition to be successful it is important for the companies to have a similar vision, goals and core values. This will ensure the corporate culture is on the same page and reduce the tension of opposing ideas. It is important for the transition process to be made as smooth as possible. In UAP Old Mutual they both seek growth and expansion regionally, competent staff and satisfied customers.

By ensuring constant and open communication, UAP Old Mutual was able to reduce the rumours going around the company and was able to pinpoint the areas that required more attention and clarification. It is important to communicate the intentions of the merger to give employees peace of mind and ample time to prepare for what is expected. It is also necessary especially for those who face the risk of redundancy are able to make necessary arrangements to cope and survive. Communication is a tool that can be used to ease the company into acting as one and for the employees to feel they are one team.

Those in management are the stewards of change and an organization must ensure the management is able to handle the change process to ensure it is successful. In UAP Old Mutual the managers underwent change management programs to prepare them for the transition and they have been instrumental at steering their staff in the right direction. This was an added skill to their advantage which can be applied in future changes.

The strong brand that UAP and Old Mutual had prior to the merger has helped them to retain their customers as well as attract new customers to purchase their products. By proving their commitment to the customer and showing their prowess in insurance matters and overall financial solutions, the company has been able to keep opportunists trying to discredit their name at bay. It can be noted that their financials have also improved since the merger showing they are realizing some benefits already despite the short time that has passed.

There were several challenges faced during the merger such as the legal framework and procedures that are time consuming which has made the life business and assets management unable to fully merger their operations. There was also the challenge of high staff turnover from staff who were leaving the company at a high rate than normal due to the uncertainties of the merger. It is also difficult to integrate the systems of two different companies to work as one system and it is quite expensive. This is still a work in progress for the company which will be sorted out in due time.

5.3 Conclusions

The study concluded that mergers and acquisitions are viable strategic options for companies that want to achieve various synergies and market power. The strategy is working for UAP Old Mutual and the company is seeing increase in its premiums. Mergers and acquisitions make a company that was about to collapse to remain relevant. Despite the good results expected from mergers and acquisitions, there are many challenges faced on the way and an organization should have measures in place to counter these challenges and offer solutions. The expected synergies are not instant and take time. However, without proper monitoring of the process the transaction will be unsuccessful defeating the purpose in the first place. UAP Old Mutual is still in the process of transition as the merger happened recently in 2015. The company has implemented measures to help the company achieve its greatest potential and market penetration and so far it seems to be working in their favour.

5.4 Limitations of the Study

The interviewees were not readily available to provide information. Those interviewed did not feel comfortable with being named and preferred being anonymous as information concerning the merger is very sensitive and confidential. The respondents agreed to participate on condition that the information was not to be divulged to any other party other than for academic purposes only. To limit the effects of this limitation, the researcher carried with her an introduction letter from the University confirming that the data requested was used for academic purposes only.

There was also the limitation on what extent of information to give without exposing the strategic steps the company is taking to remain relevant in the industry. The respondents had a hard time discerning to what level they can reveal information when answering the interview questions. Exact figures and values could not be given but generalized information was given based on their experience and observations. Information regarding the premiums written was collected from the financial statements.

5.5 Recommendations

For M&A to be successful, it is important to make the employees feel comfortable and not disposable. During the merger of UAP Old Mutual, there was a lot of uncertainty on job security despite the communications done by the management. There was a high staff turnover, which can dampen staff morale for those who remain in the company. In a merger, the transacting organizations should find a way to reduce the number of staff laid off at that time.

It is important for a bidder to be prepared for a merger by having the necessary finances in place to make the changes such as a new or integrated system. Technology should be used to create innovative processes and products as a way to save on time and money while giving more value to the customers. Customers are always willing to pay a premium price for convenience and in exchange of what they feel to be their value for money. Therefore, all insurance companies should invest in their technology and systems so they can be flexible to merge with other systems to avoid purchase of an entire system after a merger and acquisition.

5.6 Implications for Policy and Practice

Mergers and acquisitions are a means to an end for the participating companies. Some get into it to have more resources, others to access new markets, and for others it is to gain a competitive advantage in their respective industry. UAP Old Mutual has realized some of these objectives because of the merger for example they have a wider distribution channel and have access to new markets. An organization must ensure their specific objectives are clear to guide the M&A process.

Mergers and acquisitions are a time-consuming process. Before the transaction commences it is important for the objectives of the merger to be clear that will guide the actions taken. The organization must ensure due diligence when selecting their transaction advisors, financial advisors and legal advisors. For UAP Old Mutual the processes are still ongoing two years down the line. For a smoother transition, the staff needs to be aware of the process and what is expected to happen. Such a move by management will maintain confidence in the company and ensure the employees put their effort to ensure success of the merger or acquisition.

The regulator, IRA, should be keenly involved in a merger process to ensure it is lawful and does not expose the customers and shareholders. Mergers and acquisitions are a strategic way to grow the insurance industry to have strong players that can contribute to the economy of the country. As such, the participation of the regulator will help in ensuring the insurance industry in Kenya is able to compete with its regional counterparts such as the South African firms in terms of penetration of the market.

5.7 Suggestions for Further Research

A similar study of UAP Old Mutual should be done after a number of years to establish if the merger is still successful in the long-run. The study was done in the short term but time may bring in new factors to consider. The study focused on one unit of study whereas more research can be done in form of a survey of the entire industry as a whole. Studies may be done in other industries such as the telecommunications or manufacturing industry on mergers and acquisitions to have new knowledge in the area. A different industry may bring in a different perspective of mergers and acquisitions.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

Background information

1. What is your title and responsibility in the company?
2. How long have you worked with UAP/Old Mutual?

The merger between UAP and Old mutual

3. When did the merger happen?
4. What made UAP/Old Mutual to seek a merger?
5. Who are your main competitors and why are they considered competitors?
6. What reasons motivated UAP to merge with Old mutual in regards to competitiveness?
7. Who was responsible for overseeing the merger process?

The Merger and Performance

8. Do you consider the merger to have been successful so far?
9. Has the merger improved the company in any way?
10. What areas have improved after the merger in terms of resources?
11. What is the performance of the company after the merger compared to the periods before the merger?
12. Has the company had more market power?
13. To what extent has the market penetration contributed to performance of the company?
14. How were the employees involved in the merger process?
15. Have the employees been more motivated by the merger?
16. Were there any lay-offs and were the remuneration packages satisfactory?
17. Have there been new products developed for the joint market?
18. How has the market received the new brand?
19. Has the merger met your expectations?
20. Any additional comments regarding M&A in the insurance industry

APPENDIX II: DATA COLLECTION FORM

UAP Old Mutual Annual reports 2015 & 2016

	2016 (‘000)	2015 (‘000)
Net earned premiums		
Net claims incurred		
Expenses		
Total assets		
Total equity		

Old Mutual Annual Reports 2013 & 2014

	2013	2014
Net earned premiums		
Net claims incurred		
Expenses		
Total assets		
Total equity		

UAP Annual Reports 2013 &2014

	2013	2014
Net earned premiums		
Net claims incurred		
Expenses		
Total assets		
Total equity		

APPENDIX III: EXTRACTED FINANCIAL REPORTS

Old Mutual Statements for 2013 & 2014

	2013	2014
Net earned premiums	387,045	452,034
Net claims incurred	935,391	598,746
Expenses	1,081,624	2,031,923
Total assets	12,037,774	14,535,806
Total equity	671,621	2,712,177

Source: AKI Insurance Industry Annual Report 2013 & 2014

UAP General Insurance 2013 & 2014

	2013	2014
Net earned premiums	1,018,953	6,063,039
Net claims incurred	3,478,607	4,100,385
Expenses	2,395,514	2,384,060
Total assets	13,755,093	15,939,476
Total equity	7,248,144	8,814,705

Source: AKI Insurance Industry Annual Report 2013 & 2014

UAP Life Insurance 2013 & 2014

	2013	2014
Net earned premiums	840,922	1,342,882
Net claims incurred	1,201,142	1,599,787
Expenses	439,744	1,164,903
Total assets	6,458,174	8,573,354
Total equity	798,312	575,685

Source: AKI Insurance Industry Annual Report 2013 &2014

UAP Old Mutual Annual reports 2015 & 2016

	2016 ('000)	2015 ('000)
Net earned premium	15,427,036	12,069,426
Net claims incurred	9,835,963	7,986,649
Expenses	8,361,413	7,831,123
Total assets	57,026,802	48,724,654
Total equity	17,694,270	17,795,261

Source: UAP Holding Limited Annual Report & Financial Statements 2016