THE DEVELOPMENT AND IMPLEMENTATION OF Mergers AND ACQUISITIONS STRATEGY AT INTERNET SOLUTIONS KENYA LTD

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

Signed: ________________________________  10th Nov 2019

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This research project is dedicated to my lovely wife Elizabeth and daughter Hawy; parents and the entire family members for their support, encouragement and patience during the entire period of my study.

It’s also dedicated to my late brother Timothy Miser Obondy - R.I.P.
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ABSTRACT

Mergers and acquisitions strategy is a growing phenomenon in Kenya today; this has been embraced by many financial and technical based firms as a strategy of choice. It is however still not a popular strategy as many firms seem to tread carefully and many take time to pursue the strategy. The objectives of this study were to generate new knowledge on the motive and challenges in the creation of mergers and acquisitions at Internet Solutions Kenya Limited. It establishes how valuable partnerships can be built through mergers and acquisitions as a competitive strategy in a dynamic industry such as the Internet Service Providers sector; in order to survive and maintain competitive top slots. Mergers and acquisitions in organizations are usually guided by the top management. Additionally, efforts to implement mergers and acquisitions in an organization are more likely to be successful if the top management understands the sequential phases required, organizational problems as well as the reasons why people accept or resist change. Though the integration process was successful according to the respondents, a lot of challenges were encountered but the transition team tried as much as they could to resolve them as soon as they became evident. Frequent communication to employees through meetings reduced anxiety, fear and confusion, and during these meetings, management collected feedback and were able to further address employee concerns. The research design appropriate for this study was a Case study as it allowed for in-depth exploration of issues such as current happenings/events at Internet solutions Kenya Limited in regards to mergers and acquisitions. This method also offered the opportunity to learn about the events through extensive descriptions and contextual analysis in line with the objectives of the study. The use of literature and interviewing individuals who could speak authoritatively on the subject was applied and data collected during the study was analyzed qualitatively. The research, though completed successfully was not without difficulties. Being a case study where Internet Solutions Kenya Limited was solely the unit of study, obtaining information was very difficult mainly because the respondents felt that some information was very confidential. This limited the scope of the study, and some respondents clearly pointed out they had not provided full information for confidentiality reasons.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Globalization has generated an intensification of international competitiveness and pressured organizations to change and expand. It has become a world-wide trend to attract foreign investment while increasing exports and developing international alliances. Mergers and acquisitions are currently the predominant forms of internationalization, expansion and growth. From the 1980s to the millennium, the world has witnessed an increase in mergers and acquisitions between organizations of different sizes and from different industries. Throughout the past decade these alliances have dominated the world economic scene (Yunker, 1983).

The prospect of increasing profitability and the market share by acquisitions continues to exercise a more seductive and immediate appeal to business leaders than a reliance on growth alone (Sudarsanam, 1995; Wullaerts, 2002). There has always been a substratum of mergers, acquisitions and indeed, divestments in all developed economies. However, the extent of this depends on the buoyancy of the economy of the economy. This periodic rise and fall of such activity has heightened debate among managers, academics, politicians, and regulators about acquisition activity and their benefits, as well as ethical considerations (Vinten, 1992).

Mergers and acquisitions in Kenya generally fall within the regulatory framework of competition laws. The main legal framework on competition in Kenya is Restrictive Trade
Practices, Monopolies and Price Control Act, Cap. 504 laws of Kenya. This is an act of parliament whose aim, if its preamble is anything to go by, is to encourage competition in the economy. This it does, or proposes to do, by prohibiting restrictive trade practices, controlling monopolies, concentrations of economic power and prices and for connected purposes (Musyimi, 2007).

1.1.1 Concept of mergers and acquisitions

Mergers and acquisitions refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. Technically, these terms bear the same meaning but in more convoluted terminology. Thus a “merger” to lawyers is a transaction in which two or more corporations combine under the company law with the result that all but the one of the participating corporations loses its identity (Fox, 2004).

Potential mergers and acquisitions partners are typically identified through some kind of strategic fit, which means similarities between organizational strategies or complementary strategies that will enhance potential synergy (Quah, 2005). After a suitable partner has been selected, the actual planning of the merger takes place. Mergers and acquisitions can be described as a process, containing different stages. This process is typically unique for each deal, but in general, it can be divided into five main stages: formulating, locating, investigating, negotiating, and integrating. The first stage includes development of a growth
strategy and business objectives. In stage two and three, the so-called pre-deal stages, the companies attempt to assess, plan and forecast the anticipated value. In the fourth stage, the involved parties meet and reach a definitive agreement. In the last stage, the companies finalize and implement the integration plans.

1.1.2 Implementation of mergers and acquisitions

According to Trimbath (2002) the terms mergers and acquisitions are often confused or used interchangeably by literature even though significant differences can be identified. In a merger, two previously separate companies combine their assets to establish a new single organization. In an acquisition on the other hand, the control of assets is generally transferred from one company to another. However, Sudarsanam (2003) claim that even in a merger, one company typically gains more control, and there is commonly a sense of being defeated on the part of the smaller company. Stylianou et al. (1996) describe four different types of mergers and acquisitions that can occur: Horizontal - between companies in the same branch and at the same production stage; Vertical - between companies at different production stages in the same branch; Concentric - between companies in different but related branches; or Conglomerate - between non-related companies.

Historically, the different types of mergers and acquisitions have occurred in waves of particularly intense activity. During the 1960s and 1970s, conglomerate mergers and acquisitions were the most common, involving non-related companies seeking to diversify. Companies joined together, but more often than not they continued separately in a rather independent way. During the 1980s and 1990s, the trend changed and affected, to a greater extent, horizontally or vertically related companies. The predominant strategic goal was to
achieve synergy and the advantages of large-scale operations rather than to diversify. (Shrivastava et al. 1996). This development has continued, and today a typical merger or acquisition is strategic and operational in nature.

According to Searby (1969) there are several motives for performing a merger or an acquisition. The main motive is the belief that a new, combined organization will help to attain strategic goals more quickly and less expensively than if companies would attempt to do it separately. Organizations might seek to achieve economies of scale and scope by combining their resources. Furthermore, they may also wish to gain access to technology or market reach, achieve a dominant position in the industry and manipulate the rules of competition and antitrust.

1.1.3 Internet service providers industry in Kenya

There are 51 registered Internet Service Providers in Kenya which are regulated by Communications Commission of Kenya (CCK) established in 1999 by the Kenya Communications Act (KCA) No. 2 of 1998. It is responsible for the facilitation the development of the information and communications sectors and electronic commerce. Internet Service Providers like all other organization are finding themselves in a very dynamic business environment. There is need to develop strategies on how to gain entry into different markets and to cope with different challenges in order to realize their business objective.
In the Information and communications technology sector in Kenya, acquisition has been seen as a strategy of choice for some firms. Examples are cited in the acquisition of Onecom by Safaricom in order to diversify into the data sector from voice. AccessKenya a leading Corporate Internet Service Provider acquired Satori Solutions, a medium sized “Virtual Internet Service Provider” serving primarily Small Office, Home Office customers to increase its footprint.

1.1.4 Overview of Internet Solutions and Internet Solutions Kenya Ltd

Internet Solutions is the leading African Internet Protocol-based Communications Service Provider. Internet Solutions strives to offer a superior client service experience for client and partner organisations. Internet Solutions is a wholly owned division of Dimension Data Middle East and Africa, itself a subsidiary of Dimension Data, a global systems integrator. Since inception in 1993, Internet Solutions has been at the forefront of telecommunications innovation. As the first commercial Internet Service Provider in South Africa, Internet Solutions today has the most stable, resilient and redundant network available and the widest and most innovative scope of service offerings.

On the other hand; Interconnect (K) Ltd was incorporated in 1997 being one of the pioneering Internet Service Providers in Kenya. Interconnect mainly focused on Small Medium sized Enterprises (SMEs) and the Mass market. Some of the service offerings included dialup connection, WiMax access and Fibre connectivity. As an entry strategy into the Kenyan market, Internet Solutions bought controlling stakes of 51% of Interconnect in 2006 and thereby changing its name to Internet Solutions Kenya Ltd. Internet Solutions
Kenya Ltd provides services to small, medium, and large organisations in the public and private sector and to the consumer market through its wholesale offerings.

Internet Solutions Kenya Ltd solutions and services are built on a world-class, secure and resilient infrastructure, delivered according to global best practices and in partnership with the world’s leading technology vendors, such as Cisco, Microsoft and Symantec. Internet Solutions Kenya Ltd embraces open source technology and partners with leading local and international companies to deliver business ready Linux and open source solutions.

1.2 Research problem
According to Barney (2001), merger and acquisition strategies are an important strategic option for firms pursuing diversification strategies. Although mergers and acquisitions are increasingly becoming popular strategic options for consolidation among Internet Service Providers, the outcomes are often disappointing. The context of mergers and acquisitions combinations may have changed, but the results are no better today than they were a decade ago. Now, like then, fewer than 20 per cent of them achieve their desired financial or strategic results. Many factors account for this unsatisfactory track record, such as engaging for the wrong reason, selecting the wrong partner or merging at the wrong time. However, as mergers and acquisitions tend to be extremely well planned in terms of financial and legal aspects, most unsuccessful outcomes among Internet Service Providers are related to more soft issues. A significant reason for failure is lack of appropriate management during creation and implementation of mergers and acquisitions integration process (Pablo, 1994).

The Internet service providers industry is quite dynamic; and competitors need to keep abreast with changes in the industry. To gain entry into the East African market, Internet
Solutions was involved in the process of mergers and acquisition of Interconnect (K) Ltd thereby increasing its footprint. Though mergers and acquisitions among Internet Service Providers have increased in Kenya, it does not provide justification that the creation and implementation of mergers and acquisitions was a smooth process at Internet Solutions Kenya Ltd.


However, none of these studies focused on the mergers and acquisitions in the Internet Service Providers industry in Kenya and how they are managing or preparing themselves to manage mergers and acquisitions in the industry. There is therefore need to empirically assess and analyse the phenomenon for managerial implications. The study, thus sought to
answer the following question; what was the motivation of the development and implementing of mergers and acquisitions strategy at Internet Solutions Kenya Ltd?

1.3 Research objectives

This study aims at achieving the following objectives:

i. To determine the motivation of creation of mergers and acquisitions at Internet Solutions Kenya Ltd.

ii. To determine the challenges/pitfalls of mergers and acquisitions experienced at Internet Solutions Kenya Ltd.

1.4 Value of the study

This study will be important to various stakeholders. It will be important not only to managers at Internet Solutions Kenya Ltd but also to other Internet Service Providers managers within the industry. It will help them understand creation and implementation of successful mergers and acquisitions and how it helps achieve performance success. The study will also help other Managers know the methods used in mergers and acquisitions, creation and implementation and consequent effects on performance, which will help them, improve their mergers and acquisitions styles.

The study will be a source of reference material for future researchers on other related topics; it will also help other academicians who undertake the same topic in their studies. The study will also highlight other important relationships that require further research; this may be in the areas of mergers and acquisitions and institutions performance. The results of this study
shall be used by academics to discuss issues of creation and implementation of mergers and acquisitions in other sectors in Kenya.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The chapter begins with corporate strategy, mergers and acquisitions, due diligence, past merger and acquisition experience, the integration process of mergers and acquisition, business process integration, success of post-merger integration and concludes with mergers and acquisition models.

2.2 Corporate strategy

Strategic planning has long been emphasised by organisations as an important tool leading to business success. In a study conducted by Harding and Rovit (2004) the importance of aligning corporate strategy to planning for mergers and acquisitions was examined. They reviewed more than 1,700 mergers and acquisitions and interviewed 250 Chief Executive Officers (CEOs). It was found that less than one in three CEOs interviewed had a clear strategic rationale for the mergers and acquisitions, or understood the contribution the deal would make to their company’s long-term financial future. This study also found that over half of those companies with a clear rationale underpinning their activity came to a post-mergers and acquisitions conclusion that their rationale had been wrong.

Lynch and Lind (2002) describe mergers and acquisitions as being one of the central techniques for organisational growth, whilst Hurtt et al. (2000) go further and suggest growth is the primary reason for mergers and acquisitions. Perry and Herd (2004) emphasise the critical role of strategic planning when using mergers and acquisitions to grow an
organisation. They suggest that in the 1990s companies shifted the focus for undertaking mergers and acquisitions from a cost saving perspective to using mergers and acquisitions as a strategic vehicle for corporate growth, which the authors regarded as an inherently more difficult challenge.

2.3 Mergers and acquisitions

Harari (1997) lists several reasons given by CEOs to justify a merger or acquisition. These include: to obtain synergies, economies of scale, cost savings, increased products and rationalisation of distribution channels. Selden and Colvin (2003) highlight the way companies focus on the potential return on capital. They also suggest that the most common reason companies buy one another is to acquire customers. Selden and Colvin (2003) note the pressure on CEOs to use their excess cash and increase earnings by mergers or acquisitions even if that may not be an appropriate strategy for the company. Albizzatti and Sias (2004) identify that the reasoning for an acquisition needs to be more strategic than simply the use of excess cash. The strategic reasons they identify for acquisitions are; acquire new products, capabilities and skills; extend their geographical reach; consolidate within a more mature industry; and transform the existing industry or create a new industry.

Whilst many CEOs appear happy to share the virtues of their latest acquisition it appears few are keen to highlight their failed mergers and acquisitions. Harari (1997) questions why so many mergers and acquisitions fail after CEOs extol their strategic rationale. This author suggests the reason for failure is the lack of vision by short sighted executives, who take the safe route and buy current competitors to gain market share. Harari recommends that instead companies should boldly redefine themselves and their market place. Balmer and Dinnie (1999) identify a number of reasons for the failure of mergers and acquisitions. They found
that there was an over-emphasis on short term financial and legal issues, at the neglect of the strategic direction of the company. This neglect included failure to clarify leadership issues, and a general lack of communication with key stakeholders during the merger or acquisition process.

There are specific reasons for the failure of mergers or acquisitions. For example Gadiesh and Ormiston (2002) list five major causes of merger failure: Poor strategic rationale; mismatch of cultures; difficulties in communicating and leading the organisation; poor integration planning and execution and; paying too much for the target company. These five causes of merger failure Gadiesh and Ormiston (2002) believe that having a clear strategic rationale for the merger is the most important problem to overcome, as this rationale will guide both pre and post merger behaviour. They emphasise that this issue alone may result in the other four causes of merger failure occurring. Lynch and Lind (2002) list other reasons for merger failure such as: slow post merger integration, culture clashes and lack of appropriate risk management strategies. Given the importance of aligning strategic planning policy to mergers and acquisitions strategy it is crucial to identify and utilise an effective tool to ensure there is alignment between an organisations strategic plan and mergers and acquisitions plan. This tool is generally referred to as the due diligence process.

2.4 Past merger and acquisition experience

Hayward (2002) states that while people undertaking mergers and acquisitions have a great opportunity to learn from their experience, they seldom do. This author found that firms who have small losses in prior acquisitions are stimulated to learn from their performance and outperform on subsequent acquisitions. On the other hand, firms that have had great success or great failure find it difficult to learn from that experience. Rovit and Lemire (2003)
established that frequent buyers, regardless of economic cycles, were 1.7 times more successful than those firms who were not as frequent. They suggest consistent purchasing will increase the chances of success, as is being prepared to walk away from deals that are considered too risky.

By contrast, Hayward (2002) finds that acquisition experience is not enough to generate superior acquisition performance; however, firms are more successful when they acquire companies that are in a moderately similar business. This author also finds that acquirers, who make acquisitions one after another in quick succession, do not outperform companies that acquire infrequently. According to Hayward (2002) the best results come from those organisations who take a modest break in their acquisition process to allow the lessons learnt from acquisitions to be processed, that is; a break long enough for management to consolidate key lessons, but not so long that those lessons are forgotten. Guest et al. (2004) suggest that having a successful first merger is a predictor of declining performance in subsequent acquisitions. This is in contrast to Hayward (2002), who found that acquirers who have an unsuccessful first merger learn from their mistakes and improve their subsequent performance. Even though these acquirers do learn from their mistakes, they never quite catch up with the organisations successful in their first acquisition. Guest et al. (2004) concluded that if your first merger does not succeed, it is not worthwhile pursuing future mergers. Overall, the body of literature on the usefulness of prior experience in undertaking mergers and acquisitions has shown mixed results.

2.5 The integration process of mergers and acquisition

As Merger and Acquisitions are not alike (Bower, 2001), the content and context of each deal need to be revealed through interaction with the target organization and through
analysis. Mergers and acquisitions might prove to be an effective management approach to gain business growth. Other motives for mergers and acquisitions might be gaining market share (Gaughan, 2002), potential synergies, learning or access to competences. Mergers and acquisitions may be in the core business, related to the core business or unrelated in new business areas (Bruner, 2004). Post-merger/acquisition integration is often regarded as a primary lever for value generation in a mergers and acquisitions process. Therefore, it is crucial to recruit experienced management for managing the integration task (Ashkenas and Francis, 2000).

As resistance towards change from employee reduces the likelihood of success, managing culture, becomes an important managerial task. IT may be a determining factor in reducing resistance towards change, although, it also may be the cause of employee resistance. This is supported by the findings of Larsson and Finkelstein (1999).

2.6 Business process integration

Business process integration may be used for different purposes. Business Process Integration functionality sets vary with regard to the nature and complexity of a business and its IT infrastructure. A prerequisite for effective integration is that the business processes are redesigned, aligned and managed. Grudén and Strannegard (2003) suggest four functionality sets, which together cover most reasons for integrating business processes, i.e. connectivity, business process automation, visibility, and decision support.

McKeen and Smith (2002) argue for 4 levels of integration, that is; data level integration, application level integration, process level integration, and inter-organisational level integration. The levels of integration are not mutually exclusive. For instance, to achieve
application level integration, data level integration is a prerequisite. Similarly, process level integration can only be achieved when application level integration already is established. An alternative classification of integrations levels is suggested by Pablo (1994).

2.7 Success of post-merger integration

The literature on post-merger of integration is scarce. Furthermore, much of this scarce literature does not define post-merger integration success. Buck-Lew et al. (1992) At best, post-merger integration success is addressed implicitly, stating that integration is expected to be carried out within a predefined timeframe, and without disrupting the work of employees or inconveniencing customers. Problems such as the cost of ineffective integration, ignoring information quality issues in merger planning, the loss of expertise and failure to evaluate the alignment of the integration with the achievement of corporate and acquisition objectives, are quoted (Merali-Mckiernan, 1993, Cossey 1991).

Merali and McKiernan (1993) claim that integration processes are typically not formally evaluated, and both executives and academics frequently evaluate acquisition performance and acquisition strategies on monetary criteria in the short-term right after the acquisition. Cossey (1991), Weber and Pliskin (1996), suggest cost-savings and synergies as benefits obtainable from post-merger integration. On the other hand, Cossey (1991) states that, first, any system can be scored on functionality and value to the business, and secondly, systems success depends on the users’ perceptions of them. Main and Short (1989) see increased partnership between the organisation and general managers as a key result of post-merger integration. This partnership includes ; alignment of the firms’ business strategies and IT, better understanding of line managers’ information requirements and readiness to manage and better determination of future system needs (Main Short, 1989).
Perhaps the most comprehensive definition of post-merger integration success found in the literature was first presented by Jeffries and Robbins (1996), and then further refined by Robbins and Stylianou (1999). Robbins and Stylianou (1999) suggest the following components of success in post-merger integration: The ability to exploit opportunities arising from the merger; the ability to avoid problems stemming from the merger; end-user satisfaction with the integration process and integrated system; improved capabilities that help support the underlying motives for the merger, and efficiency and effectiveness of resource utilization during the integration process. Robbins and Stylianou (1999) elaborate the construct improved capabilities further by claiming that successful integration can generate a wide range of positive outcomes that support the merger goals. These include: enhancing the firm’s competitive position; haping or enabling business strategies; integrating planning with organizational planning; contributing to overall organisational financial performance; providing integration of related technologies across organisational units, providing corporate wide information accessibility; providing good quality (accurate, useful, timely information); managing its own financial performance; operating systems efficiently by ensuring system availability, reliability and responsiveness; developing systems efficiently and effectively; providing adequate end-user support; recruiting and maintaining a technically and managerially competent staff, and; identifying and assimilating new technologies.

The list above provided by Robbins and Stylianou (1999) illustrated the complex and multi-faceted nature of success in post-merger integration. This list, however, as well as all the other literature quoted earlier in this Section fails to make use of the vast body of evaluation literature. In brief, the evaluation literature started moving from technical measures such as
system response times towards a more user and organization oriented view, with the surge of the first user satisfaction measures, such as the User Information Satisfaction (UIS) instrument by Ives et al. (1983). The UIS is a measure of user-satisfaction and hence it is subjective, and addresses success indirectly. Being one of the best known tools, it offers a standardised measure (results can be compared across different organisations, systems and points of measurement). On the other hand, it has been criticised for such things as insufficient definition of key concepts, weak theoretical underpinnings and a narrow approach. A step towards more sophisticated measurement tools is, for example, the End-User Computing Satisfaction instrument by Doll – Torkzadeh (1988) that includes the constructs of Content, Accuracy, Format, Ease of Use, and Timeliness of the information.

2.8 Mergers and acquisition models

Attempts such as the Task Technology Fit model by Goodhue (1995) or the four Main dimensions of success (development process, use process, quality of the organisation, and impact on the organisation) by Saarinen (1996) aimed at providing a more comprehensive and multi-faceted view of success. In their seminal review of the evaluation literature, Smithson and Hirschheim (1998) divide the evaluation criteria into Efficiency Zone (doing things right), Effectiveness Zone (doing the right thing), and Understanding Zone. This model, however, does not provide actual success measures and constructs. One of the contributions of the Effectiveness Zone literature is that measuring success is context-bound, and different systems and situations require different evaluations. In post-merger integration, for example, a partial integration of operational is likely to have very different goals and hence very different success measures from a full consolidation of strategy.
Feasible only attempt to define central categories of post-merger integration success issues and perhaps give examples of these issues. The relative importance of these categories and their contents must then be decided upon for each evaluation situation individually. Another seminal literature review was carried out by DeLone and McLean (1992). This condenses evaluation literature into a Success Model. In a revised version of their model (2003), they also present a set of six categories. First, system quality, information quality, and service quality affect both user satisfaction and its intended use. These, in turn, are interrelated and yield net benefits. Finally, these net benefits also affect user satisfaction and intended use.

In the following, the DeLone-McLean (2003) model is discussed with respect to the post-merger integration literature and modified to suit this domain. The importance of system quality in post-merger integration was noted by Robbins (1999) and Cossey (1991), integration should not disrupt the work of employees nor inconvenience customers. The integrated system may provide corporate-wide information accessibility, and it should provide accurate, useful and timely information (Robbins, 1999, and Cossey 1991). The integrated departments should operate systems efficiently, develop new systems efficiently and effectively, provide integration of related technologies across organisational units, provide adequate end-user support and manage their own financial performance (Robbins, 1999). This construct was not mentioned in the post-merger integration literature reviewed. This construct, however, is not without problems in the context of post-merger integration. For example, in some cases users are asked to change their well-functioning systems for others, which is likely to cause frustrations, as the adoption of a new system is always troublesome but does not necessarily bring benefits at the level of the individual user. Also, systems integration may translate into more co-ordinated systems that dictate the users' work
processes more than before, and this may be considered a drawback by individual users. The integrated system is expected to support the underlying motives of the merger. These include enhancing the firm’s competitive position, as well as shaping or enabling business strategies and integrating planning with organisational planning.

Post-merger integration may contribute towards overall organisational financial performance by providing possibilities for cost-savings and synergies. The above list shows that, while the DeLone and McLean (2003) model offers a valuable insight into the components of post-merger integration success, it does have some shortcomings. First, the use or intended use was not found to be an important issue in the post-merger integration literature. This could perhaps be because this construct has been widely criticised for such reasons as the amount of use is a meaningful measure of success only when the use is voluntary, more time in use does not necessarily give better results. Secondly, the construct net benefit seems to be too general and simplistic effectively to embrace the full richness of the phenomenon.

DeLone and McLean (2003) admit that, in some studies, finer granulation may be necessary. Furthermore, the post-merger integration literature provides some further benefits that do not correspond to the DeLone and McLean (2003) model. Issues such as the ability to exploit opportunities arising from the merger, and the ability to avoid problems stemming from the merger (Robbins and Stylianou 1999) are too ambiguous to be classified, and they may be related to practically all the categories above, depending on the particular opportunities and problems.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to achieve the research objectives. In this chapter the research methodology was presented in the following order; research design, data collection and finally the data analysis.

3.2 Research design

The research design used in this study is case study. The researcher chose this research design because the study aimed at collecting information from respondents on their attitudes and opinions in relation to the creation and implementation of mergers and acquisitions among Internet Solutions Kenya Limited.

The study was done at Internet Solutions Kenya Ltd, due to its expansive size and array of solutions and services and the location is close to the researcher making it cost and time effective. The interview guide was administered to six top managers at Internet Solutions Kenya Ltd comprising; Chief Finance controller, Human Resource manager, Information Technology manager, Operations manager, Customer Service manager and the administration manager.

3.3 Data collection

The researcher used an interview guide as a data collection instrument. Both primary and secondary data was collected. Primary data was obtained using interview guide while secondary data was from the Internet, newspapers, journals, company's publications and magazines. The interview guide was made up of open ended questions.
The researcher visited the respondents in the company in the month September. It took a period of two weeks to collect the data required as all the respondents were within close proximity to each other, domesticated by the nature of their employment and positively acquainted to the researcher. The respondents completed the interview guide as honestly and as completely as possible.

3.4 Data analysis

Organization of data from interview transcripts and observation notes was the first step in the analysis process. This involved thorough reading, editing, cleaning up of the interview notes and entry into the computer. Data was then analyzed by use of content analysis to arrive at analytical conclusions. Since data collected was qualitative in nature, the researcher used content analysis based on the experiences of the individual participants. The researcher studied causal relationships and theoretical statements emerging from the interview, by pairing down the data to represent major themes and categories that describe the roles of top management in mergers and acquisition as well as the challenges experienced during this transition period.

Given this fact, content analysis was used to analyze the data. According to Creswell (2003) content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. The data obtained was compared with existing literature in order to establish areas of agreement and disagreement.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1: Introduction

This chapter presents the analysis and findings of the study whose objective was to establish the creation and implementation of mergers and acquisitions at Internet Solutions Kenya Ltd and the challenges encountered. Both primary and secondary data was collected. Primary data was gathered through interview guides containing open ended questions to allow for further probing during the discussions. Secondary data was collected by examining related documents such as journals and strategic plans. Data analysis was done by use of content analysis by identifying and extracting key themes, concepts and arguments. The respondents of the study were the top management staff members; this was because they were considered to have the best strategic view to the reason for the strategic option chosen, and would best articulate why the acquisition strategy was preferred.

4.2 Motivation of mergers and acquisition at Internet Solutions Kenya Ltd

The study established that the terms mergers and acquisitions were used together, but the process was more of an acquisition than a merger. What merged were the cultures to ensure that staff from the two companies worked well together. Internet Solutions has Headquarters in Johannesburg, South Africa had major plans to expand into the East Africa market. Kenya is located quite strategically in line with their expansion objectives. It begun by carrying out due diligence to seek a strategic partner who would assist with its expansion plans in Kenya; and the target was an existing Internet Service Provider with a solid financial and client base. Interconnect (K) Ltd was a leading Internet Service Provider provisioning service to large, medium and small organizations with reliable internet connectivity.
The study established that merger and acquisition was done in line with the strategy and mission of Internet Solutions which is “Partnering with the world’s leading technology vendors; providing end-to-end connectivity solutions and a world-class infrastructure. Advancing electronic business; making it faster, safer and possible to do business with any device, anywhere, anytime.”

In addition to the expansion, the study also found out that the highest motivation factor for the merger and acquisitions was to increase shareholding worth. Internet Solutions initially acquired 51% stakes in 2006 which has now increased to 80% in 2011. The decision was reached at very high profile meetings with shareholders who felt that it would be better to expand through acquisitions rather than expanding organically by opening new offices worldwide.

4.2.1 The merger and acquisition process

Internet Solutions Kenya Limited main objective was to gain market entry in the East African market with Kenya being the launch pad. This section established the process that was followed in the achievement of the merger acquisition process at Internet Solutions Kenya Limited. One of the respondents who was heavily involved in the process from a strategic point of view mentioned that the process went through several steps. Internet Solutions approached Interconnect (K) Ltd and commenced discussions into a possible acquisition of the firm.

The first step involved identification and confirmation of a valid Communication Commission of Kenya license and spectrum owned by Interconnect (K) Ltd and its potential
to help Internet Solutions to enter in the Kenyan market. The second step was to ensure that due diligence was done on the target firm’s financial, technical and commercial aspects. This process was quite crucial in the determination of the firm’s assets and was done with the help of consultants. The third step was the business valuation stage; this was done to derive the value of Interconnect (K) Ltd, hence the sale value. The fourth step was the drafting of the legal agreements; this captured the purchase price of the target firm; the fifth step was the approval of the strategy by the board of directors of Internet Solutions. This step was quite crucial as it helped drum support from the top management. The sixth step involved the final signed agreement between the two parties.

The seventh step involved the liaison with Communications Commission of Kenya to authorize the license spectrum move over as well as authorize the merger and acquisition. It was noted that some of the heads of departments only knew of the merger and acquisition after it had been announced, on further analysis, it was found that most of the acquisition strategy plans were shared within a steering committee, hence the possible hoarding of information to other staff members. It was however agreed that the process indicated above was the process undertaken for the implementation of the same.

4.3 The challenges faced by Internet Solutions Kenya Limited

Findings indicate that the process was not easy and very many expectations were not met. The expectations that were not met were both at individual and organizational level and the challenges were from both internal and external sources. The findings also established that the merger and acquisition was adversely affected by the need to realign the internal working mechanisms of the organization.
Compatibility of systems for the two companies was a major challenge. This was further aggravated by the fact that the two companies used different reporting systems, accounting procedures and policies. The team involved in the merger and acquisition however reviewed the systems, to identify how best to migrate data in a timely manner, maintaining accuracy and reliability.

Prior to the mergers and acquisition, information sharing between the two companies was critical, both companies felt uncomfortable to release information pertaining to their operations until the conclusion of the merger. As such, management from both companies had to set up guidelines on the information to be released and at what stages through the process. This also applied to information given to other stakeholders because any information released would have an impact, depending on the mode used and the timing.

Merging two companies with unique cultures was difficult. Internet Solutions, being of South African origin and Interconnect (K) Ltd being Kenyan company meant there were a lot of differences in operational approaches, reporting systems as well as employee practices. It was hence difficult for management to cut through these differences. It was clear from the respondents that such differences are still evident, even six years after the acquisition was finalized; hence the management team has to continue fostering a spirit of togetherness among employees. Decision making processes differed greatly among the two companies. This was witnessed even at top levels of administration hence implementation during the merger and acquisition process was slowed down since all parties had to be in agreement
before major changes were effected. This was further aggravated by the fact that policies and procedures also differed.

There was a lot of fear and anxiety due to uncertainty among employees, customers and other stakeholders. This increased their resistance to accept the change and this meant that management had to address such fears and concerns to increase acceptability of the merger and acquisition, and make the stakeholders own the process so as to be able to move forward.

Human resource management policies for the two companies differed. As such, the management had to tirelessly review the policies to ensure all employee issues are addressed as they are a key determinant of the success or failure of the new merged company. However it was clear from the respondents that although a number of issues have been resolved, some of the human resource issues like harmonization of salaries and benefits are yet to be fully harmonized.

Compliance to government and legal requirements was a major challenge, as the compliance processes are normally accompanied by procedures and policies that must be adhered to. The process is quite expensive due to involvement of consultants to offer advisory services on legal issues, tax compliance issues among others. Internet Solutions Kenya Limited had to hire lawyers, tax consultants and auditors to carry out professional evaluations and give advice on the same.
4.4 Discussion of results

Top management is important in any merger and acquisition process. Just as highlighted by Kotter (1996) and Hayes (2007), the results of this study clearly showed essential contribution of top management as leaders in the implementation of mergers and acquisition. These include formulating an integrating vision and general strategy, building a coalition of supporters who endorse the strategy, then guide and coordinate the process by which the strategy will be implemented. Communication forms an integral part in the successful implementation stages of the change process.

4.4.1 Comparison of results with theories

The main reason for the merger and acquisition of Interconnect (K) Ltd and Internet Solutions Kenya Limited; was perceived synergies and ready market for Internet Solution’s products and solutions. Internet Solutions was looking at having a footprint into the East African market and by so doing wanted to use the Kenyan market as a platform for the region to gain scale.

This collaborates with Berger et al., (1999) earlier findings that a firm may undertake an acquisition in order to enter a new geographical market, or to diversify away from its own business by entering a new product sector, or to increase its penetration of an existing market or product sector.

The respondents also described their experience during the merger and acquisition. According to the interviewees, upon the announcement of the impending acquisition; anxiety spread throughout the organization since staffs were concerned about the job losses, changes
in processes, operations and structures. These findings are similar to findings by Davies (2002) on the expected results of mergers and acquisitions.

Most changes, whether large or small, will encounter a number of challenges. The result findings at Internet Solutions Kenya Limited clearly showed that customers, employees and other stakeholders had fears and concerns which the management team had to address to gain acceptability. Though managers frequently see change as a way to strengthen the organization, many people view it as a painful and disruptive process, which is why resistance to change efforts is common. A critical aspect of leading people through mergers and acquisition is to understanding that resistance to change is natural and that there are often legitimate reasons for it and as such, leaders must strive to educate those involved in change to reduce possibility of resistance to achieve the desired results.

Change always involves giving up some behaviours; changing the status quo which means a complete transformation from one state to another state. As such, in most change projects, human resistance is inevitable. Issues relating to those who will be affected by the change are usually a hindrance to the change. As the findings of this study confirm, human issues must be addressed before they get out of hand as they can delay the change process. Burlton (2001) highlighted this by urging leaders of change to constantly reassure and build staff confidence, focusing on long term benefits of the intended change.

On the issue on whether there was resistance to the merger and acquisition and how it was handled; the respondents indicated that initially there was resistance to change in the way they were done from existing business partners who had to be contacted and contracts
renegotiated. These findings collated with those by Marks and Mirvis, (1992) who found that stakeholders seem to go through the merger, or acquisition as a loss of a loved one, often treated as a personal crisis, which may manifest itself as listlessness, apathy, a preoccupation with the past, lack of commitment to the new culture, fear, and/or active resistance to the new system. The resistance was handled by the pre-acquisition formal meetings with the change management team. This is also consistent with the findings by Feldman and Murata (1991) who insist on the importance of good communication and management strategies and practices during merger and acquisition processes. Communication influences the employees’ ability to adopt a new culture, sustain the change process and deal with stress (Appelbaum et al., 2000a).

Regarding how mergers and acquisition affected staff morale or enthusiasm, the respondents indicated that initially staffs are less motivated with loss of incentives and there was uncertainty regarding their job security. This confirms what Latack, (1986) established that as a result, several negative attitudes and behaviours are realized, including decreased job satisfaction, organizational commitment, loyalty and productivity and increased defective products, mistakes and withdrawal behaviours.

Evans and Mendenhall (2004) suggest that incompatible cultures are the main causes of mergers and acquisition failures. The respondents indicated that the role that corporate culture plays in the acquisition process was that it dictated the ease with which the two companies interacted and Interconnect (K) Ltd had to change its values to align them with Internet Solutions. The tools that the management employed to drive cultural cohesion during and after the merger and acquisition included constant training and strategy meetings.
4.4.2 Comparison of results with other studies

Results from earlier studies show that mergers and acquisition is a complex process and many mergers and acquisitions failed and some worked. In a study by Mukele (2006) states that some mergers failed to take off due to incompatibility on organisational cultures and overall logistical incongruence between partners. He points to the intended mergers between Fidelity Commercial Bank and Southern Credit Bank to form Southern Credit Bank and that between Euro Bank and Daima Bank to form Euro Daima Bank Limited both of 2000 as just some of the mergers in Kenya that did not take off. Some of these banks have since been liquidated. On the other hand some mergers and acquisitions were successful such as the mergers between Standard Bank and CFC Bank; now CFC Stanbic Bank.

In a study on the relationship between mergers restructuring and financial performance of commercial banks, Chesang (2002) did an investigation on the theories of mergers. It shows that mergers vary from efficiency operations which advocate from mergers for social benefits; removing incumbent inefficient management and potentially reducing distribution costs resulting from adoption of efficient technology; that is synergy, to information signalling where this hypothesis states that if the acquirer has privileged information indicating that the target firm is undervalued and takes advantage by purchasing the target for less than its value, then the shareholders of the acquiring firm will benefit from the merger.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is a synthesis of the entire study that presents the summary, discussion of findings, conclusions, recommendations and limitations of the study. The conclusions and recommendations seek to address the research questions and achieve the research objectives.

5.2 Summary of Findings

The main objective of the study was to establish the creation of mergers and acquisitions at Internet Solutions Kenya Ltd. The study further sought to determine the challenges experienced by Internet solutions Kenya Limited during the mergers and acquisitions.

5.2.1 Implementation of mergers and acquisition at Internet Solutions Kenya Ltd

The study established that one of the main reasons for the merger and acquisition at Internet Solutions Kenya Limited was to gain market entry in the East African market with Kenya being the launch pad. Other reasons included perceived synergy and ready market to new solutions.

Successful implementation mergers and acquisitions may require change in the organization structure to make it consistent with the company strategy. Management must all the time evaluate what changes need to be made on the existing structures so as to be able to meet new demands. Sometimes human resistance may be evident and in such cases, it may be
easier to create an informal structure to support the new strategy and postpone changes in the formal structure until people realize that the intended change is necessary and their support is needed. Informal teams can be created to facilitate the transition, without any expectation that these temporary structures will become permanent.

The study found that the role of corporate culture played majorly in the process or mergers and acquisition and it dictated the ease with which the two companies interacted. The tools management used to drive cultural cohesion during and after the acquisition were constant training, strategy meetings, building and establishing confidence with the South African operations and establishing a reviewed approach to performance.

The study also further established that the changes brought about by the mergers and acquisitions have impacted positively on the stability of Internet Solutions Kenya Limited in that the company is now more robust, has a solid brand name and is now viewed as the leading converged communication service provider within the region.

5.2.2 Challenges of mergers experienced at Internet Solutions Kenya Ltd

During the transition, the study found that upon the announcement of the impending mergers and acquisitions, anxiety spread to all staff as they were concerned about job losses, changes in remuneration, reporting structures and operations as a whole. Key challenges in preparation for the impending merger and acquisition were those of change management and due diligence process where both parties were involved in assessing the sustainability of the other as business partner, diverse organizational cultures and resistance to change. The study
established that initially, there was resistance to change particularly from the existing business partner. The resistance was handled through formal meetings between top management of the two parties and change management teams to help solve the problem.

Management encountered various challenges in managing the merger and acquisition. Compliance to government and legal requirements can be a major challenge, as the compliance processes are normally accompanied by procedures and policies that must be adhered to. The process is quite expensive due to involvement of consultants to offer advisory services on legal issues, tax compliance issues among others. Internet Solutions Kenya Limited had to hire lawyers, tax consultants and auditors to carry out professional evaluations and give advice on the same.

Mergers and acquisitions between two companies with different cultural practices is quite challenging. Even after the acquisition was finalized, the cultural differences among employees of the merged companies were evident. As such, standardization and harmonization of rewards, salaries and other benefits is required. Encouraging involvement, participation and having team building activities is necessary to facilitate interaction among employees of the newly merged companies.

The study established that staff morale dipped following uncertainty regarding their job security. The tools management employed to ensure the level of staff morale was maintained during and after the mergers and acquisition included regular downward communication on each process of the acquisition, salaries were reviewed in line with the group policy which
served to boost motivation and productivity. The study established that decision making process was slower due to layered decision makers, corporate structures having changed, some roles changed and others merged and consultations being done at all levels.

5.3 Conclusions

The study concludes that the reason for the merger and acquisition at Internet Solutions Kenya limited was the desire to get a footprint into the East African market, perceived synergies and a ready market for their new products and solutions. Kenya was seen as a strategic launch pad into the region due to its political stability and few entry barriers in doing business.

The challenges encountered in the preparation process for the mergers and acquisition were those of change management and due diligence process where both parties had to be involved to resolve it. During the process of mergers and acquisition, the process of decision making becomes slower due to layered decision makers. Challenges encountered during the process should be resolved within reasonable time limits. Additionally fears and concerns from those involved should be addressed as this will increase their commitment in the merger and acquisition process.

Upon announcement of the impending mergers and acquisition, stakeholders were concerned about job losses, changes in remuneration and operations as a whole. When an organization is going through mergers and acquisitions, it should have a more open plan and integrated approach to problem solving, with several mechanisms to do so. People should be empowered to act on information which is freely exchanged and new problems should be
considered as new opportunities for improvement. During this period, management should foster an environment where people feel that they work in a community and not function. This will result in freedom of expression and cooperative team work across the organization.

5.4 Limitation of the Study

With the targeted group for the research being top management, the study experienced limitations on the management staff not filling the interview guide in the required time frame. The researcher spent a lot of time calling and visiting some of them to ensure that the interview guide was completed ready for collection. In the case where some managers were not available, their representatives were interviewed and thus a lot of time was wasted. There was also reluctance on the part of some managers to complete the interview guide for fear of giving confidential information to the public despite an assurance that data collected will be treated as confidential and for academic purposes only.

The study was carried out within limited time and resources. This constrained on the scope as well as depth of the research. The researcher was not able to interview more staff on the creation of mergers and acquisition at Internet Solutions Kenya Limited. Being a case study, the study was limited in scope in that only Internet Solutions Kenya Limited was studied. As such, it did not benefit from divergent views that would be the case if a number of companies had been studied.

There was limited literature and data on creation and implementation of mergers and acquisitions within Internet Service Providers industry in Kenya. Hence the study relies much on literature and data relating to mergers and acquisitions in other sectors and other parts of the world especially the Western Countries. This factor thus limits the depth of
discussions in the area of contributions of creation and implementation of mergers and acquisitions among Internet Service Providers.

5.5 Recommendations

From the discussions and conclusions on this chapter, the study recommends that the government should increase incentives to foreign companies seeking entry into the country by introducing tax cuts and other trade barriers. This measure will enable the government to sell the country as an entity that promotes foreign investments.

The process of mergers and acquisition affects employees at all levels. In many cases, employees at functional levels are never consulted on any process that the management intends to carry out. The researcher therefore recommends that the management of Internet Solutions Limited should consult employees from different levels on all issues involving mergers and acquisitions to enable them give their contribution; and thus embracing change will be easier.

5.6 Suggestions for further studies

The study was designed to involve only top management; who were involved in the creation and implementation of mergers and acquisition process. The involvement of lower levels of management and employees was not covered, though their input is critical in the mergers and acquisition process. Further studies can be carried out to identify the involvement of the lower levels of management and other employees in the mergers and acquisition process.
The study confined itself to establish the creation and implementation mergers and acquisitions at Internet Solutions Kenya Limited. This research therefore should be replicated in other industries players/stakeholders and the results be compared so as to establish various mergers and acquisition strategies in different sectors. The researcher also highlighted a number of challenges that leaders experience in managing change. Further research could be carried out to identify ways of handling the challenges experienced in mergers and acquisitions.
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APPENDICES

Appendix I: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Dear Sir/Madam,

Re: MBA Research Project
This letter is to introduce to you Eric Okise Obondy who is a Masters student at the University of Nairobi, School of Business. In partial fulfilment of the requirements for the Master of Business Administration (MBA), he is conducting a case study on the creation and implementation of mergers and acquisitions at Internet Solutions Kenya.

We kindly request your cooperation and adequate information that will assist the researcher in attaining his objective. The information and data will strictly be used for academic purposes only and strict confidence shall be observed on the document.

Your co-operation will go a long way in ensuring success of this project.

Yours Sincerely,

Eric Okise Obondy (D61/76147/2009)          Professor E. Aosa
Student- Researcher                              Supervisor
M.B.A. University of Nairobi
**Appendix II: Interview Guide**

This Interview guide seeks to collect information on challenges of mergers and acquisitions at Internet Solutions Kenya Ltd. Completion is voluntary and all responses will be treated with utmost confidence and used for academic purposes only.

Please provide the information frankly and honestly.

**SECTION A- Background information**

1. State your gender? .................................................................
2. State your Age Bracket? ..........................................................
3. Current position held? .............................................................
4. Number of years in current position? ........................................

**SECTION B- Challenges and coping strategies**

5. What has been the implication of the acquisition? ....................
6. What were the main reasons for the acquisition of Interconnect by Internet Solutions Kenya Ltd? ..........................................................
7. What was your experience during the transition?
8. How has the changes brought about by the acquisition affect the stability of Internet Solutions Kenya Ltd? .............................
9. Was there any resistance to the acquisition and how it was handled?
10. How has the acquisition affected the staff morale?
11. Has decision making process changed since the acquisition?
12. In your own opinion what can be done differently in the merger and acquisition process to ensure the negative effects in the process are minimized?
13. What are some of the challenges experienced during merger and acquisition process that had not been anticipated?

14. What challenges are posed by customers and staff not fully appreciating the mergers and acquisition process?

15. What are the possible solutions to the challenges of mergers and acquisitions at Internet Solutions Kenya Ltd?

16. Were there Internal and Interpersonal conflicts during the process and how were they handled?

17. What role did corporate culture play in the acquisition process?

18. What tools did management employ to drive cultural cohesion during and after the acquisition?

19. Have any benefits been realized in the acquisition?

20. How can the government create an enabling environment to spur foreign direct investment in the form of mergers and acquisition based on your experience with Internet Solutions Kenya Ltd?