APPLICATION OF MERGERS AND ACQUISITIONS BY OPPORTUNITY INTERNATIONAL IN KENYA

BY

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DECLARATION

This research project study is my original work and has not been presented to any other examination body. No part of this research project should be reproduced without my consent or that of University of Nairobi.

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DEDICATION

This study is dedicated to my loving family; my dear husband, Ephraim Njoroge, and our adorable sons Oscar Njaga and Cedric Ndung'u.

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My Heavenly Father, I stand in awe of your Mighty deeds. Your abundant blessings and providence have enabled me to undertake this project that was intensely involving in terms of time and resources. My loving family, I wish to express my sincere appreciation for your financial and moral support during the entire project. You have been selfless beyond measure and you continue to be my inspiration.

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ABBREVIATIONS AND ACRONYMS

CARE	-	Cooperative for American Remittances to Europe
CORDAID	-	Catholic Organization for Relief and Development Aid
M&As	-	Mergers and Acquisitions
MDSL	-	Microenterprise Development Services Limited
MFI	-	Microfinance Institutions
OI	-	Opportunity International
SUNLINK	-	The trading name for Microenterprise Development Services Ltd

ABSTRACT

Mergers and acquisitions are not limited to economic enterprises or businesses but they also occur in other areas such as political, social as well as in religious sectors. Despite managerial over-optimism, research by both academics and consulting firms consistently shows that 50-75 percent of M&As fail to live up to expectations. Mergers are one of the possible routes to high growth but ″neither theory nor empirical work provides any cast-iron arguments in favour of a presumption that their operations are generally efficient”. This study focused on the application of mergers and acquisitions as market entry strategies. This academic research aims to answer the question: how effectively has the application of mergers and acquisitions served Opportunity International in the microfinance industry in Kenya? This study intended to unearth certain factors critical in creating successful M&A’s as well as affirming or negating the value creation theory that goes with M&As. The study aimed to deepen the understanding of importance of communication and efficient human resource management in the pre and post merger phases and relate the findings to pre-identified behavior patterns of senior managers during M&A implementation. This research was conducted through a case study. An interview guide with open-ended questions was used to collect in-depth information from the Executive Management Committee which comprises of the Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, Chief Internal Auditor, Human Resource Manager and the two regional relationship managers who represented the Chief Relationship Officer who is the researcher in this academic project. The data collected was mainly qualitative in nature and thus was analyzed using conceptual content analysis. The study found out that in Kenya the main laws governing business combinations are: Restrictive Trade Practices, Monopolies and Price Control Act which an Act of parliament that encourages competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and connected

purposes. The merger between the two organizations happened within the same industry for the purpose of restructuring. Despite the success of life-transforming microfinance services, the World Bank says that the industry is not close to meeting the demand. In an environment characterized by widespread poverty, increased presence of suitable merger targets, need to diversify geographically, desire to grow the asset base and achieve financial and operational sustainability, Opportunity International felt compelled to enter into M&As as a means of market penetration, sharing the costs of innovation and accessing new technological assets to augment its innovatory capabilities. It is this drive that led the management of Opportunity International to acquiring of two local microfinance institutions in Kenya, namely WEDCO and SUNLINK. Since the mergers were horizontal, economies of scale were generated and strategic benefits resulted from the opportunities that came from entering the Kenyan market. The competitive advantage provided by Opportunity International generally arose from the existence of firm-specific intangible assets such as extensive micro financing expertise and skills, marketing capabilities and superior brand names and greater management capabilities. Marketing gains arose from more effective advertising, economies of distribution, and a better mix of products. There may be circumstances under which one or the other of the firms would have become insolvent, but the combined firm would not. These efficiency gains came by virtue of the size of the combined company; as it proved to be cheaper to offer services on a larger scale. WEDCO and SUNLINK both had some weaknesses in raising capital for growth whereas Opportunity International had some significant strength in capital base and resource mobilization. Merging the human resources and intellectual capital of the two organizations was seen to contribute to innovative thinking and development within the company. Because of the mergers and acquisition, Opportunity International was in a better position to acquire and develop the market earlier served by WEDCO and SUNLINK and therefore this contributed to growth in the market. Differences in managerial styles and accounting practices also contributed to tension during the integration process. According to Human Resources Manager there was observable resentment and resistance from the different members, which sometimes resulted in a loss of potential synergies during the initial stages of the merger. The differences in organizational culture were observed and the general timing of the mergers and acquisitions may have had negative external influence on the successful take off of the organization. For M&As to be successful, this study concludes that companies must seize the opportunity by involving employees and customers in the integration process, retaining critical staff, generating momentum by quickly winning key accounts, solidifying the new organizational culture and formulating the right strategy for continuing with the business straight away.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Business strategy is not a finished artifact; it is a work in progress. Even if its main purpose is profit, another one is growth (Cartwright and Cooper, 2000). Growth, as a strategic choice, can be reached by organic growth, by strategic alliances or by mergers and acquisitions. Those that do not grow tend to stagnate, lose customers and market share, and destroy shareholders value (Papadakis, 2005). Mergers and acquisitions (M&As) are a vital part of any healthy economy and a major way applied by companies to provide returns to owners and investors. This fact combined with the potential for large returns; make acquisitions a highly attractive way for entrepreneurs and owners to capitalize on the value created in a company (Hubbard, 2001). All over the world, it is estimated that M&A activities account for high financial transaction value and involve various organizations.

The liberalization of national financial and capital markets, coupled with the rapid advancements in information technology and the increasing integration of national economies have spurred the growth of cross-border mergers and acquisitions (CBM&As) activities over the past two decades. This is against the backdrop that, the results of existing studies in finance and business strategy support the view that wealth effects of shareholders of the acquiring firms are mixed. Cakici *et al.* (1996) and Kiymaz (2003) have reported positive abnormal returns for the shareholders of acquiring firms while Corhay and Rad, (2000) and Aw and Chatterjee (2004) have reported negative returns for the acquiring firm shareholders.

As markets become crowded and competition intensifies, many companies are naturally seeking the best ways by which they can strengthen their position; thus making M&A activity a popular policy. However, some companies may systematically engage in a series of M&As as a long-term strategy. Whether short, medium or long term, the benefits of the strategy will only be achieved if the transaction succeeds during integration to derive synergistic benefits, improving industry positioning, leveraging on financial muscle, improving market share, lowering production and operational costs and ultimately increasing shareholder wealth.

1.1.1 Concept of Strategy

Mergers and acquisitions refer to the aspect of corporate strategy, corporate finance and management that deals with the buying, selling and combining of different companies to aid, finance, or help a growing company in a given industry to grow rapidly without having to create another business entity (Wikipedia). Mergers and acquisitions are not limited to economic enterprises or businesses but they also occur in other areas such as political, social as well as in religious sectors. M&As are becoming an increasingly popular strategy converged around themes such as growth, diversification, obtaining a global presence and achieving economies of scale (Cartwright and Cooper, 1993). Achieving synergy is easier said than done and it is not automatically realized once two companies merge or when an acquisition takes place. In theory, mergers create synergies and economies of scale, expanding operations and cutting costs but practically, synergies may exist only in the minds of the corporate leaders and the deal makers who try to create an image of enhanced value. Once the market realizes this anomaly, it eventually assigns the company a discounted share price. One sure thing is that M&A deliver enhanced market power.

Historical trends show that roughly two thirds of big mergers will disappoint on their own terms, which means that they will lose value on the stock market. Most mergers and acquisitions fail during integration for known as well as for unforeseen reasons. The motivations that drive mergers can be flawed and efficiencies from economies of scale may prove elusive. In many cases, the problems associated with trying to make merged companies work are all too concrete. The theories of mergers and acquisitions (M&As) have laid some support for the proposition that the value of the merging firms may increase after M&As. Bradley *et al.*, (1983) and Dennis and McConnel (1986) attribute the sources of increased value to the possibility of synergy.

Prior literature identifies three main types of synergies, Trautwein, (1990): financial synergy; operational synergy; and managerial synergy. Potential merger or acquisition partners are typically identified pursuant to some type of strategic fit. Strategic fit is broadly described as similar or complementary organizational strategies setting the stage for potential strategic synergy. While it seems intuitive to conclude that strategic fit plays an important role in the financial success of a merger or acquisition it is held that the success of mergers depends on how realistic the deal makers are and how well they can integrate two companies while maintaining day-to-day operations.

All M&As have one common goal: to create synergy that makes the value of the combined companies greater than the sum of the two parts. The success of a merger or acquisition depends on whether this synergy is achieved. Synergy takes the form of revenue enhancement, cost savings, a leaner staff and management team, economies of scale, acquiring new technology, and improved market share and industry visibility due to improved company's standing in the investment community.

1.1.2 Mergers

In the pure sense of the term, a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as a "merger of equals." Both companies' stocks are surrendered and new company stock is issued in its place (Wikipedia). Mergers are often as a result of a consolidation of two or more companies and the common types of mergers include horizontal mergers, vertical mergers and conglomerate mergers. The advent of mergers can be traced back to The Great Merger Movement that took place in the United States from 1895 to 1905 and accounted for 20% of the GDP in which similar small firms with little market share consolidated to form large, powerful institutions that dominated their markets (Wikipedia). Similarly mergers have been traced to be occurring in waves in response to economic conditions especially during depression.

1.1.3 Acquisitions

An acquisition, also known as a takeover, is the buying of one company (the 'target') by another. An acquisition can be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought. Acquisition usually refers to a purchase of a smaller firm by a larger one. When one company takes over another and clearly established itself as the new owner, the purchase is called an acquisition. From a legal point of view, the target company ceases to exist, the buyer "swallows" the business and the buyer's stock continues to be traded. The common types of acquisitions are an asset purchase, a share purchase and a reverser purchase.

There are several reasons for acquisitions which include; strategic reasons, gap filling, organizational capabilities and wider market access. Strategic reasons for example positioning to take advantage of future opportunities that can be exploited when the two companies are combined. Gap filling for example where one company may have a major weakness (such as poor distribution) whereas the other company has some significant strength. Organizational Capabilities for example acquisition of human resources and intellectual capital can help improve innovative thinking and development within the company. Wider market access for example acquisition of a foreign company could give a company quick access to emerging global markets (Wikipedia)

1.1.4 Microfinance Industry in Kenya

The World Bank defines Microfinance Institutions (MFIs) as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services. It involves the providing of loans and banking services to the low income; small and micro entrepreneurs to help them engage in productive activities, to better organize their financial lives as well as expand their businesses. Despite the success of life-transforming microfinance services, the World Bank says that the industry is not close to meeting the demand. It is estimated that over five hundred million people living in poverty could benefit from a small business loan and only one-third of the world's population has access to any kind of bank account. The lack of access is particularly severe in sub-Saharan Africa where the World Bank estimates that microfinance is reaching only a small percentage of the economically active target population.

Poverty may be described as a condition in which a person or community is deprived of, and or lacks the essentials for a minimum standard of well-being and life. These essentials may be material resources such as food, safe drinking water, and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connections with other people in society (Wikipedia). The World Bank defines extreme poverty as living on less than US$ 1 per day, and moderate poverty as less than $2 a day. Studies by the World Bank indicated that in 2001, 1.1 billion people had consumption levels below $1 a day and 2.7 billion lived on less than $2 a day.

In Kenya, it is estimated that 58% of Kenyans are living below 2 dollars a day. More than half of the country's 31.3 million people (2003) are poor, and 7.5 million of the poor live in extreme poverty. Kenya is ranked 148th among 177 countries in the UNDP's human development index, which measures a country's development in terms of life expectancy, educational attainment and standard of living. Kenya's population has tripled over the past 30 years, leading to increasing pressure on natural resources, a widening income gap and rising poverty levels that erode gains in education, health, food security, employment and incomes. In response, Microfinance institutions have committed to building scalable, sustainable and accessible banks throughout the developing world to provide loans, training, savings and insurance products tailored to the specific needs of each region. The 1999 MSE base line survey found out that micro-financing, a core source of funding for micro and small enterprises contributes about 18% of the county's GDP and employs 2.3 million people.

In Kenya, formal MFIs are broadly registered under different Acts of Parliament ranging from banking, deposit taking institutions, non-governmental organizations, cooperatives, companies, building societies and others. Informal MFIs on the other hand are registered under relevant government ministries and have weak legal status such as community based organizations and self help groups. The Microfinance Act, 2006, regulates deposit taking institutions while the rest of industry players remain unregulated. The Association of Microfinance Institutions of Kenya (AMFI) which was formed in 1999 under the Societies Act is a member institution and has been in the fore front in lobbying for microfinance issues in Kenya.

1.1.5 Opportunity International

Opportunity International was founded in 1971 by two visionary leaders who were inspired to take action by their experiences with people living in extreme poverty. Al Whittaker, former president of Bristol Myers International Corporation in America, and Australian entrepreneur David Bussau sought a solution that would transform people's lives without creating dependency. The Opportunity International Network is the largest a global coalition of microfinance organizations which provide transformational microfinance services. The organization provides small business loans, savings, insurance and training to people living in poverty in the developing world. Clients in over 28 countries use these financial services to start or expand a business, develop a steady income, provide for their families and create jobs for their neighbors. Opportunity International operates on a triple bottom-line mission focusing on scale, sustainability and transformation as the three core pillars for delivering microfinance solutions to the poor around the world.

For over 35 years, Opportunity International has provided small business loans, savings, insurance and training to more than two million people working their way out of poverty in the developing world. In order to meet the changing needs of the modern development world and to have an even greater, lasting impact on the entrepreneurial poor, Opportunity International adjusted its strategy in the year 2000 from the development of NGOs to the development of national-scale, transformational, formal financial institutions. Opportunity International requires no traditional collateral for its products, unlike many of her competitors. Borrowers are only required to save a minimum amount during the six-week training period to ensure they have the ability to repay their loan. Opportunity gives mostly group loans with the objective of strengthening communities among the poor and reducing the need for cash collateral.

In the Kenya, Opportunity International penetrated the microfinance industry in 2006 through mergers and acquisitions targeting to acquire at least 51% of the MFI ownership and as such becoming the majority shareholders who influence the strategic direction of the microfinance operations. The first target for M&A activity was a local company operating under the trade name, WEDCO, and was headquartered in Kisumu with 31 outlets spread across Nyanza, Western and Rift Valley regions of Kenya. CARE Canada being the main shareholders had appointed a local partner called WEDCO Company Inc. to manage the microfinance business for them. In June 2006 Opportunity International (OI) purchased 51% of the shares of WEDCO, formally wholly owned by CARE International. The organization's name was changed to Opportunity International WEDCO to reflect the new ownership and a new management team which was predominantly hired by OI was put in place. The business was affected by the post election skirmishes of 2008 having been primarily located in the areas which were adversely affected. This together with weak internal controls threatened to push

Opportunity International Wedco out of business and a need to improve business survival and achieve a better geographical spread saw the local management move with speed to acquire Microenterprise Development Services Limited (MDSL) trading as Sunlink. Sunlink was a 5-branch profitable MFI, headquartered and operating in Nairobi. It was wholly owned by a Dutch nongovernmental organization known as CORDAID which was in the process of identifying a social investor who would buy out the business. This was necessitated by the global changes in Cordaid's thematic focus and the increasing profitability which was not in line with the main shareholders NGO structure. In June 2008, OI and CARE Canada purchased 100% of MDSL and this new acquisition was merged with Opportunity International Wedco to form a new entity known as Opportunity Kenya Limited (OKL). The acquisition was structured in such a way that OKL. was jointly owned by OI (51%) and CARE (49%). Further changes in shareholding have continued to take place leaving Opportunity International with over 84% of OKL. Opportunity Kenya is currently serving over 8,400 borrowing clients in her 11 branch network and has close to 100 employees.

1.2 Research Problem

The strategy of M&As to obtain high growth has long been employed by many firms to sustain a defendable position within their industry whether for offensive or defensive reasons Yook and McCabe, (1996). There is conflicting evidence regarding the effectiveness of mergers. There are proponents of mergers who argue that merger activity is essential for the development of strong global competitors with benefits realized by all parties concerned and the economy as a whole Cartwright and Cooper, (1993). Research by both academic and consulting firms consistently showed that 50-75 percent of M&As fail to live up to expectations Papadakis, (2005). Possible reasons for failure, include poor communication, inadequate due diligence, cultural clashes, changing external environmental conditions, integration difficulties, inability to achieve synergy, poor planning, talent loss or mismanagement among others. Despite managerial over-optimism, mergers are one of the possible routes to high growth but ″neither theory nor empirical work provides any cast-iron arguments in favour of a presumption that their operations are generally efficient″ Hubbard, (2001).

Mergers and acquisitions had been pre-identified as market penetration strategies by Opportunity International's for entry into the microfinance sector of different countries around the world. There were mixed results with high success rates being recorded in some countries such as in Rwanda where Urwego Community Bank was acquired, in Uganda where Faulu Uganda was acquired and in Ghana where Sinapia Bank was acquired by Opportunity International. The acquisition of Faulu Tanzania was however a negative experience and it is continues to be so to date. For Opportunity Kenya, the merger with WEDCO was equally challenging but with the acquisition of SUNLINK, some level of stability was achieved.

Having achieved varying results from the mergers and acquisitions across Africa, and noting the perpetual legacy issues that followed them at the post event stage, Opportunity International reviewed the entry strategy and a preference for green field was adopted particularly for Africa. The M&As in Kenya were the last such strategies that Opportunity International deployed for market entry having started off microfinance operations in Congo in 2009 as a green field. The silent argument for terminating the M&As strategy was that the relative complexity of the microfinance industry around the world as well as unending legacy issues post implementation of the M&As in Africa.

This study focused on the gains achieved, as well as challenges experienced and sought to identify how future M&As can be undertaken for them to be successful. The debate on whether mergers are an effective strategy for growth by Opportunity International or any other organization would appear to be far from over. The main reason for this is the lack of empirical studies on this subject matter. Recent literature on mergers has tended to focus on the theoretical Griffith, (2000) and statistical aspects Bryson, (2003). While the theoretical and statistical aspects are critical to assess, there is a notable absence of studies into the actual reasons given by companies for engaging in mergers. The success rate of the M&A activity is better understood from the perspective of the driving forces of the merger or acquisition in comparison to the end results post the M&A activity.

Locally, various researchers have researched on the field of mergers and acquisitions: Kiplagat (2006) researched on the effects of mergers on financial performance of companies listed at the NSE, Mukele (2006) conducted a survey of the factors that determine the choice of mergers & acquisition partners in Kenya, Nyagah (2007) studied a doctor's perception of mergers & acquisitions in the pharmaceutical industry in Kenya, Njoroge (2007) did a survey of mergers & acquisitions experiences by commercial banks in Kenya while Muthiani (2008) researched on cross cultural perspective of mergers and acquisitions: the case of Glaxosmithkline Kenya PLC. The cultural changes proposal of Bohin *et al.* (2000) analysis have not been related to the microfinance industry and would however benefit this industry if these studies are explored. Since none of these local and international studies focused on reasons behind the application of mergers and acquisitions strategies, this research project attempted to answer the question: how effectively did the application of mergers and acquisitions serve Opportunity International in the microfinance industry in Kenya?

1.3 Research Objectives

The study was guided by the following objectives:-

i. To determine how effectively the application of mergers and acquisitions had served Opportunity International in the Kenyan microfinance market.

ii. To establish the challenges faced by Opportunity International in the application of mergers and acquisitions strategies in Kenya.

1.4 Value of the study

This research aimed at adding substantial value to the existing framework of concept, theory and model of mergers and acquisitions. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies thus the one plus one makes three being the typical equation associated with a merger or an acquisition. This study intended to unearth certain factors critical in creating successful M&As as well as affirming or negating the value creation theory that goes with M&As.

The study further distinguished cross border mergers and acquisitions as market entry strategies where the company's key shareholders are foreign. It presented a case for improving foreign direct investments through targeting existing firms whose capacity, in terms of capital, management capacity and technical knowhow is weak. If a firm does not hold sufficient intangible assets to be competitive, it may seek them in the asset bundle of an existing local firm through acquisition as a mode of market entry.

While not forgetting the growth agenda that is behind most M&As, this study created a firm basis for determining whether the growth can actually be attributed to the M&A itself or any other strategic issues that had been put in place. While not much of the financing of the M&A was studied in this academic research, it aided in understanding the background checks, due diligence and the valuation model used and how all these three contributed towards making the M&A better or worse in the eyes of the respondents. The study aimed at deepening the understanding of the importance of communication and efficient human resource management in the pre and post merger phases and relates the findings to pre-identified behavior patterns of senior managers during M&A implementation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers and scholars who have carried out their research in the study of mergers and acquisitions. The specific areas covered here include the concept, the different types of mergers and acquisitions, the motives as well as the challenges of merger and acquisition activities.

2.2 Concept of Mergers

A merger is the combining of two or more companies, generally by offering the stockholders of one company's securities in the acquiring company in exchange for the surrender of their stock. In the pure sense of the term, a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. Both companies' stocks are surrendered and new company stock is issued in its place. The combination of two companies results into one larger company usually bearing names of the both organizations, Marks and Mirvis, (1992). There are different types of mergers as described below: -

Horizontal mergers take place between firms that are actually or potential competitors occupying similar positions in the chain of production thus reducing the number of competitors and the relevant markets Lien, (2005). In such a merger, the acquisition of a competitor could increase market concentration and increase the likelihood of collusion. The elimination of head-to-head competition between two leading firms may result in unilateral anticompetitive effects. Another example is the CFC bank and Stanbic bank merger in Kenya to create the larger and more competitive CFC Stanbic Bank.

Vertical mergers occur between firms at different levels in the chain of production which have a buyer-seller relationship, Mussati, (1995). These occur when two firms, each working at different stages in the production of the same good, combine. A vertical merger can harm competition by making it difficult for competitors to gain access to an important component product or to an important channel of distribution resulting to the "vertical foreclosure" or "bottleneck" problem. These mergers can be based on the market or the product. For example if a bank combines with a security firm like Barclays Bank with G4S Ltd.

Conglomerate Mergers occur between firms that are neither competitors nor potential or actual customers or suppliers of each other which vary in types and attributes and they may be pure or mixed in form whereby pure mergers have no economic relationships between the acquiring firm and the acquired firm Hamed, (1999). This is a combination of firms engaged in unrelated lines of business activity, for examples merging of different businesses like manufacturing of cement products, fertilizers products, electronic products and advertising agencies. An example is a bank merging with a hotel.

Mergers and acquisitions are generally expected to create value as a result of certain factors, namely increased market power Ghosh, (2004), valuation difference between the target and bidding firm management (Jarrel *et al.*, 1988), tax benefits, diversification and improvement of the marketability of securities Mandelker, (1974). A number of studies have also suggested that mergers motivated by empire building Shleifer and Vishney, (1989) or managerialism Seth *et al.,* (2000) may reduce the value of the firm or may have a neutral effect on the value of the combined firm as the event represent merely the transfer of wealth from acquirers to target firm shareholders.

The literature on mergers is extensive with focus on many aspects. Billingsley *et al.* (1988) empirically investigated the motive for merger by developing a logit model which explains, estimates and predicts the probability that a financially troubled firm will be acquired rather than end up bankrupt. The leadership style development and maintenance of trust and distrust in an organization undergoing a merger Searle and Ball, (2004), communication changes and stress are important management and organizational factors that have been strongly related to merger activity.

2.3 Concept of Acquisitions

According to Kippenberger, (1998) acquisition refers to the strategy of taking over ownership of another organization. Like mergers, acquisitions are actions through which companies seek economies of scale, efficiencies and enhanced market visibility. Unlike all mergers, all acquisitions involve one firm purchasing another - there is no exchange of stock or consolidation as a new company. Acquisitions are often congenial, and all parties feel satisfied with the deal. Other times, acquisitions are more hostile. There are various types of acquisitions as described below: -

Share Purchase is where the buyer buys the shares, and therefore control, of the target company being purchased. Ownership of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going business, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.

Asset Purchase is when a buyer buys the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to select the assets that it wants and leave out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future, unquantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage Caciki, (1996).

Reverse Purchase is used as a way of going public without the expense and time required by an initial public offer. A private company buys a publicly-listed and private company reverse merges into the public company, and together they become an entirely new public corporation with tradable shares, Fray *et al.* (1984). The reverse purchase is not a very popular type of acquisition thus making the asset purchase and share purchase more appealing to investors,

Acquisition has been the subject of many researches, which include Kippenberger, (1998) that shows possible growth and high turnover of companies through non-synergistic acquisitions and further sets out acquisitions philosophy, ability to acquire, integration process and the initial steps. Fray *et al*. *(1984)* notes acquisition trends, reviews the basic strategic logic and explores some ways that acquiring companies can improve their chances of success.

2.4 Motives Behind Mergers and Acquisitions

Early literatures on mergers suggest synergistic motives as the main rationale behind merger activity. A study conducted by Jong (1976), examined 39 companies which had undertaken large and or persistent mergers in the period 1954-1965. He concluded that the most that can be said there is no evidence from the sample that merger intensive firms have higher profitability than the average industry. Kouhm (1986) observes that acquiring firms tended to be faster growing than firms in their respective industries. This being the case a merger of these two firms is expected to lead to improved performance. One of the most common motives for mergers is growth. There are two broad ways a firm can grow. The first is through internal growth. This can be slow and ineffective if a firm is seeking to take advantage of a window of opportunity in which it has a short-term advantage over competitors. The faster alternative is to merge and acquire the necessary resources to achieve competitive goals.

Growth is essential for sustaining the viability, dynamism and value-enhancing capability of a company. Baker (1999) looks at the similarities within and across industries regarding merger motives. His empirical material consists of primary and secondary data collected from two mergers in three industries respectively; manufacturing, banking and information technology. Their analysis makes use of three different perspectives, the reason for this being to create understanding and furthermore illuminate the complexity of the problem. The results clearly demonstrate similarities in merger motives within the industries, but also give some support for similarities across the industries.

The driving forces underlying the trend of MAs are complex and vary by sector. Technological change facilitates the international expansion of firms. Firms are also seeking to capture new market opportunities in fast-changing technologies and to pool research and development (R&D) costs. Moreover, government policies related to investment liberalization, privatization and regulatory reform are increasing the number of, and access to, industrial targets for M&As. Prolonged economic growth in countries such as the UK and the USA also increases the capital available for industrial purchases abroad. Other forces are market drivers, industry-level drivers and firm-level drivers. These driving forces are briefly discussed in the ensuing sections.

2.4.1 Macro-level Drivers

The economic growth of the host and home country also influences M&As (Kang and Johansson, 2000). Economic expansion in home countries increases earnings and equity prices and hence, the pool of capital available for investment overseas. Correspondingly, an economic boom in a host country enhances the short-term profitability of potential target firms for an acquisition. The prolonged economic expansion in major countries such as the UK and the USA has played a vital role in the continued and rapid increase of both inward and outward MAs in the 1990s and early 2000s. In contrast, slower economic growth tends to work against the trend. As the Japanese economy continued to experience recession, M&As rapidly slowed in the 1990s. In addition, outward acquisitions by Asian countries also sharply decreased in 1998. The long-term, broad-based economic growth in Africa has led to increase incomes and helped the continent reach its potential to become a significant trade and investment partner in the world economy.

Although Africa has historically had the slowest growth of any region, its performance is improving substantially, lending hope for the future. African economies have continued to sustain the growth momentum of the 1990s, recording an overall real GDP growth rate of 5.8 percent in 2008 (USAID, 2009). Due to this economic stability, Africa is a possible destination for M&A as a source for new markets since most people have purchasing power. Appropriate trade policies present in the continent offer opportunities for other countries to invest in the free markets and increase foreign investments that promote economic growth. In addition, better performance in agriculture and other resources and the improved political situation in many countries can also attract investors in the region (USAID, 2009).

2.4.2 Industry-level Drivers

Although M&As are occurring in almost all industries, recent large-scale M&As have tended to be concentrated in a few major sectors including petroleum, automobiles, finance and telecommunications Kang and Johansson, (2000). These are the sectors which are experiencing intensified global competition and market pressures from hiking commodity prices (petroleum), excess capacity in key markets (automobiles), deregulation and rapid technological change (banks and telecommunications). Unlike the M&A deals of the 1980s, which were often about capturing new markets or supposedly undervalued and unrelated businesses, many of the cross-border mega-mergers of the 1990s and 2000s have taken place within the same industry for the purpose of restructuring. This kind of union typically involves consolidation and scrapping of capacities on a global scale to improve international efficiency, competitiveness and concentrate on their core business activities UNCTAD, (1998).

2.4.3 Technology Drivers

One of the most significant driving forces behind the acceleration of M&As is technological change. In an environment characterized by rapid technological change and increasing expenditures for risky R&D projects, many companies feel compelled to enter into M&As as a means of sharing the costs of innovation and accessing new technological assets to augment their innovatory capabilities (UNCTAD, 2000). Reduced communication and transportation costs have favoured cross-border expansion of companies seeking to exploit competitive advantages. In particular, recent developments in information technology tend to expand the range and span of corporate control, making the optimum size of firms larger than was previously possible. Companies can expand their size and achieve more dominant market positions through acquisitions beyond national borders, while maintaining efficiency and flexibility in their management through new information and communications technologies (Kang and Johansson, 2000). In addition, the soaring costs of R&D have forced companies to cooperate with others in global markets in order to finance research expenditures for new products

Technological change can also alter the competitive business environment. Changes of this type tend to shorten product life cycles and promote new entrants with innovative technology, which alters competitive conditions and market structure Child *et al.*, (2001). This is evident in the case of the telecommunications and steel industries. Moreover, technological change creates new businesses and markets, such as in telecommunications and information-related industries. The recent surge of acquisitions of this type in the telecommunications, media and information industries reflects the efforts of firms to capture the new markets created by new technologies, particularly the growth of the internet, and to offer more integrated global services (Kang and Johansson, 2000).

2.4.4 Market Drivers

Market drivers include the growth of common customer needs, the emergence of worldwide customers, the development of international channels of distribution, and of marketing approaches that are transferable across cultural and geographical boundaries Child *et al.,* (2001). Levitt, (1983) anticipated the convergence of markets because of the development of economic and socio-cultural interdependencies across countries. He argued that the new communication technologies are the key to the growing homogenization of markets, reducing social, economic and cultural differences. This process has forced companies to respond to growing similarities between consumer preferences. He also argued that a company can make a cheaper better product; cultural barriers will not prevent it from becoming acceptable worldwide. The international success of the Japanese consumer electronics industry appears to support this claim. M&As provide many prospects for achieving economies of scope from global marketing strategies Child et al., (2001). Branding provides a useful illustration of this potential where an increasing number of multinationals are standardizing their brands in order to send a consistent worldwide message and take greater advantage of media opportunities by promoting one brand, one packaging and one uniform positioning across the market.

2.4.5 Firm-level Drivers

According to Dunning (1977), a firm needs to have a firm-specific competitive advantage (ownership advantage) in foreign markets in order to undertake foreign direct investment (FDI) successfully. This competitive advantage generally arises from the existence of firm-specific intangible assets such as production knowledge and skills, marketing capabilities and brand names or superior management capabilities. The more a firm accumulates intangible assets, the stronger the incentive a firm has to exploit them through geographical diversification or other modes of internalization Morck and Yeung, (1999). Empirical research identifies several firm-level factors that influence the choice of entry modes in making foreign direct investment (FDI). First, it has been observed that M&As are more advantageous the greater the organizational and managerial skills of a firm, while greenfield operations are more preferable the greater the technological skills of the firm Andersson and Svensson, (1994). Firms with an international experience tend to favour mergers and acquisitions due to a firm's organizational and managerial skills competence. A firm's previous presence in a host country also increases the attractiveness of acquisitions.

Firm strategies vis-à-vis competitors may further affect the modes of market entry. If a firm does not hold sufficient intangible assets to be competitive, it may seek them in the asset bundle of an existing local firm through acquisition. On the other hand, if a firm has technological and competitive advantages that it wishes to retain control over, it may prefer Greenfield investment to M&A Yamawaki, (1994). It has been observed that Japanese multinationals when entering Europe have continued to rely on greenfield investments in industries where they have superior competitiveness, whereas their reliance on M&A in an industry tends to be stronger the higher the relative competitiveness of the European industry. Furthermore, the former investments have tended to be undertaken in European countries with relatively low competitiveness in these sectors, whereas the latter have been undertaken in the countries that are more competitive, for example, greenfield investment in semiconductors and transport, targeting particularly the UK, compared to M&As in chemicals focusing on Germany and the Netherlands (Kang and Johansson, 2000).

A study in the late 1990s concentrating on M&As between the USA and four European countries (Vasconcellos and Kish, 1998) outlines the factors, which might motivate the process at the level of the firm. One impetus is risk spreading: in order to reduce risk, firms acquire companies in other economies on the basis that the covariance of industry returns across economies is likely to be smaller than within one economy. In reality, differences in cyclical conditions at a specific point in time can also favour acquisitions. For example, a relatively strong stock market increases the means available to companies for purchases and renders foreign targets cheaper. However, this may only be true when the economies in question are not highly integrated. Companies that are unable to develop technology in-house due to time or resource constraints can choose M&As as a means for acquiring technological and human resources.

2.4.6 Mergers and Acquisitions as Strategic Options

Thomas and Weston (1992), found that business firms have used a wide range of activities in seeking to exploit potential opportunities. The major objective of mergers, tenders offers and joint ventures is to achieve expansion and growth. Merger is any transaction that forms economic unit from two or more previous separate business units. Tender offer is a method of making a takeover via a direct offer to target firms' shareholders to buy their shares, while a joint venture is a combination of subsets of assets contributed by two (or more) business entities for a specific business purpose and for a limited duration. Each of the venture partners continues to exist as a separate firm, and the joint venture represent a new business enterprises. Mergers have become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of business as a number of economies are being deregulated and integrated with other economies.

Most mergers actually benefit consumers by allowing firms to operate more efficiently. But some are likely to lessen competition. That, in turn, can lead to higher prices, reduced availability of goods or services, lower quality of products, and less innovation. Indeed, some mergers create a concentrated market while others enable a single firm to raise resources, Berger (1999). Internal growth and mergers are not mutually exclusive activities. Indeed, they are mutually supportive and reinforcing. Successful firms use many forms of M&A and restructuring based on opportunities and limitations. The characteristics and competitive structure of an industry will influence the strategy employed. The factors favoring M&A in part relate to industry characteristics. Some other advantages of M&A or external growth may also be noted, Thomas and Weston (1992).

Strategic decisions are based on building on or stretching an organization's resources and competencies to create new opportunities or capabilities based on these resources. Strategy therefore, may in some cases require major resources which are beyond firm's existing capability. In such a situation, a merger or an acquisition may be the only available option. It may, therefore, for instance, be an appropriate phenomenon for an organization to merge with or acquire a supplier of its raw material so as to guarantee availability and quality of such raw material or with a competitor so as to expand its market share or with another firm in order to comply with changes in legislation. Many managers will today regard buying a company for access to markets, products, technology, resources or management talent as less risky and speedier than gaining the same objectives through internal efforts or organic growth, Jemison and Sitkin (1986).

Joint ventures represent a flexible method of exploring new areas with partners whose capabilities are complementary. Joint venture can be used to have the seller transmit knowledge about the operation and the buyer to learn more about what is being acquired. Mergers & Acquisitions can be seen as instruments used by companies externally acquire capabilities developed by their partners. As such they can have a positive economic effect on companies that are active in the M&A market. However, overview of studies on the economic effects of M&A performed during the late fifties and sixties reveals that there is substantial ex post evidence that mergers and acquisitions have positive effects on the performance of firms. Hoskisson and Hilt (1994), suggest that related acquisitions can have a positive effect on company performance if these acquisitions support innovative activities of firms.

To better understand the importance of M&As in company performance, Patrick (1994), surveyed the executives responsible for corporations' M&A strategy. Most of those surveyed listed synergy as a leading motivation for both domestic and cross-border mergers. Diversification was also identified as a good reason to engage in a merger. They also cited operating economics as an important merger goal. They cited mergers as being important in increasing a company's focus and eliminating poorly performing units thus increasing managerial efficiency while creating a particular organizational structure at the same time. Mergers assist companies to increase cash, taking advantage of market conditions, seek tax advantages, restructure capital and resolve antitrust concerns taking advantage of market conditions, seek tax advantages, restructure capital and resolve antitrust concerns.

2.5 Challenges of Mergers and Acquisitions

According to Grundy (1995), it is very hard even with the best of intentions, to maintain objectivity and complete clarity about the rationale and value of an acquisition once the process gets under way. As Hill and Jones (2001) have emphasized, a merger or an acquisition signals change and because of uncertainties, anxiety builds up in many people whose jobs might be affected. Rumors substitute for facts and spread rapidly. It is therefore important to manage pre-acquisition activity, especially in the area of communication with employees. Value does not come easily through acquisitions and mergers because of these challenges of the pre-and post-acquisitions process the screening process, firms often have little or no access to intelligence about their targets beyond published financial and market data. There is often inadequate or unavailable of information.

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

Firms usually experience a financing gap and are financially incapable of managing acquisitions and mergers. Acquisitions also require substantial funding and very few companies can finance acquisitions out of their own cash balances (Pike and Neale, 2002). When companies are merging, some of the managers in both firms will not support it, particularly if the future does not look good for them. This is where there is proposed lay off of staff due to the implicit duplication of jobs. If an acquisition is managerially generated, the managers may be prepared to expend more than necessary amounts to gain ownership of target companies, simply to secure deals which promote managerial well-being but at the expense of shareholders value (Pike and Neale, 2002). This therefore results in empire building and managers entrenching themselves in the mergers and acquisitions deal purely for selfish interests and motivations. Hill and Jones (2002) argued further that problems of the post acquisition integration period will pose a great challenge to the emerging new management.

Integration can entail the adoption of common management and financial control systems, joint operations and establishment of linkage to share information and employees. Differences stem from the two corporate cultures. Failure to plan and the integration execute properly, frequently neglecting the organizational and internal cultural factors, becomes a challenge to the merged firm. This is brought about by inadequacy in the knowledge of the other's business and which should be corrected in the process of due diligence Pike and Neale (2002). Johnson and Scholes (2002) have defined a culture as co-ordination between various activities that occurs naturally because people know their part in the wider picture, or it is simply taken for granted that activities are done in particular ways.

There is usually high management turnover, as employees may not like the way things are being done by the merged firm, or the acquirer. There is a tendency of over-estimating the potential for creating value, and the strategic advantages. Managers typically over estimate their ability to create value from an acquisition, primarily because the CEO's have given themselves an exaggerated sense of their own capabilities. This is what happened to Coca Cola, in 1975, when it embarked on the acquisition of several medium sized wine- making companies. Coca Cola was taking advantage of their marketing competences. Little did they know that soft drinks and wine are very different products, with different kinds of appeal, pricing systems and distribution networks. Eventually Coca Cola sold these companies at a loss.

Acquisitions are frequently mismanaged because of the buildup of untested commitments, over enthusiasm, and the 'thrill of the chase" Grundy, (1995). There are also elements of exaggerating the price, especially where there are more companies that want to expand their market share during the time of mergers and acquisitions boom. In any case, the capabilities of both firms may not be the same as should become apparent during the negotiations which take place before a merger or an acquisition is concluded. Therefore, the firm may have paid too much for their targets as a result of a flawed evaluation process, which over estimated the likely benefits or as a result of getting caught up in the mechanism of a competitive bidding situation, where to withdraw from bidding is regarded as a sign of corporate weakness Pike and Neale, (2002).

2.5.1 Task Challenges

An important factor creating challenges in integrating the operations of two separate firms is the compatibility of the respective business systems. Further, organizational members often experience difficulties trying to adjust to new procedures and performance standards. Differences in managerial styles and accounting practices can also contribute to tension in the integration process (Cartwright and Cooper, 1993). These difficulties have a real and measurable impact on organizational performance. Weber (1996) suggests that the anticipated benefits or gains associated with a merger or acquisition are often unrealized because of productivity losses and the traumatic effect of mergers and acquisitions on a firm's human resources. Problems such as poor utilization of technology, weak human resource systems and low employee morale are often intensified as a result of mergers, Walker (1998).

2.5.2 Demographic Challenges

Geographic dispersion can create major communication and resource distribution challenges. In addition, geographically diverse firms must contend with the myriad local rules and regulations. These challenges are further intensified when organizations pursue international merger or acquisition strategies. Organization size would also play a role in influencing the cultural challenges associated with the integration process. Barker and Duhaime (1997) reinforce this contention by highlighting research suggesting that larger organizations typically exhibit more complex internal systems. As a result, it can be argued that power structures and organizational procedures are more difficult to change.

2.5.3 Political Challenges

The way power is exercised during the integration of merged or acquired firms can play an important role in shaping the perceptions of organizational members and can also influence the ultimate success of the integration effort. Power exercised to the extent that new rules, procedures or expectations are forced onto the staff members will likely be met with resentment and resistance from these members, resulting in a loss of potential synergies Marks and Mirvis, (1992). Carleton (1997) reinforces this possibility through a discussion of a 1992 study by Coopers and Lybrand of 100 failed mergers or acquisitions indicating that over 80 per cent of the executives acknowledged that different management practices and styles were a primary contributor to integration difficulties. A merger may often have more to do with glory-seeking than business strategy. The executive ego, which is boosted by buying the competition, is a major force in M&A. Most CEOs get to where they are because they want to be the biggest and the best, and many top executives get a big bonus for merger deals, no matter what happens to the share price later.

Consistent with the theme of power, new coworkers, new bosses, and new power bases are cited by Marks and Mirvis (1992) as important factors impacting on the integration process. The impact of these new power bases in mergers and acquisitions is particularly salient at the executive management level. A study of 430 executives indicated that executives who are not granted post merger status are more likely to leave as a result of inferiority feelings than executives who maintain some semblance of status, thus retaining some sense of superiority. Hambrick and Cannella, (1993) concur that power is, indeed, an integral element of status and a sense of assuredness creates a higher level of management commitment towards making the M&As successful.

2.5.4 Cultural Challenges (at the post-event stage)

Cartwright and Cooper (1993) argue that successful pre-merger performance supported by a strong organizational culture does not guarantee that the culture can easily be transferred to another organization. They reinforce this by suggesting that cultures are not meant to change, especially if they are strong cultures. Other researchers agree about the difficulty associated with changing core attributes of strong cultures, Cultures can change and evolve. But those bedrock tenets that form the foundation of an organization are much tougher to budge. If merging organizations have similar core values, they may, with effort, be blended. But no amount of wheeling and dealing can bring them together if they are too far apart Fralicx and Bolster, (1997).

Schein (1985b) further suggests that a merger or acquisition reveals important aspects of culture differences that promote measurement and operationalization during the integration process. In fact, unrealized productivity expectations are often precipitated by the fact that some mergers bring out the worst in the respective organizations' cultures, making it difficult to marshal their strengths in an effectual manner Walker, (1998). Weber, (1996) reinforces this by suggesting that the magnitude of cultural differences can effectively impede a successful integration during mergers and acquisitions, resulting in poor financial performance. The strength of a particular culture is also an important consideration Jackson *et al.*, (1994). Strength is a significant factor because it embodies the degree to which particular values are shared between members of an organization. Gilmore *et al.* (1997) examined organizations undergoing cultural transformations. This examination, culminating in six years of observation in a wide array of organizations, identified four major side effects: behavioral inversion; disappointment and blame; polarized images; and ambivalent authority.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used to find answers to the research question, how effectively the application of mergers and acquisitions served Opportunity International in Kenya. In this chapter the research methodology will be presented in the following order, research design, data collection method, instruments of data collection and finally the data analysis.

3.2 Research Design

Dooley (2007) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. This research was conducted through a case study since it is a research on one organization. Since this study was seeking to investigate the application of mergers and acquisitions by Opportunity International in the Kenyan microfinance market, a case study design was deemed the best design to fulfill both objectives of the study. The importance of a case study is emphasized by Kothari (2000) who acknowledges that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

3.3 Data collection

For the purpose of this study, the researcher used primary data. An interview guide with open-ended questions was used to collect in-depth information from the Executive Management Committee comprising of the Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, Chief Internal Auditor, Human Resource Manager and the two regional relationship managers who represented the Chief Relationship Officer, who is the researcher in this academic project. The oral administration of the interview guide in a face-to-face encounter encouraged in-depth discussions and probing of the responses in order to get detailed information Copper and Schindler, (1998). This allowed for a respondent's response to give further insights into the feelings, background, hidden motivation, interests and decisions and give as much information as possible without holding back.

3.4 Data Analysis

The data collected was mainly qualitative in nature and thus was analyzed using conceptual content analysis. Content analysis is defined by Creswell, (2003) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends. According to Mugenda and Mugenda (2003), the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. Content analysis uses a set of categorization for making valid and replicable inferences from data to their context thus in line with the objectives of this study, the qualitative data was analyzed for frequencies of dominant responses and coded into categories in order to make inferences and generalizations.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented to establish the application of mergers and acquisitions by Opportunity International with a view of establishing the various government policies that affect mergers and acquisitions in Kenya, the benefits that resulted from both mergers and acquisitions of WEDCO and Sunlink. The study further analyzed the key challenges and recommendations on the way forward for future successful mergers and acquisitions. The data was gathered from top management of Opportunity Kenya using face to face in depth interview which was facilitated by an interview guide with open-ended questions as the research instrument. The interview guide was designed in line with the objectives of the study.

4.2 Response Rate

In-depth information was gathered from all the targeted members of the Executive Management Committee comprising of Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, Chief Internal Auditor, Human Resource Manager and the two regional relationship managers who represented the Chief Relationship Officer. As per their gender, all the interviewees were male with the exception of one female regional relationship manager. Their ages ranged between 32 - 64 years and have worked with Opportunity, for a period of between one and five years.

4.3 Government Policies That Regulate Mergers and Acquisitions

The study wanted to establish the government policies that affect the merger and acquisition transactions in Kenya. The study found out that in Kenya the main laws governing business combinations are: Restrictive Trade Practices, Monopolies and Price Control Act which an Act of parliament that encourages competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and connected purposes. Capital Market Authority Act which regulates Take-overs and Mergers, the 2002 regulations that set out rules governing takeovers and mergers in Kenya and finally Central Bank of Kenya Act that governs and regulates the banking sector and is applicable to mergers and takeovers involving financial companies.

The Human Resource Manager and the Regional Relationship Officer cited the labour laws of Kenya as applicable especially concerning the employment contracting during M&A transactions. The employment contracts created post the mergers and acquisitions should be in compliance with the labour laws and the general observation was that the Kenyan labour laws are particularly pro-employee. Another regulation cited by the Chief Executive Officer was the limitation of percentage of foreign shareholding which can be done by in a local company as well as the limitation on the type of business activities that the acquirer is involved in.

4.4 Driving Forces Behind Mergers And Acquisitions In Kenya

The study also sought to investigate the driving forces that have led to the increase in mergers and acquisitions in Kenya. Given the vast number of mergers and acquisitions that have already taken place, the study was able to establish the following factors as the key drivers behind mergers and acquisitions: -

4.4.1 Regulatory Requirements

The merger between the two organizations operating within the same industry for the purpose of consolidating in order to meet regulatory requirements was cited by most respondents as a key driver of M&A activity in Kenya. According to the Chief Finance Officer of Opportunity Kenya, this kind of union involves consolidation and scrapping of capacities to improve efficiency and competitiveness while at the same time raising capital and structural requirements in order to meet the regulatory requirements that are imposed during the lifetime of the organization. This can be a strategic decision by the management of an organization and a preferred short cut to complying with the capital intensive of complying with the regulation. The example cited was Consolidate Bank of Kenya which was formed as a result of mergers of smaller banks in order to meet the minimum capital requirements as required by the Central Bank of Kenya. Another example cited was the acquisition of City Finance Bank by a Kenyan microfinance organization known as Jamii Bora. This move can be interpreted to be an attempt by Jamii Bora to save on the costs of transforming to a deposit taking microfinance institution as required by the Microfinance Act 2006 and instead moving directly into full fledged banking.

4.4.2 Technological Advancement

According to the Chief Operations Officer, one of the most significant driving forces behind most mergers and acquisitions was technological change. In an environment characterized by rapid technological changes and increasing expenditures for risky R&D projects, organizations feel compelled to enter into M&As as a means of sharing the costs of innovation and accessing new technological assets to augment their innovatory capabilities. In particular, recent developments in information technology tend to expand the range and span of corporate control, making the optimum size of firms larger than was previously possible. Organizations' management teams often feel that through the mergers and acquisitions, they would expand in size and achieve more dominant market positions while maintaining efficiency and flexibility in their management through new information and communications technologies. Organizations with superior information technology may target or be targeted for mergers and acquisitions.

4.4.3 Increased Market Share

Both Regional Managers and the Chief Executive Officer cited market share as yet another compelling reason for companies to undertake mergers and acquisitions. With the growth of common customer needs and marketing approaches that are transferable across markets it is often preferable to move into new or existing segments of the market through M&As. This can be cited as a driving force for the merger between Smithkline and Glaxo to form Glaxosmithkline whose market share is over and above the former single entities combined market share.

With raising competition, the market share is seriously affected making market leadership ever so elusive for the organizations. Other related issues are brand loyalty and visibility both which contribute immensely to the firm's ability to compete in the market place. Stronger brands are easy to associate with and give a bigger chance for growth to take place. The Chief Internal Auditor mentioned that improved market reach and industry visibility as a result of reaching new markets and growing revenues and earnings was a key driver. A merger may expand two companies' marketing and distribution, giving them new sales opportunities.

4.4.4 Market Penetration Strategy

According the Chief Executive Officer of Opportunity Kenya, some organizations have identified M&As as their strategy for foreign market entry. This corporate strategy is defined by the need to increase the much needed competitive advantage (ownership advantage) in the new market. This competitive advantage generally arises from the existence of firm-specific intangible assets such as production knowledge and skills, marketing capabilities and brand names or superior management capabilities as the more a firm accumulates intangible assets, the stronger the incentive a firm has to exploit them through geographical diversification. A merger can also improve a company's standing in the investment community: bigger firms often have an easier time raising capital than smaller ones. Another organization that has used M&As as a market entry strategy is Ecobank – a large West African bank which came into the Kenyan market and acquired the East African Building Society in Kenya.

4.4.5 Strategic Partnership

Organizations during their course of doing business may identify a strategic partner who is in need of introducing additional and like-minded investors. This can take the form of a divesture or when a business is winding up for operational and financial reasons as observed by the Chief Finance Officer. The M&A could be used as a way of improving a company's standing in the investment community thus a stronger financial position through a capital injection into the business in addition to increased knowledge and skills, marketing capabilities and or superior management capabilities post the M&A activity. Another strategic reason would be purely for survival purposes where the business continuity is threatened by negative equity, increasing losses and customer desertion.

4.5 Driving Forces Behind Mergers And Acquisitions By Opportunity International

Just like most organizations that go through mergers and acquisitions in Kenya, the study established that the mergers and acquisitions between Opportunity International, WEDCO and SUNLINK were driven by strategic as well as other business reasons. Some of the reasons given by the respondents were: -

4.5.1 Market Entry and Strategic Positioning

One key driver cited by the Chief Executive Officer was the market penetration in 2006 by Opportunity International. Kenya being an already well established market and a central business hub in the continent the organization needed to position itself in order to take advantage of the growing market potential. It was further important in 2008 to acquire SUNLINK for strategic positioning due to the geographic catchment provided by Nairobi which is the capital city of Kenya. According to the Chief Operating Officer, spreading the related risks of foreign market entry was considered prudent instead of starting off as a greenfield investment. By identifying local MFIs with an existing distribution network, the growth potential was to be achieved in a much faster and effective manner.

4.5.2 Gap Filling

WEDCO and Sunlink had both significant weaknesses in raising capital for achieving their growth plans and potential whereas the Opportunity International had some significant strength in resource mobilization and asset base. By combining these companies, each company filled strategic gaps that were seen to be essential for long-term survival. Other gap areas identified by the Chief Operations Officer were research and development as well as technological innovations in a rapidly changing microfinance industry. Opportunity International on the other hand was well endowed to fill this gap given its global presence and experience. SUNLINK, was in dire need of new investors having been solely owned by CORDAID which, was eager to exit from the microfinance industry due to global changes in thematic focus areas. Opportunity International Wedco on the other hand had an excess investment capacity and was eagerly searching within Nairobi in order to spread geographical risks associated with the poor business turnout in the Western part of Kenya.

4.5.3 Organizational Continuity

All respondents stated that the existence of Opportunity International Wedco was threatened by decreasing operational and financial sustainability as a result of the weak internal controls that left the business at risk owing to frauds and loan loss as a result of the impact of the post election violence. The organization's philosophy in lending had been greatly hampered as observed by the regional managers and the Chief Internal Auditor and the market perception had continued to deteriorate due to misconduct of organizational members. This was further aggravated by high staff turnover thus making default management unworkable. The 2008 acquisitions of SUNLINK was required to urgently restore the continuity of operations of Opportunity International in Kenya.

Another related reason cited by the Chief Executive Officer was the revenue enhancement objective for Opportunity International given the dwindling income levels from the western parts of Kenya as a result of the business slump in 2008. The revenue source being mainly from the disbursement of loans required a stable environment where the ideal acquisition target was already operationally viable and profitable to even out the business losses.

4.5.4 Strategic Partnerships

CARE Canada, CORDAID and Opportunity International all being like-minded social investors were quickly able to identify the potential synergy of the M&A activity and ensure that there was no mission drift post the M&A activity. Often the M&A deals turn sour once the intentions and objectives are not harmonized amongst the different investors. It has been helpful that the three investors are committed to common social performance objectives of poverty elimination, transformation and provision of responsible financial and related services. These strategic partnerships have aided in strengthening the management and governance structures of Opportunity in Kenya.

4.6 Existence of Management Consultation

As to whether all the members of the executive management committee were consulted during the mergers and acquisitions, the interviewees agreed that there were indications of some level of involvement of senior executives. Considering that most of respondents were not working for Opportunity International during both or either of the M&A activities, their responses are mostly speculative.

4.7 Gains From The Mergers and Acquisitions

On whether the merger and acquisition had any meaningful gains, all respondents from the Executive Management Committee agreed that the mergers and acquisitions by Opportunity International had resulted in some considerable gains. The gains identified from the mergers and acquisitions are as follows: -

4.7.1 Revenue Enhancement

According to Chief Internal Officer the M&As improved the revenue streams instantly by the additional loan portfolio from the acquired firms. This was further enhanced by the improved marketing campaigns that resulted to enhanced market positioning and geographical spread. Strategic benefits resulted from the opportunities that came from entering new lines of business. Additional revenues were realized from the increased product offering as well as new sources of fee income such as loan insurance, passbook fee and other such related fees.

4.7.2 Improved Business Model

Most respondents cited the synergies of accrued due to the hybrid business model and methodology that helped enhance the credit function, liquidity management, risk management and optimal use of resources. The business processes were reviewed to allow for synchronization of the separate operations and this helped in eliminating cash based transactions, introduction of refined loan products, centralization of liquidity management in addition to the development of more customer focused policies and procedures. Marketing gains arose from more effective advertising, economies of distribution, and a better mix of products.

4.7.3 Cost Reductions

According to the Chief Finance Officer there were observable cost reductions as a result of the merger as the organization was able to operate more efficiently than the two smaller firms, thereby reducing costs. Since the merger was horizontal economies of scale were generated thus the average operational cost for the consolidated business fell drastically. Additional cost reductions were achieved by through the staff realignments and relocations to allow for more productivity amongst the staff. Other areas that benefited immensely was the cost of capital as the weighted average cost of capital reduce significantly with the availability of funds at lower costs. The combined firm generally reduced variability in its cash flows with improved liquidity being a distinct advantage. The cost of debt was also reduced as a result of the M&A therefore, eliminating circumstances under which either of the firms would have defaulted on its debt and ended up being technically insolvent.

4.7.4 Business Survival

According to the Chief Executive Officer, the M&As guaranteed the separate business entities a new lease of life as their survival was increasingly threatened either by poor performance and/or capital constraints. The merger firm was able to compensate on both ends with the loss making status being substituted for gradual profitability and ability to fund raise through owners' equity and debt financing. The financial and business restructuring were definite advantages accrued to the merged firm post the M&A activity.

4.7.5 Increased Footprint

The penetration to new geographic areas was seen by the Chief Executive Officer as a major benefit of the M&A for purposes of risk spreading, diversification and acquiring national footprints in the high potential regions of Kenya. It was further seen as a strategic move for the head office to relocate to the capital city of Nairobi from Kisumu for future growth to other underserved parts of the country.

4.8 Impact on Opportunity Kenya's Performance

Both Regional Relationship Managers agreed that the merger had significant effects on the organization performance as it was able deliver services more efficiently due to combined efforts and facilities of the two organizations. These efficiency gains came by virtue of the size of the combined company; as it proved to be cheaper to offer services on a larger scale. Also, the merger brought on board more experts who had new skill and knowledge as well as fushioning of diversity in products, methodology and staff capacity. This resulted to increased contact time with the customers and reduced the travel time by loan officers in the field as the new lending methodology became effective in 2009. This was achieved by having centralized meeting places for customers to transact and improved internal controls which addressed the rising default management and increasing loan loss state that was previously recorded.

In addition, the key operating ratio used to measure productivity, namely the average caseload per loan officer which is measured by dividing the number of borrowers by the total staffing improved thus the standard caseload was revised from 250 to 300 borrowers per loan officer. The loan portfolio health was reported to have improved drastically from over 50% in 2007 to below 10% by mid 2010. This indicator is often referred to as the portfolio at risk rate and it measures the outstanding loans with past due payment expressed as a percentage of the total outstanding loans. The financial performance was greatly addressed by the 2008 acquisition of a more profitable institution. This improved financial performance salvaged the company from winding up as a result of increased losses and negative equity. Additionally, with the growth in loan portfolio as a result of the mergers and acquisitions, the company's asset base improved instantly and additional restructuring of the balance sheet addressed the negative equity position.

4.9 Challenges Faced By Opportunity International In Kenya

Upon entering the Kenyan microfinance market in 2006 and later the expansion vide the second acquisition in 2008, Opportunity International experienced the following challenges during the process of integrating the mergers and acquisitions of Wedco and Sunlink:-

4.9.1 Human Resources Challenges

According to the Human Resources Manager there was observable resentment and resistance from members of staff, which sometimes resulted in a loss of potential synergies during the initial stages of the M&A activity. During the 2006 acquisition, all staff were involved in an exercise of applying for the jobs that they had previously held thus raising the staff anxiety levels and resulting in the departure of staff and managers. The 2008 acquisition had its fair share of human resource challenges particularly due to the mystery surrounding the acquirer and the non harmonization of human resource policies.

Human resources policies and procedures manuals were not synchronized thus leaving staff unsure of what policies to invoke and when. This rendered the staff vulnerable and at times puzzled by the differences in treatment of staff. An example cited was the case for pension where Opportunity Wedco staff were entitled to monthly pension contributions and the same was not introduced immediately after the 2008 acquisition thus leaving out the staff former of SUNLINK. Another example was the move from a fully paid medical benefit to a co-pay option which was both costly and unpopular yet enforced to the staff that were previously under an employer-provided medical insurance scheme.

For a prolonged time, staff doing the same job were compensated differently and some promises made during the M&A activity still remain outstanding as cited by the Human Resources Manager. These unresolved issues left the staff feeling unfairly treated thus a feeling of lack of closure of matters relating to employment terms and conditions is yet to be fully attained. The new executives also felt weary of addressing historical and legacy issues which they are not well versed with and for which handing over were not well documented.

4.9.2 Leadership Challenges

Differences in leadership styles and management philosophies were cited by the Chief Executive Officer as a major challenge during the integration and post M&A activity. The executive leadership was faulted for not offering visionary leadership and for not being knowledgeable about the microfinance industry. Typically, the top management's attention was thinly spread and additionally lacked the technical capacity to steer the business in a dynamic industry in addition to their lack of tact to win the hearts and minds of the acquired staff.

This further contributed to tension during the integration process and the high turnover rate at the top management caused a lot of speculation and uncertainty amongst staff. An interesting observation was that the challenges of leadership affected the higher level governance structures through high rate of board members turnover. This was necessitated by the changing fortunes in as far as the shareholding was concerned. The reduced shareholding meant reduced board representation and reduced voting rights thus the frequent exits and resignations by the minority shareholders representatives.

4.9.3 Market Challenges

With the merger and acquisition of both organization and the rebranding to form one organization registered as Opportunity Kenya Limited, the identity of the separate organizations was dissolved. The requisite publicity to reassure the general public, existing customers and potential customers was not pursued strategically. The Regional Relationship Manager said that the 2008 acquisition was considered weak in this element as the customers were left to speculate and the general public was not notified in time. Grapevine seemed to be preferred as opposed to formal communication and selling the benefits of the switch over was not paramount. Negative institutional philosophy was instead publicized with competitors often referring defaulters to the company so that they can borrow and not pay back. This increased challenges for the marketing and customer service teams who were also not convinced about the M&A.

4.9.4 Cultural Challenges

Despite the major shareholdings sharing the same social mission, the two organizations had different organizational cultures and there was a challenge of blending the different cultures into similar corporate culture. The Chief Executive Officer commented that while one company was more commercially oriented, the other was more of a non-governmental orientation thus creating radical differences in operations. Addressing cultural issues has been a long process where no superiority was assumed and all staff allowed to transition to the unique Opportunity Kenya culture. The initial challenge of the acquirer trying to dominate the acquired staff by presuming superiority, in terms of organizational culture in 2008, was quickly replaced by the realities that the previous organizational culture had contributed to the business failure owing to integrity issues and as such the replication would have led to dismal outcomes.

4.9.5 System and Procedures Challenges

An important factor that created challenges during the integration of Opportunity International, WEDCO and SUNLINK, was the compatibility of the respective business systems. The two business models adopted by the different organizations came with differences in loan tracking systems, accounting systems, payroll systems, lending methodology and generally diverse procedures. The systems continued to operate independently with different loan tracking softwares and branch accounting systems being in use for the first two years. The failure to harmonize further created operational differences where in one part of the organization, the database was decentralized yet centralized on the other part. Further, organizational members experienced difficulties trying to adjust to common procedures and systems which were implemented long into the post event stage.

The Regional Relationship Manager cited the loan tracking systems as a source of anxiety to both staff and customers with no conscious efforts being made to have a common loan tracking system. Additionally, elimination of some process and centralization of other processes was perceived as beneficial in the long run but the implementation was not well sequenced. Due to idealism and having successfully operated microfinance operations in different parts of the world, Opportunity's tendency to adopt global processes and procedures without considering the local context was faulted as part of the reasons for the initial failures. There was minimal localization of global concepts surrounding organizational policies and procedures and thus resulting in unending audit issues, non compliance issues and higher risk ratings all which were not reflective of the realities on the ground.

4.9.6 External Environment Challenges

While not much consideration was put into the timing of the 2006 and 2008 M&A activities, both periods were not considered the best seasons due to other ongoing occurrences. The 2006 passing of the Microfinance Act was a transitional period while the 2008 post election impact was a tough time for all Microfinance organizations as noted by the Regional Relationship Manager. Considering that Opportunity International Wedco was operating in most of the worst affected areas post the 2007 general election and related 2008 post election skirmishes, the Chief Executive Officer affirmed that the timing was not prime for another M&A activity. This was in consideration of the management focus on salvaging the business that was already under threat of extinction as opposed to strategizing for the new acquisition.

4.9.7 Business Performance Challenges

The Chief Internal Auditor confirmed that the 2006 acquisition was indeed successful and impressive growth was achieved by Opportunity International Wedco in the short run. However, most of the interviewees reckoned that the initial growth was not sustainable as the fundamentals were all wrong. There was fast paced growth in client numbers and loan portfolio as a result of a staff incentive scheme which was manipulated to increase income earning abilities of loan officers. Additionally, due to weak internal controls, the staff participated in fraudulent activities as a way of keeping up with the staff incentives scheme variables thus the trigger of the post election skirmishes catalyzing a dismal performance. High portfolio at risk rates, high staff turnover and high loan loss rates all contributed to a poor operational and financial performance.

As a result of the poor performance, drastic measures to close branches and field offices redeploy staff and relocate the head offices had to be made. This further affected the market's perception of Opportunity International as a key player and introduced a component of negative publicity due to the related reputational risks associated with the historical performance of WEDCO. The high cost operating structure was yet another challenge with the hiring of costly expatriates to run a relatively small business and in addition to inaccurate and unrealistic budgeting. The Regional Relationship Manager observed that to date, the business growth is confined to the previous areas of dominance of both acquisitions thereby an inability to penetrate new regions being a core challenge.

4.9.8 Branding Challenges

The Regional Relationship Managers concurred that branding challenges had taken a toll on the organization with the frequent name changes resulting to unclear brand identity. The brand changes were related to the changes in business names as well as the changes in operating methodology. The branding continues to improve over time with increased brand awareness but there still exists strong associations with the previous brand names amongst staff and customers. Unfortunately, where legacy issues were mainly negative, the brand association of Opportunity International with the malpractices and negative images were not working well for the new entity. Frequent name changes also affected service providers, licensing authorities and suppliers including banks, tax authorities and competitors. Additional efforts to present unified brand taglines and colours remained elusive during the integration process and this continues to be addressed through developing a strong brand image and personality of Opportunity International in Kenya.

4.9.9 Communication Challenges

There was heightened need for formal communication during the pre and post event but this was not handled optimally thus creating a lot of loopholes and room for rumours and grape vine. The Chief Finance Officer cited instances such as the relocation of the head office from Kisumu to Nairobi in 2009 as a period of great anxiety and tension amongst staff as no formal communication was provided to assure the staff, customers or the general public. Where formal communication was done particularly on changes in operating policies and procedures it was often done at a fast pace that occasionally left staff unsure of the prevailing policies. The Regional Managers observed that by the time the first memo was circulated, it was shortly replaced by another one giving conflicting instructions thus comprehension by staff was not maximized.

4.10 How Opportunity International Addressed The Challenges

Upon experiencing these challenges during the process of mergers and acquisitions of Wedco and Sunlink, Opportunity International's management made conscious attempts to address them as follows below:-

4.10.1 Change Management Teams

Creation of a cross functional team chaired by the Chief Operations Officer which was charged with the responsibility of reviewing the business model, marketing, credit policy and procedures and proposing the way forward. The team came up with comprehensive recommendations some of which were adopted thus the general feeling was that staff opinions were highly valued by the management was achieved.

4.10.2 Changes In Leadership

The departure of the immediate former Chief Executive Officer together with a few of the senior managers was considered a positive move by most respondents. The new executive leadership was instantly able to bring closure on the two year long transition by giving clear objectives for the business resumption to normal mode. The gradual changes in senior management further cemented the visionary leadership of the Chief Executive Officer by availing practical solutions to business problems in addition to setting pace for business growth. This coupled with the change in management philosophy helped in the retention of employee focus and a general feeling of being highly valued and appreciated started to set in.

4.10.3 Structural Changes

The newly formed entity, Opportunity Kenya adopted structural changes to accommodate the different new roles by creating a position for the head of business, head of transformation, head of risk and two others for the regional managers. Additionally, centralization of data processing was embraced with the data processing department moving from the Operations to the Business Development department for synergies an operationally effectiveness. The Human Resource Manager observed that there was a commitment to retain most staff initially so that the best fit in terms of human resource talent would be utilized optimally. The new structures provided allowed for excessive talent to be redeployed from the diminishing positions while at the same time keeping most of the staff in the actual service delivery and minimizing the support team.

4.10.4 Closure and Relocation of Branches and Head Office

In 2009, the Opportunity Kenya head office was relocated from Kisumu to Nairobi for strategic reasons and for centralized control of the branch network. The relocation helped in bringing the management closer to the newly acquired business as well as closer to their families. A cost saving was achieved with regards to reduction in travel, accommodation and related expenses formerly borne by the company for its senior managers during official as well as personal visits to Nairobi. Strategically, the relocation improved the participation in industry affairs including in microfinance exhibitions, summits, conferences as well as in other such events. Additionally, the Opportunity International Wedco branch network was reduced from over 30 outlets to only 6 outlets through branch and field offices closures and these exits were necessary for business survival.

4.10.5 Integration Of Systems And Procedures

The review and synchronization of systems, policies and procedures was yet another response to the initial challenges of the M&A activity whereby a review of the lending program, finance policy, information technology, audit procedures and overall conduct of business was done to improve efficiency and eliminate process bottlenecks. The movement of accounting, loan tracking and payroll processing activities to one common information technology system was embraced as a way of consolidating the reports in addition to the centralization of the data entry operations. Opening of new bank accounts as well as the phased closing of the others was also done as a means of centralizing the financial control. At the same time, Opportunity International negotiated with the local banks to provide custom made deposit slips for use by the customers thus easing the transitioning process in the bank accounts openings and closures.

4.10.6 Business Re-engineering Process

The Regional Relationship Managers concurred that the business reengineering was helpful to have both business models evaluated and a common hybrid model adopted. The entire process involved product refinement, improvement of official forms, process mapping, procedures manual consolidation and staff training. All these enabled the business growth to take off while adopting new ways of doing tasks that resulted in increased efficiency and use of technology to replace manual processes. Some of the new changes included the elimination of the risky cash handling and replacement with other electronic forms of loan disbursements and repayments. This helped focus the loan officers to their core duty of marketing and customer service as opposed to data entry and cash handling. As a result, higher staff productivity was achieved across the organization.

4.10.7 Rebranding

A brand champion was nominated to standardize branding across the organization. This helped in eliminating the different branding as held by the previous organizations and forged the adoption of a common tagline, brand colour, marketing materials and general outlook. It was further extended to the branded stationery, branded uniforms for staff and the branded give away merchandize for customers. Further investment in creating similar branch outlook, a new head office as well as branded marketing materials created the image of one organization and the market continues to see the emergence of Opportunity Kenya as a strong brand in the microfinance business.

4.10.8 Training

With the changes having been experienced, there was need for additional training and the Human Resources Manager pointed out those training budgets and schedules were prepared for the different cadres of staff. This training were initially focused on the new roles and responsibilities and was extended to customers during group leaders forums as a means of creating further information and awareness of the newly formed organization. Team building activities were embraced both as a means of improving communication and unity amongst all staff and alleviating staff anxiety. Additionally, the team building served as a cultural audit for understanding the differences in organizational cultures and creating a way forward on the desired institutional culture.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to establish the application of mergers and acquisitions by opportunity international Kenya with a view of establishing the Government policies that affect mergers and acquisitions in the organization, the benefits that resulted from the merger with WEDCO and the acquisition of SUNLINK. Also the study will did an analysis of key challenges encountered during the mergers and acquisitions.

5.2 Summary Of The Findings and Conclusions

The study concludes that mergers and acquisitions continue to be a dominant growth strategy for companies worldwide. This is in part due to pressure from key stakeholders vigilant in their pursuit of increased shareholder value. This study in particular intended to investigate mergers and acquisition between Opportunity International, WEDCO and SUNLINK and its related issues.

The study started by exploring the government regulations that affected opportunity international during the mergers and acquisitions and found out that Restrictive Trade Practices, Monopolies and Price Control Act which is an Act of parliament that encourages competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and connected purposes. Capital Market Authority Act and the Capital Markets which regulates Take-

Overs and Mergers, the 2002 regulations that set out rules governing takeovers and mergers in Kenya and finally Central Bank of Kenya Act that governs and regulates the banking sector and is applicable to mergers and takeovers involving financial companies are some of the government operations that affected the activity. The study also sought to find out the motives behind mergers and acquisitions by Opportunity International and found that one of the most common motives for merges was growth, companies join synergies in the market in order to exploit the full potential of the industry, the study went further to explore the drivers of mergers and acquisitions and found four which are firm-level drivers, technology drivers, market drivers and industry-level drivers.

The study also sought to know the benefits that Opportunity International achieved as a result of mergers and acquisitions. The study found out that the benefits or gains that Opportunity International achieved from the merger included synergy, operating economies of scale, increasing focus and eliminating poorly performing units thus increasing managerial efficiency while creating a particular organizational structure at the same time. Opportunity International was also able to increase profit, take advantage of market conditions, seeking tax advantages and restructuring capital. Finally the study investigated the challenges the companies encounter during mergers and acquisitions and identified the following challenges; cultural challenges, political challenges and task related challenges.

5.3 Recommendations

The following recommendations are offered to Opportunity International which it will need to consider in effecting successful mergers and acquisitions in future: -

5.3.1Transition

The transition time is the period between the identification of an M&A target and the actual closing of the M&A deal. The characteristics of this period are: prolonged negotiations by the shareholders, widespread anxiety, and heightened response to every nuance, suspicion and pre-occupation with new appointments. Employees seek to interpret the signs of new appointments, allocation of offices, plans for closure and relocation. Worst-case scenarios are rife as re-structuring takes place and new networks and alliances are forged. For many organizations, closing the deal has absorbed most of the company's energy and, where the emphasis has largely been legal and financial detail yet the real work has to begin on the delivery of promises. HR teams often find themselves in the front line in meeting commitments they have not been party to making, while also being uncertain about their own jobs.

Transition periods vary in length and intensity but it is estimated that around 80% of all changes occur in the first 3 months of a merger. Perceived wisdom in many sectors, particularly among the financial organizations within the working group is that 'speed' is the most important factor in post-merger re-organization. Prolonged negations during the period preceding a Share Purchase Agreement contribute to immense anxiety for the staff of the acquiring and acquired organization and the need to have focused negotiations is highly recommended.

5.3.2 Culture Audits

Cultural issues are frequently cited as the most common cause of merger failure. Best practice shows that explicit programmes to manage cultural integration reduce the risk of failure. It is essential that merger managers have a good understanding of their own organization's culture(s) and that they are able to assess the likely 'hot spots' between the two organizations ways of doing things. This is part of a detailed risk assessment and involves looking at issues such as: Management styles – matrix, consensus, and hierarchy, acceptance of accountability, employee motivation, teamwork and impact of redundancy in local cultures, decision-making styles and willingness to change. This also means identifying aspects of organizational culture which are effective and should be kept. While no culture may be perceived as superior, it is detrimental for the acquiring company to take a stand that the culture of the majority is indeed right. Striking a balance between the different cultures in order to blend their diversity may prove more beneficial though time consuming. Unfortunately, there exists no two organizations that are similar in every aspect organizational culture thus the complexities surrounding culture audits and integration is more real to executives post the M&A activity.

5.3.3 Integrating and Retaining Talent During The Merger

Human resource leaders should play a key role in helping senior management identify, involve, and assess the key executives and other critical talent who will be vital for the success of the new business. The Human Resources Manager should define the future roles of executives, define management capabilities, identify individuals who will be critical and any capability gaps that will need to be filled, determine actions required to retain key individuals through the merger and finally establish ways to share knowledge and learn from each other since capable leadership is vital for the success of a merger.

The selection process should be based on objective assessment of skills and competencies while the process for appointments remains timely, fair and rational. The human resource leaders should lead the way for special compensation arrangements, including retention bonuses and special grants of stock options. They should also emphasize involvement of people and effective communications. Ultimately, the human resources manager should have pre identified the new organizational structure beforehand so that staff get a clear picture of the future opportunities for their career development within the organization. Where layoffs are anticipated, the same should be expressly communicated to the concerned employees and the entire company to eliminate speculation and staff anxiety.

5.3.4 Enhanced Communication

While communications is critical in any business change, mergers require extraordinarily effective communications and change management. The Human Resource Leaders can play a proactive role in managing expectations since both the acquiring and acquired organizations want to know how the merger will affect their jobs, their pay, and their careers. The management should help shape plans for regular, candid, and consistent communications with employees regarding merger progress and specific merger issues without restricting information flow. Information should be provided in multiple ways, in the right forums for the organization, including group meetings and one-on-one, memos and it must be interactive. More broadly, employees provide genuine insights into potential barriers and opportunities that may enhance merger integration. The leaders must enthusiastically sell to the employees the rationale of the merger, the benefits anticipated, and the key milestones of merger integration. Open, honest and candid communication is far more powerful as a motivational tool than most managers recognize.

5.3.5 Aligning The Organizational Structures, Systems and Processes

Because much of the value of a merger lies in achieving synergies, it is vital to determine the extent to which the organizations will be integrated and how this integration will be achieved. The Chief executive officer and his team should examine the infrastructure of each organization, determine what is required in the future for the new organization, and address the differences or gaps. To build a high-performing organization, it is necessary to align the organization structure, business processes, people and culture with new strategy. In acquisitions, many companies plan to put all of their entities on the same common information management systems, thereby avoiding redundancies and costs. In other situations, acquired organizations are encouraged to retain their identity and conduct business in the manner appropriate to their markets and functions. This approach simply requires more investment of time and effort to engage staff and build a "new organization" from the best of two.

Project teams should spend considerable time examining the quality of both sides systems and processes. This approach implicitly focuses on differences between the organizations and encourages each side to argue the merits of their current practices. Ultimately, because neither side is likely to be world class, the parties may work to identify a "new and better" approach by absorbing what is commonly considered good practice by selecting the best processes and practices of both organizations. The resultant synergies are expected to further align the organization's structures, systems and policies to the newly formulated corporate strategy. Training of all organizational members is important both for orientation into the new organization as well as introduction of the new order.

5.3.5 Quick and Effective Integration

It is far better to mesh the businesses quickly and then pursue refinements later because the actions by management in the first hundred days, greatly influences the success of the deal thereafter. This "honeymoon" period goes by quickly, and unless plans are in place or underway, this window of opportunity to establish a sound foundation and achieve early results will be lost. A dedicated integration management team should be identified to co-ordinate the integration by orienting employees to the new organization and the vision of the future quickly and directly, establishing a sense of urgency to act, building an enthusiasm for a successful merger completion, setting clear objectives and hold individuals and teams accountable for achieving them. Communicate clearly, honestly, and frequently; clearly explain decisions once they are made, keep senior management on both sides highly visible and involved and change plans if conditions change or if obstacles are insurmountable.

A period of six to nine months is ideal for implementing a merger. It is not just the organization's eagerness to move ahead swiftly. However, there is a tendency in many situations for executives to be forceful and directive in implementing changes, with minimal involvement of lower-level managers or employees. This may be appropriate in some situations but not in others since employee participation generates ideas for improved integration and builds support for rapid integration. To develop effective merger implementation plans and to ensure that those plans are executed organizations like opportunity international should utilize merger integration teams and assign merger integration responsibility to specific executives. Here again, lower level manager can help the teams to work effectively and swiftly by facilitating their work or by actually serving on such cross functional teams.

5.3.6 Due Diligence Checks By Both The Acquired and The Acquirer

While not all reasons for M&A failure are easily detected during the due diligence process, a number of the issues that result in integration challenges can be averted if the due diligence was done by both the acquiring and the acquired firms. The average due diligence exercise is statistical and involves only the management team with results thereof being confidentially delivered to the shareholders. This in turn deprives the management teams of both organizations the benefit of learning from the available literature as well as the insights on the areas of opportunities and threats that the new business should focus on addressing upon implementation of the M&A. It is evident that both M&As by Opportunity International in Kenya were wanting in this aspect and the resultant negative performance could have been as a result of this initial oversight.

5.4 Recommendations for Further Research

The debate on whether mergers are an effective growth strategy would appear to be far from over, the main reason for this being the lack of empirical studies; as literature on mergers has tended to focus on the theoretical and statistical aspects. There exists a research gap on the benefits of mergers and acquisitions, although mergers are seen as one of the possible routes to high growth theoretically, but the empirical work does not provide any clear cut arguments in favor of a presumption that their operations are generally efficient. However, there is a notable absence of studies into the actual reasons given by companies for engaging in mergers thus much more needs to be done on the practical aspects of mergers and acquisitions. Management of the post acquisition is an area that can provide further research, as it is both broad and contains major challenges to the success of any merger or an acquisition.

5.5 Limitations of The Study

The main limitation in this research project was lack of institutional memory for the 2006 and 2008 M&A activity as none of the respondents were in employment during 2006 merger while in 2008, only two of the respondents held executive management positions. Additionally, there were no documented reports or primary data to confirm most of the findings and the information has been mainly gathered by the executives in the course of doing business. Another limitation is the fact that the researcher is a member of the executive management committee and as such the respondents may have withheld strong personal opinions or the interpretation may have lacked objectivity given the institutional knowledge already held by the researcher.

5.6 Implications of The Study on Policy, Practice and Theory

The implications of the findings of this study on the policy, practice and theory of mergers and acquisitions is that M&As despite being high volume in nature have their inherent challenges which can be used by policy makers to avoid devaluation and tax avoidance. The case of SUNLINK which was previously profitable and paying taxes to the government and become loss making immediately after acquisition would be an indication of instances where value addition model is not seen to apply but instead the government losses the tax income into the far future owing to the loss making nature of the combined organization. The adoption of M&As as market entry strategies can be further critiqued as it would have been appear more straightforward to grow through a greenfield investment as opposed to dealing with perpetual legacy issues from the acquired firms. While M&As are considered a fast way to grow, all care should be taken and the acquired business managed as if it were a new investment as opposed to the assumptions on a going-concern entity.

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APPENDICES:

APPENDIX I: INTERVIEW GUIDE

SECTION A: BACKGROUND INFORMATION

1. What is your name?
2. What is your gender?
3. What is your age?
4. For how long have you been working for Opportunity International?

SECTION B: MERGERS AND ACQUISITIONS

5. Are you aware of any government policies that regulate mergers and acquisitions in Kenya? If yes, list them.
6. What are the key driving forces behind most mergers and acquisitions in Kenya? Cite some examples.
7. What were the main reasons for the merger/acquisitions in Opportunity Kenya?
8. Were you consulted during the merger and/or acquisition?
9. In your own view, did the merger have any gains?
10. If yes, describe briefly the gains brought about by the mergers and acquisitions.
11. What impact did the merger have on the operational and financial performance of Opportunity Kenya?
12. What were the challenges faced by Opportunity International when penetrating the Kenyan microfinance market through mergers and acquisitions?
13. How did Opportunity International deal with these challenges cited above?
14. If the merger and/or acquisition were done all over again, what could you recommend to be done differently?

Thank you for your cooperation.

APPENDIX II: INTRODUCTION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE ....

TO WHOM IT MAY CONCERN

The bearer of this letter ... LYDIA WAMBAIRE NJOROGE ...

Registration No. ... D61/9133/2005 ...

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

APPENDIX III: ACCEPTANCE LETTER

Opportunity
KENYA
MICRO LOANS

9th September 2011

To
Lydia Wambaire Njoroge,
c/o University of Nairobi,
School of Business,
MBA Programme,
P.O Box 30197,
NAIROBI.

Dear Lydia,

RE: APPROVAL TO COLLECT DATA

Further to your request to conduct an academic research project on" mergers and acquisitions as strategic options for Opportunity International's entry in the Kenyan microfinance industry", this is to let you know that your request has been accepted by Opportunity Kenya.

Pursuant to the pre-requisite course work of your Master of Business Administration with a specialization in strategic management, you are allowed to administer the questionnaire to all the member of the senior management team of Opportunity Kenya Ltd.

You are hereby requested to share with us the information collected before it is published, for our own proper records.

Wishing you all the very best in your future endeavors.

Yours faithfully,

Alexander Mbaye
Human Resources Manager

1st Floor, Geomaps Centre, Matumbato Road, Upper Hill
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Tel: 2720159/69 Fax: (020) 2720173 Cell: 0722 205 171 / 0733 609 996