CHALLENGES OF THE ACQUISITION STRATEGY AND PERFORMANCE OF LARGE FAMILY OWNED FIRMS IN NAIROBI CITY COUNTY

BY

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A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2018

DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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D61/85770/2016

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

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DEDICATION

This project paper is dedicated to my very supportive husband Evans Mulinge, who has encouraged and supported me throughout this master's degree course. He has been, and still is, the pillar of strength in my life. I thank you.

To my parents and friends, finishing this project would have been impossible if it were not for your constant impetus in concluding this project. Also for your wonderful support and great input, you are much appreciated.

ACKNOWLEDGEMENT

To God, who made all this possible. All glory unto him.

I would like to thank Professor Z. B. Awino, first and foremost, who agreed to be my supervisor. I am grateful for his systematic guidance constructive criticism, open door policy and above all for his time and effort as he supervised me throughout the project process.

I would like to acknowledge some of my classmates who encouraged me to finish what we started together. Thank you all.

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ABBREVIATIONS AND ACRONYMS

ILO	International Labour Organization
R&D	Research and Development
SMART	Strategic Management and Reporting Technique
UK	United Kingdoms
GDP	Gross Domestic Product
RBV	Resource Based View Theory
M & A’s	Mergers and Ac

ABSTRACT

The main objective of the study was to explore the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. This study used a descriptive survey research design. This study target population was large family owned enterprises in Nairobi City County. The study selected 57 large family owned enterprises in in Nairobi City County. The sampling frame was the 57 large family owned enterprises in Nairobi City County. The study did a census of all the 57 large family owned enterprises. Primary data was used for the study. Structured questionnaires were used to collect primary data. The questionnaires were administered to owners of the large family owned businesses. Quantitative data gathered was analyzed using SPSS version 20. Data analysis encompassed both descriptive and inferential statistics. The descriptive analysis included frequencies and percentages while the inferential statistics included correlations and regression analysis. The study concluded that there exist challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. These challenges included due diligence problems, integration challenges, cultural system challenges, and management challenges. The study also concluded that the effect of these challenges on the performance of large family owned firms in Nairobi City County was negative. The study also concluded that management challenges had the greatest effect, followed by cultural system challenges, then integration challenges and due diligence problems came in last having the least effect. This points out that for the acquisition strategy to be effective, these large firms should endeavor to minimize these challenges in this order.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Acquisition is a special form of endeavor through which one company takes over another business (Granata & Chirico, 2010). It represents a common but risky way for businesses to expand and also compliment their already available resources. Although there are benefits associated with acquisition, the rates of failure are also claimed to be very high, ranging between 50 and 80% (Hitt, King, Krishnan, Makri, Schiiven, Shimizu & Zhu, 2012). For the industry giants and ambitious start-ups alike, no company can go it alone, according to Lebedev, Peng, Xie, and Stevens (2015) acquisitions are formed to facilitate entry into new markets and to reduce operational costs. Acquisitions have therefore been seen as an effective strategy for entry into foreign markets by multi nationals. In today's competitive market, companies seem to be appreciating the role of acquisitions in a bid to stay relevant and maintain market share, however, it may be possible that firms may opt to go it alone and still be successful, this however may not be sustainable as at a certain point in the growth of a firm, it will meet stiff competition and may need a partner with whom to join hands in a strategic partnership of sorts (Niedermeyer, Jaskiewicz & Klein, 2010).

Several theories have emerged expounding on acquisition strategy and performance of organization. The agency theory stipulates that there is an office relationship that emerges when at least one principal (e.g. a proprietor or owner) engage someone else as their agent carry out a role that will benefit them. Some basic decision making authority is given to the agent in order to execute the role. This implies that the owner requires to instill trust in the agent or operator to act in his best interest (Tsuji, 2011).

A simple agency model suggests that, because of data asymmetries and self-interest, owners require motivations to trust in their agents and will attempt to decide these stresses by setting up components to change the interests of agents. The agency theory's main assumption is that principals and agents are all rational and wealth-seeking individuals who are trying to maximize their own utility functions.

As indicated by differential theory of acquisition and merger, another purpose behind a merger is that if the administration of an organization X is more productive than the administration of the organization Y, it is better if organization X acquires the organization Y and increment the level of the proficiency of the organization Y. Anyway there is one hazard to this, which is if the acquiring organization pays excessively to secure the organization, yet in all actuality the assets don't get used in a way which is determined then it can prompt issues for gaining organization (Pandey, 2008). The managerial hubris Roll (1986) theory implies that the management might have great purposes in raising the worth of their firms but, because of having excessive degree of confidence; they over-gauge their abilities to make collaborations.

The differential efficiency theory establishes an approach based on psychology, to explain acquisitions and Mergers. The theory states the capacity to assess potential acquisition targets may be over rated by the management of acquiring firms. Decisions, full of errors and which are overpriced are as a result of this managerial over optimism (Trautwein 1990). This theory can be helpful especially whereby a company takes over another company in the same industry simply because it implies that the company which is taking over the other company is able to expand without much costs due to the efficient utilization of all the resources.

The aim of the current research aims at exploring the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. The independent variable for this study are the challenges of the acquisition strategy as measured by cultural systems challenges, management challenge, and integration challenges and due diligence problem. The dependent variable is the performance of large family owned firms in Nairobi City County.

The challenges of the acquisition strategy are even more acute in large family owned businesses (Astrachan, 2010). Indeed, Acquisition process reveal both the threats and possibilities for large family owned firms, but additional questions need to be answered for family firms in relation to the challenges encountered in the acquisition process. In case of a generational transition, Acquisition can give family firms a successful exit (Weber, 2015), and also possibilities for quick external growth. Nevertheless, their ownership power may be diluted by acquisition (Basu, Dimitrova and Paeglis, 2009), the family autonomy and the financial security, hence destroying the family legacy continuity. Family owned firms, in the recent past have been actively involved in acquisition transactions (Family Capital, 2015).

Wee and Ibrahim (2012) defined a family business as the one made with the objective to seek after and pursue the goal of the firm held by a dominant alliance, influenced by people from same family or a few families with the vision which is maintained over the ages of the families. Buang et al. (2013) revealed that by taking the business as a family employment orientation institution, founding families can work to benefit their own interests easily at the expense of the other shareholders. Average or below average financial performance was more likely recorded by family firms than non-family firms.

Acquisitions are mostly attractive in growth strategies because of the fact that they are quick to achieve this through acquisition of existing businesses in comparison to internal option of building internal capacity by the purchase of assets, it also allows for firms to gain access to scarce raw material access as well as to distribution networks (Jones & Miskell, 2007). The current study aims at exploring the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County.

1.1.1 Acquisition Strategy

Acquisitions can be seen as an alternative to strategic alliances, according to Doz and Hamel (1998), acquisition is a tool that mainly leads one to get much for a higher price than one requires. It may also be noted that the possible reasons for one going into acquisitions is to enjoy relatively favorable business environment through joint decision making, bargaining, pricing and reduction of unnecessary competition. Doz and Hamel (1998) further argue that as companies also seem to focus on major competencies, it makes little sense to get only a portion of business which is alienated from its supportive competencies; this in turn may result to acquisitions, even when it is not practicable to do so. Acquisitions are an important portion of corporate strategy which has both esteem to the economy as a whole and the specific business in question (Singh, 2012). It has also been seen that the skills and resources essential for a firms' existence are sometimes in existence from the outside of the firm thus out of management control and reach, as a result, in this world we live in today, networks, coalitions, alliances, strategic partnerships are no longer an option but the norm and sometimes a necessity for survival (Cartwright & Cooper, 2014).

This seems to suggest that given the high competitive nature of business today, businesses need to think quickly and make decisions without delay on their new strategies that they plan to adopt so as to stay ahead of the game. It is in doing so that the thought acquisitions come into play as other firms are bound to add value into the competitiveness of a given firm in the enhancement of its product portfolio or service offering (Bena & Li, 2014).

Some of the characteristics of acquisitions include; the creation of greater uncertainty and imprecision in the business after the acquisition as a result of confusion of leadership; the manner in which value is created vis-a viz the way in which partners capture it is not pre-ordained; relationship management is normally more crucial than crafting the first formal design, hence the challenge is to have a management team that understands the challenges encountered in acquisition setups; and lastly from the fact that over time, the initial agreements have less to do with success than does the adaptability to change (Galpin & Herndon, 2014).

1.1.2 Challenges of Acquisition Strategy

In as much as growth by acquisition is highly acclaimed by most firms that enter into acquisition, there are certain challenges that do apply, one of the key challenges would be in the availability of competent managers capable of running the firm through an acquisition process (Inoti, Onyuma & Muiru, 2014). There can be integration challenges that results from restructuring process. They can also be challenges related to management challenges and resource mobilization. There are also negotiation and restructuring challenges (Ogada, Njuguna & Achoki, 2016).

Furthermore, it's important for a growing business to locate a merger that clearly satisfies its strategic goals in regard to the planned increase size desired in terms of output, range of products sought, technology required, functional strengths needed as well as management style to be used. Such requirements are not easy to satisfy hence a great challenge to many organizations undertaking this strategy (Howe, 1986).

According to Saruni (2006) financial success in an acquisition requires careful combinations of complementary or related resources, paired with suitable gearing, organizational fit, friendly negotiation climate as well as managerial actions that aid the combined firm achieve its potential synergies. Here, the author seems to suggest that many acquisitions fail as a result of the lack of co-ordination of all these factors.

This is seen to be true because in most cases, as companies go into joint ventures, there is bound to be many differences in culture, perception, work ethics and many other aspects that if left unchecked or catered for would probably be the down fall of the acquisition (Asimakopoulos & Athanasoglou, 2013). Some of the key factors that are seen as challenges of an acquisition exercise as well as maintenance of the same; every organization has its culture, this is a way of life for the members of staff and how they do things in the organization, this can be a challenge in most acquisition exercises because of the fact that two different organizations will most likely have different cultures.

1.1.3 Acquisition Strategy and Organizational Performance

Acquisitions are corporate strategies that are important to any firm that is looking to grow in today's competitive market, according to Howe (1986), both the economy and the individual firms, it is paramount that acquisition decisions are done on effective implementation and on a rational basis.

When we narrow down to acquisition, Howe (1986), puts more emphasis on this strategy and mentions that it can be suitable for achievement of certain corporate objectives but with a lot of caution, he puts emphasis on the necessity to have a road map in context of entire corporate agenda, put into consideration advantages of acquisitions, develop clear acquisition criteria which are adopted in choosing corporate partners as well as invest in managerial resources (McConaughy, Matthews & Fialko, 2001).

Acquisitions have been known to produce value if competitive advantage of a firm is increased by means of the transfer of strategic capabilities (Saruni, 2006), he further argues that firms, by accessing resources and capabilities from the acquired firm, can obtain a competitive advantage, which turn out to be an asset for the acquisition, hence they have to be uncommon, imperfectly imitable and in equivalent substitutes and have to be of value when they are applied to the market (Arregle, Hitt, Sirmon & Very, 2007).

The other justification of acquisition, which may be selfish to the shareholders of the firm, is the acquisition of power, prestige as well as reduction of competition in industry by acquiring major players in the firm, according to Saruni (2006), an increase in the market power or influence in the external environment leads to the motivation for an acquisition to take place, so as to keep up with the hostile competitive environment (Bertrand & Schoar, 2006). This means that value is in most cases created when the assets of the target and biding firms are used more efficiently by the combination of the two firms than if they were to do so alone. Through acquisition, there is increased resource pool, reduced market completion and new acquired management skills that tend to boost the performance of a firm (Sirmon & Hitt, 2003).

1.1.4 Large family Owned Firms in Nairobi City County

Family enterprises play a significant but commonly overlooked part in the new global economy. Research in the developed and western countries shows that family firms have a major influence on the growth of economies (Ibrahim et al., 2001). One of the measures of this contribution is the percentage of family business to the registered companies; this ranges from about 75% in UK up to over 95% in Middle East, India and Latin America (Cadbury, 2000). In Sri Lanka, the total contribution of family enterprises to GDP was between 40 to 60 percent (ILO Report, 2000).

Wee and Ibrahim (2012) defined a family business as the one made do with the objective to seek after and pursue the goal of the firm held by a dominant alliance, influenced by people from same family or a few families with the vision which is maintained over the ages of the families. It is the intersection between the family, family members and the business that is believed to depict the peculiar set of characteristics that explain differences in performance between family and other businesses (Wee & Ibrahim, 2012).

It is critical to recognize family businesses in that they make crucial contributions towards the economic growth of a nation (Wallace, 2010). Therefore, it is too simplistic and convenient to explain family business purely in cultural terms (Wee & Ibrahim, 2012). The definitions of success previously used in family business research in most cases are ambiguous, taking in consideration that each business strives to achieve many differing financial and nonfinancial objectives (Wallace, 2010). Family managers and family owners might not be profit-oriented always, as the family business believes they must satisfy deep emotional and social needs of members of the family such as affection, intimacy, the need for belonging, and sense of identity (Phillips, 2012).

1.2 Research Problem

Given the high competitive nature of business today, businesses need to think quick and make decisions without delay on their new strategies that they plan to adopt so as to stay ahead of the game, it is in so doing that the thought acquisitions come into play as other firms are bound to add value into the competitiveness of a given firm in the enhancement of its product portfolio or service offering (Bena & Li, 2014). It has also been seen that the skills and resources essential for a firms' existence are sometimes in existence from the outside of the firm thus out of management control and reach, as a result, in this world we live in today, networks, coalitions, alliances, strategic partnerships are no longer an option but the norm and sometimes a necessity for survival (Cartwright & Cooper, 2014). Acquisitions are a pivotal part of corporate strategy as far as the economy as a whole and the individual business in question are concerned. It is through acquisitions that firms can achieve corporate goals while holding control of the firm (Singh, 2012).

Family enterprises in Nairobi City County play a significant but commonly overlooked function in the new world economy. Research in the developed and western countries shows that family firms contribute to the majority of the businesses and they have a major influence on the growth of the economies nationally (Ibrahim et al., 2001).

Buang et al. (2013) revealed that by taking the business as a family employment orientation institution, founding families can work to benefit themselves instead of the other shareholders. Previous studies have laid their focus on aspects of implementation of the acquisition strategy and not on the challenges in acquisition strategy particularly in the Nairobi city county context.

There are therefore significant research gaps along theoretical, conceptual, contextual and methodological spheres which is what this study sets to investigate. Ugwuanyi (2015) examined the relevance of acquisitions and mergers on the performance of money banks deposits using facts from the Banking Industry of Nigeria. It was revealed from the results that the market performance after acquistion of the two banks significantly improved. The study has a Nigerian context whereas the current one is in Nairobi City County. Secondly the study involved secondary data whereas the current one uses primary data that is collected via a questionnaire.

In a study to evaluate impacts of acquisitions and mergers on Kenyan oil firms' financial performance Mulwa (2015) conducted an all wide industrial analysis of the oil sector. The results showed that, in general, the petroleum firms performed poorly in the post-acquisition era compared to the pre-acquisition era. Whereas this study was conducted in Kenya, but it targeted the petroleum sector using secondary data, the current study is targeting family businesses in Nairobi City County. Contextually, a study by Owuor (2004) on strategic alliances shed some light on the challenges and issues underlying the acquisition strategy in Kenya, he found that clash in cultures of the partner organizations, lack of trust between organizations as well as lack of clear goals and objectives are some of the challenges that stand out in mergers and acquisitions in Kenya. This study was on public firms and not on family based firms. Wesonga (2006) concentrated heavily on determinants of the acquisition strategy however the study touched little on the challenges of the same and the above studies never handled family related business. None of these studies conceptualized the alignment between challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County.

There are also methodological gaps. The study by Mishra and Chandra, (2010) evaluated the effects of acquisition and merger on the financial performance pharmaceutical companies of India between 2000–01 to 2007–08. Using panel data estimation systems, it was understood that the benefit of a firm relies specifically on its selling effort, size and imports and export but inversely on their interest for the items and market share. The current study employs a descriptive research design and collects primary data to establish the alignment of the study variables. The empirical evidence in Nairobi county context is scanty.

None of the previous studies concentrated on the acquisition challenges facing large family owned businesses and the impact of this on performance. This study is an attempt to address the gaps demonstrated along theoretical, conceptual, contextual and methodological fronts by establishing the alignment between the challenges of the acquisition strategy and performance of Nairobi City County's large family owned firms. This study tries to find the answer to the research question; what are the challenges of the acquisition strategy on performance of Nairobi City County's large family owned firms?

1.3 Research Objective

The objective of the study was to explore the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County.

1.4 Value of the Study

Research results informs policy makers on the benefits and challenges associated with firm acquisitions. The study findings enhance understanding of the family firms allowing business schools to establish proper assistance programs and the government to generate policies that support growth and sustainability of the family businesses.

The research contributes to theory and practice. The study is expected to make a contribution to the theories underpinning it. The study informs the agency theory, the differential efficiency theory and the theory of managerial hubris. The theories are widely used in explaining acquisition strategy.

For the scholar, the study is a ground of further research, source of literature and empirical references and it acted as an eye opener. To academicians, the study adds value to the already existing frame of knowledge in the area of the challenges affecting the acquisitions strategy. On the other hand, the study acts as a source of reference and may inform future studies in the same area of acquisitions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The section entails the empirical review of literature on acquisition strategy theoretical framework, performance of large family owned firms in Nairobi City County and their relationship. The chapter further presents conceptual framework and critique of existing literature and the research gap. A review of both empirical and theoretical literature also explores the challenges of the acquisition strategy and performance of large family owned businesses in Nairobi City County.

The chapter starts by examining the theoretical literature review in which the theories that support the study are agency theory, differential efficiency theory and the Hubris theory. The chapter presents the linkages between theoretical and empirical literature to establish the existing relationships among the variables.

The chapter lastly presents the conceptual framework which is a diagrammatic representation revealing the hypothesized relationship between the independent and the dependent variables. The independent variable are the challenges of the acquisition strategy as measured by Cultural systems challenges, Management challenge, and integration challenges and due diligence problem. The dependent variable is the performance of large family owned firms in Nairobi City County.

2.2 Theoretical Foundation

Literature review basically identifies and examines the work done by other researchers and scholars concerning the challenges of the acquisition strategy and performance of large family owned firms. This review provides comprehensive knowledge of what has been done and act as a basis upon which the study findings are interpreted and also to overcome the previous studies' limitations. The following section describes and discusses different theories such as the hubris theory and size and return to scale theory.

2.2.1 Agency Theory

One imperative point of view of study on acquisitions and mergers is financial economics whose objective is to improve riches for the general economy and investors. The hypothetical foundation of this is the agency theory.

An agency relationship arises when at least one principals (e.g. a proprietor or owner) engage someone else as agent carry out a role that will benefit them. Some basic decision making authority is given to the agent in order to execute the role. This implies that the owner needs to put trust in the agent or operator to act in his best interest (Tsuji,2011). A simple agency model suggests that, because of data asymmetries and self-interest, owners require motivations to trust in their agents (Arnold, 2004).

Agents are probably going to have differing thought processes to owners. They might be influenced by variables like monetary prizes and associations with different parties that are not directly applicable to the owners. Agents may also fear the risks as opposed to owners. Because of these contrasting interests, agents may have a motivating force to bias the flow of information. Tsuji (2011), agency costs and the agency theory are vital issues both in corporate administration and capital structure.

The division of proprietorship and control in a company, which is a wellspring of agency conflict, may prompt supervisors' inadequate work effort. All the more solidly, these agency clashes bring about picking data sources or yields that suit managers' own interests, and an enterprise neglects to boost its value. The agency cost hypothesis of M&As contends that takeover movement frequently comes about because of acquiring firm administrators' keeping their best interests in mind as opposed to the interests of the company's owners Shleifer and Vishny (1988 and 1989).

Managers likewise may purposefully acquire organizations that require their own abilities with the end goal to make it expensive for investors to replace them. To the degree that M&As are principally spurred by administrative self-interest, they are probably not going to create working or money related collaborations that prompt enhancements in effectiveness or efficiency. Therefore, the above theory is very relevant in understanding the various challenges in the acquisition strategy and their influence on performance of large family owned firms in Nairobi City County.

2.2.2 Differential Efficiency Theory

As indicated by Differential Efficiency Theory of merger and acquisition, one purpose of merging is that if the administration of an organization X has more productivity than that of organization Y, it is better if organization Y is acquired by the organization X and increment the proficiency of organization Y. As indicated by this, theory if a few organizations are working at a level that is underneath the ideal capability of an organization then it is better on the off chance that it is assumed control by another organization. This theory likewise suggests there are dependably risks that will be assumed in the control of different organizations (Leibenstein, 1978).

Differential theory can be especially useful when an organization chooses to assume control over an organization in a similar industry in light of the fact that it would imply that organization which is assuming control over other organization can grow without much cost due to the proficient usage of the considerable number of assets. Anyway there is one hazard to this, which is if the acquiring organization pays excessively to procure the organization, however as a general rule the assets don't get used in a way which is anticipated that it can prompt issues for acquiring organization (Bruton, 1994).

As per this theory, a few firms work underneath their capacity and subsequently their effectiveness is low hence they might be acquired by others that are more productive in a similar industry. This is due to the fact that, organizations with more notable proficiency have the ability to determine the ones with great capability but functioning at lower productivity. In any case, a trouble would emerge in case the firm that is acquiring overestimates its effect on enhancing the execution of the firm that is being acquired. This may result in the acquirer paying excessively for the acquired firm. Then again, the acquiring firm will most likely be unable to enhance the acquired firm’s association's execution up to the level of the acquisition esteem that it is given (Barney, 1986). Operational synergies can arise from integrating activities of hitherto different units or from knowledge transfers (Porter,1985). The two kinds of operational synergies can reduce the expenses of the involved firm units or may enable the firm to offer peculiar products and services. These potential gains have to be weighed against the cost of bringing together or moving assets.

Chatterjee (1986) proposes a contrast exists between 'operative synergies' and 'effectiveness gains' accomplished using economies of scale and scope. As per him working synergies of mergers expresses that economies of scale exist in industry and that before a merger occur, the levels of movement that the organizations work at are deficient to use the economies of scale. Productivity gain result from working synergies realized through the exchange of information, economies of scale and economies of extension.

Pandey (2008) recommends that an integration of at least two organizations can cause beyond the normal financial execution because of expenses decrease and effective use of assets. This may happen in light of the apparent economies of Scale, Synergy and Operating Economies. M&As can build the piece of an overall industry of the consolidated firm. M&As might be completed with the end goal to accomplish a monopoly over the market. Market power may be gained through the purposeful supply reduction, cross-sponsoring items and discouraging possible market participants (Trautwein, 1990). These advantages are likewise known as conniving collusive synergy (Chatterjee, 1986). Efficiency theory relates to this research because it declares how businesses operating beneath their potential have low productivity. Those business may be acquired by more productive ones in similar industry.

2.2.3 The Hubris Theory

Managerial hubris Roll (1986) implied that managers can have proper motives in raising their firm's worth but, because of having excessive degree of confidence; they over-estimate their abilities to create synergies. The Hubris theory establishes an approach founded on psychology, to explain acquisitions and Mergers. The theory states the capacity to assess potential acquisition targets may be over rated by the management of acquiring firms. Decisions, full of errors and which are overpriced are as a result of this managerial over optimism (Trautwein 1990). Over-confidence increases the chances of paying more (Malmendier & Tate, 2008), and this leaves winning bidder in a winner's-curse situation that raises the failure probability (Dong, 2006).

In a winning bid and auction environment there is normally in excess of the approximated value of the target firm and may depict a positive valuation error. The 'winner's curse' is represented by the positive valuation error. The winner is cursed due to the fact that he paid more than the worth of the firm. Specifically, the hubris theory has it that when acquisition or merger announcement is done, a loss in terms of the share price is incurred by the shareholders of the bidding firm while those of the target firm mainly enjoy an opposite effect. The risk of potential failure increases in an auction. This situation forms the base of the winner's curse argument. The winner's curse argues that acquisition cost is higher than the value of a target traded in auction (Hernandez, 2007).

The Hubris theory establishes an approach based on psychology, to explain acquisitions and Mergers. The theory states the capacity to assess potential acquisition targets may be over rated by the management of acquiring firms. This study links the difficulties in managerial over optimism which result to erroneous decisions and form a foundation of understanding how other challenges influence performance in the endeavors of the acquisition. The theory thus is relevant to this study as it elaborates on the challenges that managers and stakeholders encounter in their endeavor to implement the acquisition strategy and thus the impact these have on family firms' performance.

2.3 Acquisition Strategy and Performance of Organizations

Acquisitions and mergers raises a company's competitiveness over other firms by means of broadening the portfolio to decrease business risk, gaining greater market share, capitalizing on economies of scale and entering new markets and geographies (Saboo and Gopi, 2009). The success of any merger is ascertained by parameters of competitive positioning due to cost leadership and product differentiation. This causes long-term profit creation (Hildebrandt, 2005).

The potential economic advantage of M&A's are changes that raise value that wouldn't have been made due to lack of a change in control (Pazarkis et al. 2006). Accordingly, Baldwin (1998) suggests that merged firms can also raise their bargaining power over suppliers through pooling their prices and forcefully causing the suppliers to sell their supplies to the integrated firm. The success definition varies, nevertheless, an undertaking that doesn't promote shareholders value cannot be termed as a success (Hildebrandt, 2005). A persistent decrease in wealth of the shareholder after acquisition can deem the process as failure (Straub, 2007).

Managers of firms undertaking mergers and acquisitions often anticipate an improvement in production efficiency. However, profitability still remains the highest influential variable while determining firms' growth through M&A in Nairobi City County. The main motive behind M&A's is to improve revenues and profitability (Gachanja, 2013).

2.4 Empirical Studies and Knowledge Gaps

A few studies have been carried out touching on the outcomes of the acquisition strategy and performance and the literature is presented below. However, most of these studies did not link challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. The methodologies and findings are included for the studies selected. Abdulazeez and Yahaya (2016) considered effects of acquisitions on performance of Nigerian Deposit Money Banks.

One of the objectives of the study is to evaluate the impact of Mergers and Acquisitions on the market share of Deposit Money Banks in Nigeria. The study used various market metrics of the chosen banks to analyze the market share of the banks before and after consolidation for the period 2002 to 2008. Four banks of Nigeria were chosen using purposive sampling technique. Secondary data from the accounts and the annual reports of the studied banks was used. The study data were analyzed through T-test statistics using SPSS. The findings revealed that the banks witnessed significant growth in their market share performance owing to merger and acquisition. The current study is carried out in Nairobi City County and aims at the challenges that are faced in the acquisition strategy. Moreover, this study used secondary data whereas the current study uses primary data collected using a questionnaire.

Gwaya (2015) studied the effect of acquisitions and mergers on Kenyan commercial banks financial performance. The study focused on banks that had engaged in M&A in Kenya between 2000 and 2014. The study applied census technique to include 14 banks that merged during the period. Data was collected using questionnaires. The descriptive statistics was used to analyze data with the aid of SPSS. This study concluded that mergers enhanced the market share performance of Kenyan banks that merged. The study majored on effect of mergers on performance of banks and never handled on challenges of the acquisition strategy, a gap that the current study aims at filling with the specification of large family owned firms in Nairobi City County.

Ugwuanyi (2015) investigated the influence of acquisitions and mergers on the performance of banks using evidence from the banking sector in Nigeria. The study used the size of clientele base and sales growth as indicators of the selected banks' market performance. Two Nigerian Deposit Money Banks were selected using convenience and judgmental sample selection methods. The results revealed that the Post Merger market performance of the two banks significantly improved compared to the Pre-Merger period of the banks. The study therefore recommended that banks can merge or acquire each other as this had proved to be an effective mechanism for enhancing their market presence and performance. The study was done in Nigeria but the current one shall be performed in Nairobi City County. Secondly, secondary data was used whereas the current one uses primary data that is collected via a questionnaire. Whereas this study targeted the relevance of mergers on performance of deposit money banks, current study targets family firms and aims at filling the gap on the challenges of the acquisition strategy on performance of large family owned firms in Nairobi City County.

In a research to review effects of acquisitions and mergers on performance of Kenyan oil firms, Mulwa (2015) conducted an investigation of Kenyan oil sector. The sample constituted of oil companies in Kenyan market that merged/acquired others from 2000 to 2014. The data was collected from Financial Reports of these firms. In order to establish the relationship between the independent variables and the dependent variable, regression analysis was conducted. From there, Comparisons were done for 5-years pre-merger means and 5-years post-merger financial ratios, while exempting the merging year. Whereas this study was conducted in Kenya, but it targeted the petroleum sector using secondary data, the current study targets family businesses in Nairobi City County. This study also considered impacts of mergers on financial performance of Kenyan oil firms and never handled challenges faced in the acquisition strategy, a gap that the current study aims to fill.

King *et al*., (2004) applied a meta-analysis technique in assessing influence of M & A on businesses by use of published research on post-acquisition performance. It was unveiled that M & A doesn't cause superior financial performance. Also it was revealed that M & A has an average unfavorable influence on the long term financial performance of the acquiring business and no evidence to confirm and discuss variations in performance arising from M & A by use of factors supported by the literature. Nevertheless, the study did not shed light on challenges in the implementation of the acquisition strategy and performance of family owned firms in Nairobi City County.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section presents methodological approach that guides the study. A methodology is a blueprint of the study (Creswell & Creswell, 2017). It includes a plan for the gathering, estimation and investigation of information. The exploration approach distinguishes the methodology and strategies that were utilized in the gathering, handling and investigation of information to accomplish the targets of the study.

The chapter starts with discussing the research design adopted for the study to ensure the study effectively addresses the research problem. It constitutes an arrangement of techniques and systems applied in gathering and investigating measures of the factors highlighted in the study issue. Research design is a blueprint guiding the study.

Under the data collection section, the study highlights the kind of data to be gathered, the instrument for data collection, the respondents and procedures for data collection. The section ends with a section on data analysis procures and how the analyzed data were presented.

3.2 Research Design

This refers to the chronological order of things that result to answering the questions of the research. This study uses a descriptive survey research design. Such a study is aimed at finding out the where, what and how of the study phenomenon (Bryman & Bell, 2011). Through the design, it is possible to replicate the results of the population. The design relies on quantitative data. It involves a critical investigation and analysis of the problem.

This strategy involves selecting of several targeted cases on which an intensive analysis was conducted. This aids in recognizing other possible ways for solving the research questions dependent on the present study situation. This thus brings out the theme, by formulating questions to be answered (Cooper & Schindler, 2011).

Descriptive survey design is appropriate as it considers different sections of the study (Laurel, 2011). The design also allows the investigator to gather in depth information regarding the population being studied. This is consistent with Olusola *et al.* (2013) that a descriptive survey design is suitable in answering questions of who, what, where, when and how.

3.3 Population of the Study

This refers to the entire gathering of elements to be studied (Sekeran & Bougie, 2010). Newing (2011) portrays it as the arrangement of examining units that the specialist is keen on. A target population refers to a definate population from where information is required. Mugenda and Mugenda (2003), refers it as an entire group of individuals who have common observable characteristics.

This study target population is large family owned firms in Nairobi City County. The study selects 57 large family owned enterprises in Nairobi City County who participate in the study. Large family owned enterprises participate in the study whereby questionnaires are administered to the owners of the firms since they are directly involved in the any acquisition processes and agreement.

3.4 Sample Frame

Best and Kahn (2016) defined sampling frame as the complete list of all elements or objects of the population that the researcher wants to study. The sampling frame is a representation of the population units where a sample is chosen (Cooper & Schindler, 2011). The sampling frame defines the population of study. According to Polit and Beck (2003) sampling frame is a listing of units where population is drawn.

The sampling frame provides a list of the population where to select a sample. For this study the sampling frame is 57 large family owned enterprises in Nairobi City County. This study intends to explore the challenges of the acquisition strategy in large family owned firms in Nairobi City County. The study units are owners of large family owned enterprises in Nairobi City County.

The sample refers to specific number of elements to be contacted by the scholar to acquire data. Through a sample, a researcher gains more information regarding the population (Mugenda & Mugenda, 2003). The study does a census of all the 57 large family owned enterprises.

3.5 Data Collection

Primary data is used for the research. Structured questionnaires are applied in collecting it. The questionnaires that are administered to owners of the large family owned businesses. Cooper and Schindler (2000), defines a questionnaire as a tool to collect data of a population.

The structured questionnaire with Likert questions have close-ended and open-ended questions. It consists of more structured responses which bring out more tangible recommendations. A Likert scale with five responses is used. The Likert scale is suitable in measuring extent of agreement or disagreement.

Likert scales are suitable when measuring perception. The ratings on various attributes are tested using the closed ended questions which help in the reduction of responses that are related so as to obtain responses that are more varied. The research instruments are personally administered by the researcher to the respondents. The researcher keeps a register of the questionnaires to ensure that all the questionnaires distributed to the respondents were returned.

3.6 Data Analysis

Ott and Longnecker (2015), define data analysis as technique of manipulating data to make inference. It is a process of analyzing datasets in order to guide business decisions and test scientific theories. Data is analyzed using descriptive measures. Data processing involves the translation of the questionnaire answers to a form which can be manipulated to give statistics (Chatterjee & Hadi, 2015). Quantitative data gathered is analyzed using SPSS version 20. SPSS is user friendly and appropriate for data closed ended questions. The statistics to be produced includes both descriptive and inferential statistics.

Descriptive analysis involving computation of mean, frequency distribution, standard deviation and percentages for independent variables was carried out to determine frequencies and percentage distributions. Correlations and regression analysis is calculated to draw inferences to the entire population.

The multiple linear regression models is applied in measuring the relationship between the independent variables and the dependent variable which are explained in the model. The regression model helps to explain the magnitude and direction of relationship between the variables of the study through the use of beta coefficients like and the level of significance.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

In which:

Y = Performance of large family owned firms

i. $\{\beta_i; i=1,2,3,4\}$ = The coefficients for the various independent variables

ii. X_i for;

X_1 = Due diligence problem

X_2 = Integration challenges

X_3 = Cultural systems challenges

X_4 = Management challenges

iii. e is the error term which is assumed to be normally distributed with mean zero and constant variance.

This chapter outlines the methodology adopted. It describes the research design adopted, the data collection instrument and procedures, and the data analysis procedures which outline how the collected data is summarized into meaningful results to answer the research questions. The study targets owners of large family owned businesses. The chapter also shows how data analysis is done through descriptive and inferential.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The section entails data analysis, findings and interpretation. Findings are displayed in form of diagrams, charts and continuous prose form. The data is in agreement with the research objective. The research objective was to explore the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County.

The first section presents questionnaire response rate. Questionnaires were given to the 57 owners of the large family owned firms in Nairobi County. This is followed by the demographic characteristics which includes the gender, education levels, family status and professional status.

Finally, it gives a presentation of the results on the responses arrived at after data analysis together with the discussion of those results. They are presented using pie charts and tables. The presented data is then analyzed using descriptive measures to enable the interpretation of the data collected.

4.2 Questionnaire Response Rate

This is the total number of people who answer the survey divided by the number of respondents in the sample. It is expressed as a percentage. It is usually used to refer to the people who respond to a survey.

The structured questionnaire with Likert questions had close-ended and open-ended questions. It consisted of more structured responses which brought out more tangible recommendations.

The researcher administered 57 questionnaires. Of the total, 36 questionnaires were properly filled and returned. All the respondents responded positively. This reveals an overall successful response rate of 63.1%.

4.3 Demographic Characteristics

The study made inquiry on the background information of the respondents. This information was with regard to gender and the education level. The study also sought to establish the family status and professional status.

4.3.1 Gender

To start with, the study inquired about the sex. Outcomes reveal that most (88%) of the respondents were male whereas the only 12% were female.

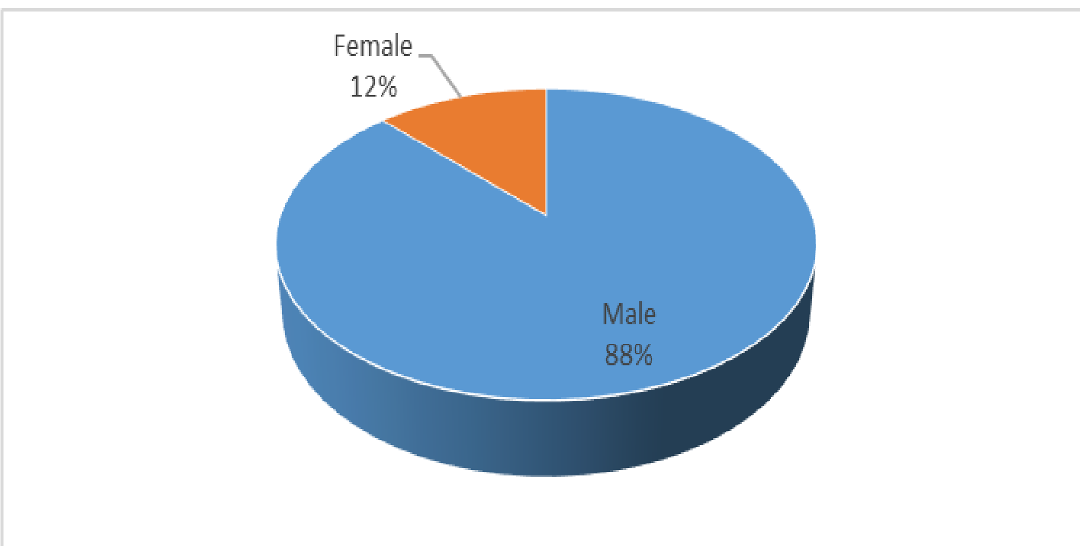

Figure 4.1: Gender **Source:** Research data (2018)

This is an indicator that most of the large family owed business in Nairobi County are run by men. This is evident from the percentage men being 88% and women being 12%.

4.3.2 Education Level

The study also implored the respondents to record their education level. Results in Figure 4.2 illustrate that 53% were graduates, 21% has studies up to post-graduate level, 19% had diploma certificates while only 7% had ATC certificates.

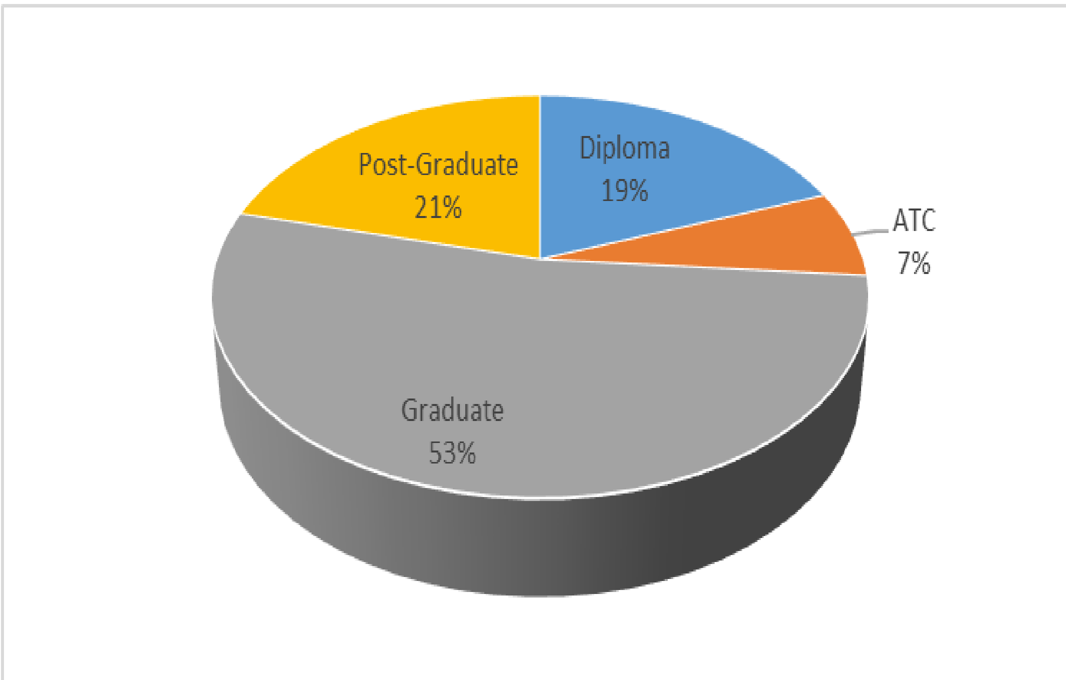

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Figure 4.2: Education Level **Source:** Research data (2018)

The results show that most of the respondents were educated with graduates having the highest percentage of 53%. This implies that most of the owners of family owned firms are educated.

4.3.3 Family Status

Further, the scholar was seeking to determine study sought to establish the family status of the respondents. Results in Figure 4.3 demonstrate that 39% were not family members but rather employees in these firms. Figure 4.3 also demonstrates that 35% were fathers, 23% were children while only 3% were mothers.

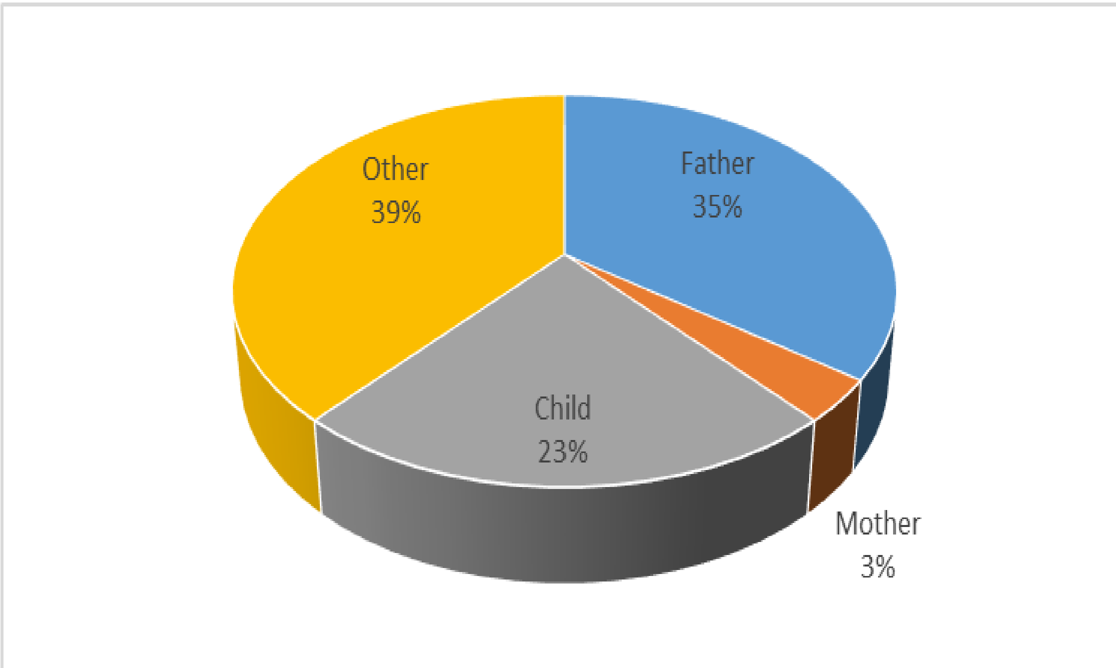

Figure 4.3: Family Status Source: Research data (2018)

The presentation above implies that family members who include the father, mother and child are represented as in 35%, 3% and 23% respectively, with non-family members having a percentage of 39%.

4.3.4 Professional Status

The respondents were requested to also indicate their professional role in the large firms. Results in Figure 4.4 show that 61% were the owners of the business while 21% were top managers. Results showed that the rest 18% were in middle level of management.

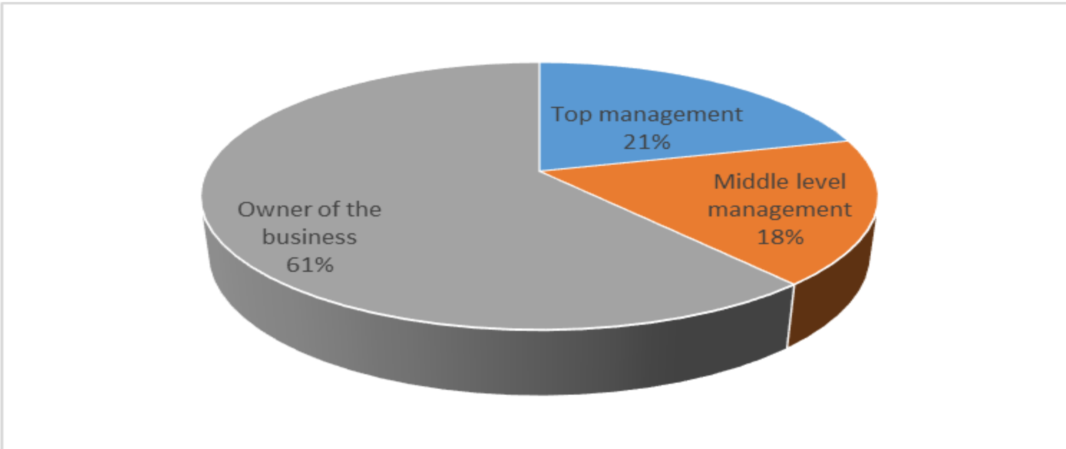

Figure 4.4: Proffessional Status Source: Research data (2018)

The top level managers bear the responsibility of controlling and overseeing the entire organization. The middle level managers execute plans for the organization which are in line with policies of the company. The owners of family firms hold the exclusive rights to hold, use, benefit, transfer or dispose the firm's assets or properties.

4.4 Descriptive Statistics

This section presents the descriptive results. These entailed acquisition strategy challenges' results which included due diligence problem, integration challenge, cultural system challenge, and management challenge. The section also outlined the performance of large family owned firms in Nairobi County.

4.4.1 Due Diligence Problem

The study sought to find out whether the problem of due diligence existed among the large family owned firms in Nairobi County. Results in Table 4.1 suggest that 56.1% agreed that family representatives in businesses have been reported to be in a rush to close the deal in an acquisition exercise, hence an inappropriate decision, while 89.5% pointed out that full disclosure of all assets, liabilities, management profile and worth as well as resources to the bidding firm is never adhered to. Another 63.2% reiterated that honesty is a critical attribute for the success of the acquisition strategy.

Due diligence can a legal obligation, but most often applies to voluntary investigations. The potential acquirer assesses a target company or its assets for an acquisition. This exercise helps in decision making by availing information to decision makers and ensuring that the information is used systematically on the decision to be made, its costs, benefits and risks.

This entails the legal aspect, tax aspect, process centered issues, operational diligence, intellectual property diligence, commercial diligence, information technology diligence and human resources diligence.

Table 4.1: Due Diligence Problem

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Mean
Family representatives in businesses have been reported to be in a rush to close the deal in an acquisition exercise, hence an inappropriate decision.	3.5%	5.3%	35.1%	36.8%	19.3%	3.6
Full disclose of all assets, liabilities, management profile and worth as well as resources to the bidding firm is never adhered to.	1.8%	3.5%	5.3%	35.1%	54.4%	4.4
Honesty is a critical attribute for the success of the acquisition strategy.	0.0%	3.5%	33.3%	54.4%	8.8%	3.7
Insufficient familiarity on the part of the acquiring firm management with the business of the firms limits the success of the acquisition strategy.	5.3%	1.8%	33.3%	52.6%	7.0%	3.5
Ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business.	0.0%	0.0%	14.0%	29.8%	56.1%	4.4
Average						**3.9**

Source: Research data (2018)

Results in Table 4.1 also reveal that 59.6% posited that insufficient familiarity on the part of the acquiring firm management with the business of the firms limits the success of the acquisition strategy. Another 85.9% were in agreement that ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business. The mean was 3.9 which is an indicator that most of the respondents were agreeing with the statements.

4.4.2 Integration Challenge

The study sought to find out whether the integration challenge existed among the large family owned firms in Nairobi County. Results in Table 4.2 suggest that 59.6% agreed that the restructuring process is burdensome and cumbersome, while 87.7% pointed out that the negotiation procedure is time wasting and long. Another 61.4% reiterated that it is hard to find an acquisition that clearly satisfies a firm's strategic needs in terms of the desired size.

Table 4.2: Integration Challenge

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Mean
The restructuring process is burdensome and cumbersome.	7.0%	5.3%	28.1%	36.8%	22.8%	3.6
The negotiation procedure is time wasting and long.	3.5%	5.3%	3.5%	29.8%	57.9%	4.3
It is hard to find an acquisition that clearly fulfils a firm's strategic needs in terms of the desired size.	0.0%	5.3%	33.3%	54.4%	7.0%	3.6
Functional strengths needed for a successful acquisition are difficult to find.	3.5%	3.5%	35.1%	54.4%	3.5%	3.5
It is difficult to find an acquisition that clearly fulfils the range of products being sought and also the technology to be used.	0.0%	0.0%	15.8%	29.8%	54.4%	4.4
Average						**3.9**

Source: Research data (2018)

Results in Table 4.2 also reveal that 57.9% posited that functional strengths needed for a successful acquisition are difficult to find. Eighty-four point two percent (84.2%) were in agreement that it is difficult to find an acquisition that clearly fulfils the range of products being sought and also the technology to be used. The mean was 3.9 which is an indicator that most of the respondents were agreeing with the statements.

4.4.3 Cultural System Challenge

The study sought to find out whether the cultural system challenge existed among the large family owned firms in Nairobi County. Results in Table 4.3 suggest that 86.0% agreed that attitudes of youthful family members differ from those of the old and this leads to misunderstanding during the acquisition process while 75.4% pointed out that gender preferences pose a great threat in the acquisition strategy. Another 86.0% reiterated that honesty is a critical attribute for the success of the acquisition strategy.

Respondents give their perceptions regarding the differences between the youthful family members and elder members and whether the same bring misunderstandings during the acquisition process. Gender preferences posing a threat during acquisition as well as family beliefs affecting the management and to what extent it impacts on key issues such as planning, controlling and organizing are determined. The degrees to which entrenched work routines and cultures pose a danger towards the acquisition strategy is established from the respondents.

Table 4.3: Cultural System Challenge

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Mean
Attitudes of youthful family members differ from those of the old and this leads to misunderstanding during the acquisition process.	0.0%	0.0%	14.0%	43.9%	42.1%	4.3
Gender preferences pose a great threat in the acquisition strategy.	1.8%	0.0%	22.8%	33.3%	42.1%	4.1
Honesty is a critical attribute for the success of the acquisition strategy.	0.0%	0.0%	14.0%	38.6%	47.4%	4.3
Family beliefs may affect many a management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon.	14.0%	1.8%	24.6%	43.9%	15.8%	3.5
Entrenched work routines and cultures as well as cumber some tasks pose a danger towards the acquisition strategy.	15.8%	15.8%	7.0%	21.1%	40.4%	3.5
Average						**4.0**

Source: Research data (2018)

Results in Table 4.3 also reveal that 59.7% posited that family beliefs affect the management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon. Sixty-one point five percent (61.5%) were in agreement that entrenched work routines and cultures as well as cumber some tasks pose a danger towards the acquisition strategy. The mean was 4.0 which is an indicator that most of the respondents were agreeing with the statements.

4.4.4 Management Challenge

The study sought to find out whether the management challenge existed among the large family owned firms in Nairobi County. Results in Table 4.4 suggest that 80.7% agreed that availability of competent managers capable of running the firm following an acquisition process is not easy, while 70.2% pointed out that failure to establish objectives for an acquisition that is in sync with the firm's corporate strategy a danger towards the success of the acquisition strategy. Another 82.4% reiterated that the failure to compare acquisitions with alternative means of achieving corporate objectives limits the success of the acquisition strategy.

The management challenge was determined by establishing whether the availability of competent managers capable of running the firm following an acquisition process is easy or not. It is also determined whether failure to establish objectives for an acquisition that are in sync with the firm's corporate strategy is a danger towards its success. Issues of long and tedious legal procedures as well as inattention to post acquisition planning are established.

Table 4.4: Management Challenge

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Mean
Availability of competent managers capable of running the firm following an acquisition process is not easy.	0.0%	0.0%	19.3%	45.6%	35.1%	4.2

Failure to establish objectives for an acquisition that is in sync with the firm's corporate strategy is a danger towards the success of the acquisition strategy.	0.0%	0.0%	29.8%	26.3%	43.9%	4.1
The failure to compare acquisitions with alternative means of achieving corporate objectives may limit the success of the acquisition strategy.	0.0%	0.0%	17.5%	45.6%	36.8%	4.2
There are long and tedious legal procedures to accomplish for the the success of the acquisition strategy which requires a lot of management and attention.	17.5%	1.8%	29.8%	42.1%	8.8%	3.2
Insufficient attention to post acquisition planning may limit the success of the acquisition strategy.	15.8%	17.5%	1.8%	17.5%	47.4%	3.6
Average						**3.9**

Source: Research data (2018)

Results in Table 4.4 also reveal that 50.9% posited that there are long and tedious legal procedures to accomplish for the success of the acquisition strategy which requires a lot of management and attention. Sixty-four point nine percent (64.9%) were in agreement that insufficient attention to post acquisition planning may limit the success of the acquisition strategy. The mean was 3.9 which is an indicator that most of the respondents were agreeing with the statements.

4.4.5 Performance of Large Family Owned Firms

The scholar study determine the performance of the large family owned firms in Nairobi County. Results in Table 4.5 suggest that 68.5% agreed that acquisitions help in increasing of sales volume of the family businesses, 92.9% pointed out that acquisitions increase the market share of the family businesses while 68.4% reiterated that acquisitions increase the entrepreneurial confidence.

Table 4.5: Performance

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Mean
Acquisitions helps in increasing of sales volume of the family businesses.	1.8%	0.0%	29.8%	43.9%	24.6%	3.9
Acquisitions increases the market share of the family businesses.	0.0%	0.0%	7.0%	36.8%	56.1%	4.5
Acquisitions increases the entrepreneurial confidence.	0.0%	0.0%	31.6%	50.9%	17.5%	3.9
Acquisitions have help in increasing of the business profit.	7.0%	0.0%	5.3%	80.7%	7.0%	3.8
Acquisitions have increased the geographical market power of the firm.	5.3%	0.0%	8.8%	33.3%	52.6%	4.3
Average						**4.1**

Source: Research data (2018)

Results in Table 4.5 also reveal 87.7% posited that acquisitions have help in increasing of the business profit. Another 85.9% were in agreement that acquisitions have increased the geographical market power of the firm. The mean was 4.1 which is an indicator that most of the respondents were agreeing with the statements.

4.5 Inferential Statistics

Inferential analysis was done to reveal the association between the dependent and the independent variables. These comprised regression and correlation results. The regression results include the model of fitness, and ANOVA and regression coefficients.

4.5.1 Correlation Analysis

Correlation analysis how the association between the dependents and the independent variables. Table 4.6 below display the outcome of the correlation analysis. The results show that due diligence problem and performance of large family owned firms in Nairobi County have a negative and significant association (r=0.673, p=0.000).

Table 4.6: Correlation Analysis

Variable		Performance	Due Diligence Problem	Integration Challenge	Cultural System Challenge	Management Challenge
Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Due Diligence Problem	Pearson Correlation	-0.673	1			
	Sig. (2-tailed)	0.000				
Integration Challenge	Pearson Correlation	-0.362	-0.527	1		
	Sig. (2-tailed)	0.006	0.000			
Cultural System Challenge	Pearson Correlation	-0.741	0.822	-0.707	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Management Challenge	Pearson Correlation	-0.796	-0.525	0.253	-0.58	1
	Sig. (2-tailed)	0.000	0.000	0.058	0.000	

Source: Research data (2018)

Further, it was determined that management challenge and performance of large family owned firms in Nairobi County have a negative and significant association (r=0.796, p=0.000). This implies that branding results to improved competitive advantage.

4.5.2 Regression Analysis

Results in Table 4.7 show that due diligence problem, integration challenge, cultural system challenge, and management challenge were found to be satisfactory variables in describing the performance of large family owned firms in Nairobi County. This is confirmed by R^2 of 0.882. This means that due diligence problem, integration challenge, cultural system challenge, and management challenge explain 88.2% of the variations in the performance of large family owned firms in Nairobi County.

Table 4.7: Model Fitness

R	R^2	**Adjusted** R^2	**Std. Error of the Estimate**
0.875	0.882	0.867	0.11735

Source: Research data (2018)

The F-statistic in the linear model output display is the test statistic for testing the statistical significance of the model. The F-statistic values in the ANOVA display are for assessing the significance of the variables in the model (Cooper & Schindler, 2008). Results in Table 4.8 indicate that the overall model was statistically significant as supported by an F statistic of 58.186 and a p value of 0.000. Further, the results imply that the independent variables are good predictors of performance of large family owned firms in Nairobi County.

Table 4.8: ANOVA

Indicator	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	3.203	4	0.801	58.186	0.000
Residual	0.447	31	0.014		
Total	3.630	35			

Source: Research data (2018)

Findings in Table 4.9 show that that a negative and notable relationship exists between due diligence problem, integration challenge, cultural system challenge, and management challenge and performance of large family owned firms in Nairobi County. These result were confirmed by beta coefficients of -0.200, -0.179, -0.412 and -0.482 respectively. The findings revealed that increase in the due diligence problem by a unit would result to decreased performance of large family owned firms by 0.200 units.

These results also show that increase in integration challenges by a unit would result to decreased performance of large family owned firms by 0.179 units. Further, these results show that increase in cultural system challenges by a unit would result to decreased performance of large family owned firms by 0.412 units. Results also revealed that increase in management challenges by a unit would result to decreased performance of large family owned firms by 0.482.

Table 4.9: Regression of Coefficients

Variabe	**B**	**Std. Error**	**T**	**Sig.**
(Constant)	4.637	0.856	5.419	0.000
Due Diligence Problem	-0.200	0.075	-2.673	0.011
Integration Challenge	-0.179	0.083	-2.161	0.035
Cultural System Challenge	-0.412	0.135	-3.060	0.004
Management Challenge	-0.482	0.082	-5.910	0.000

Source: Research data (2018)

The regression model too the form of $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

In which:

Y = Performance of large family owned firms

i. { β_i; i=1,2,3,4} = The coefficients for the various independent variables

ii. X_i for; X_1 = Due diligence problem

X_2 = Integration challenges

X_3 = Cultural systems challenges

X_4 = Management challenges

iii. e is the error term which is assumed to be normally distributed with mean zero and constant variance.

Hence, the final model was

Performance of large family owned firms= 4.673 + (-0.200) Due Diligence Problem + (-0.179) Integration Challenge + (-0.412) Cultural System Challenge + (-0.482) Management Challenge

4.6 Discussion of Findings

The purpose of the study was to explore the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. The study sought to find out whether the large family owned businesses experienced the due diligence problem. The results illustrated that these challenges were experienced. This was supported by the findings that family representatives in businesses have been reported to be in a rush to close the deal in an acquisition exercise.

Therefore, an inappropriate decision, full disclosure of all assets, liabilities, management profile and worth as well as resources to the bidding firm is never adhered to, familiarity levels on the part of the acquiring firms' management with the business limits the success of the acquisition strategy and that ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business.

These results were also supported by the correlation results which demonstrated that there existed a negative and significant association between due diligence problem and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between due diligence problem and performance of large family owned firms (β -0.200, p 0.011). These findings are consistent with those of Ogada, Njuguna and Achoki (2016) who argued that there are also negotiation and restructuring challenges.

Secondly, the study sought to find out whether there the large family owned businesses experienced integration challenges. Results illustrated that they experienced these challenges. These was supported by the findings that the restructuring process is burdensome and cumbersome, the negotiation procedure is time wasting and long, it is hard to find an acquisition that clearly fulfils a firm's strategic needs in terms of the desired size, functional strengths needed for a successful acquisition are difficult to find and that it is difficult to find an acquisition that clearly fulfils the range of products being sought and also the technology to be used.

These findings were also supported by the correlation results which demonstrated that there existed a negative and significant association between integration challenge and performance of large family owned firms (r -0.673, p 0.006). The regression results also illustrated that there existed a negative and significant relationship between integration challenge and performance of large family owned firms (β -0.200, p 0.035). These findings agree with those of Ogada, Njuguna and Achoki (2016) who posited that there can be integration challenges that results from restructuring process.

These findings also agree with those of Howe (1986) who noted that it’s important for a growing business to locate a merger that clearly meets its strategic goals in regard to the planned increase size desired in terms of output, range of products sought, technology required, functional strengths needed as well as management style to be used.

Thirdly, the study sought to find out whether there the large family owned businesses experienced cultural system challenges. Results illustrated that they experienced these challenges. These was supported by the findings that attitudes of youthful family members differ from those of the old and this leads to misunderstanding during the acquisition process, gender preferences pose a great threat in the acquisition strategy, family beliefs affects the management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon and that entrenched work routines and cultures as well as cumber some tasks pose a danger towards the acquisition strategy.

These findings were also supported by correlation results which demonstrated that there existed a negative and significant association between cultural system challenge and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between cultural system challenge and performance of large family owned firms (β -0.412, p 0.004). These findings concur with those of Asimakopoulos and Athanasoglou (2013) who noted that some of the key factors that are seen as challenges of an acquisition exercise as well as maintenance of the same is an organization culture. This is a way of life for the members of staff and how they do things in the organization which is a challenge in most acquisition exercises.

Fourth, the study sought to find out whether there the large family owned businesses experienced management challenges. Results illustrated that they experienced these challenges. These was supported by the findings that availability of competent managers capable of running the firm following an acquisition process is not easy, failure to establish objectives for an acquisition that is in sync with the firm's corporate strategy a danger towards the success of the acquisition strategy and failure to compare acquisitions with alternative means of achieving corporate objectives limits the success of the acquisition strategy, there are long and tedious legal procedures to accomplish for the success of the acquisition strategy which requires a lot of management and attention and that insufficient attention to post acquisition planning may limit the success of the acquisition strategy.

These findings were also supported by correlation results which demonstrated that there existed a negative and significant association between management challenge and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between management challenge and performance of large family owned firms (β -0.482, p 0.000). These findings concur with those of Ogada, Njuguna and Achoki (2016) who reiterated that there can be challenges related to management challenges and resource mobilization.

These findings are also consistent with those of Inoti, Onyuma and Muiru (2014) who pointed out that one of the key challenges would be in the availability of competent managers capable of running the firm through an acquisition process.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study findings were summarized in this section done objectively. The scholar sought to determine the existence of the due diligence problem, integration and management challenges among large family owned firms in Nairobi County.

Conclusions are also given according to the objectives. It concludes that there exist challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County.

Further, the chapter gives the recommendations which the researcher harmonized by suggesting further studies that can be looked at by scholars. The study recommends that all stakeholders involved in the acquisition process.

5.2 Summary of Findings

Based on the analysis, the findings' summary is presented objectively in this section. This gives provision to discuss each of the findings. It also outlines the significant of each finding and its appropriateness based on the purpose of the study.

5.2.1 Due Diligence Problem and Performance of Large Family Owned Firms

The scholar was seeking to determine the existence of the due diligence problem among large family owned firms in Nairobi County. Results revealed that these firms experienced due diligence problems. These findings were supported by the realization that family representatives in businesses have been reported to be in a rush to close the deal in an acquisition exercise, hence an inappropriate decision.

These results were also supported by the findings that full disclosure of all assets, liabilities, management profile and worth as well as resources to the bidding firm is never adhered to. Insufficient familiarity on the part of the acquiring firm management with the business of the firms limits the success of the acquisition strategy also pointed out to the existence of the problem.

The correlation results demonstrated that there existed a negative and significant association between due diligence problem and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between due diligence problem and performance of large family owned firms (β -0.200, p 0.011). This implies that existence of due diligence problem result to a decline in the performance of large family owned firms. Therefore, ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business also depicted an existence of this challenge.

5.2.2 Integration Challenge and Performance of Large Family Owned Firms

The research was seeking to determine the existence of integration challenge among large family owned firms in Nairobi County. Results revealed that these firms experienced integration challenges. These findings were supported by the realization that the restructuring process is burdensome and cumbersome.

These findings were also supported owing to the fact that the respondents posited that the negotiation procedure is time wasting and long. The fact that it was also hard to find an acquisition that clearly fulfils a firm's strategic needs in terms of the desired size also point out to the existence of the challenge.

Further, the findings were supported by the realization that functional strengths needed for a successful acquisition are difficult to find and that it is difficult to find an acquisition that clearly fulfils the range of products being sought and also the technology to be used.

The correlation results demonstrated that there existed a negative and significant association between integration challenge and performance of large family owned firms (r -0.673, p 0.006). The regression results also illustrated that there existed a negative and significant relationship between integration challenge and performance of large family owned firms (β -0.200, p 0.035). This implies that existence of integration challenges results to a decline in the performance of large family owned firms.

5.2.3 Cultural System Challenge and Performance of Large Family Owned Firms

The research was seeking to determine the existence of the cultural system challenge among large family owned firms in Nairobi County. Results revealed that these firms experienced cultural system challenges. These findings were supported by the realization that attitudes of youthful family members differ from those of the old and this leads to misunderstanding during the acquisition process.

These findings were also supported by the realization that gender preferences pose a great threat in the acquisition strategy. Family beliefs affects the management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon and that entrenched work routines also revealed the existence of the challenge.

The correlation results demonstrated that there existed a negative and significant association between cultural system challenge and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between cultural system challenge and performance of large family owned firms (β -0.412, p 0.004). This implies that existence of cultural system challenges results to a decline in the performance of large family owned firms.

5.2.4 Management Challenge and Performance of Large Family Owned Firms

The research was seeking to determine the existence of the management challenge among large family owned firms in Nairobi County. Results revealed that these firms experienced management challenges. These findings were supported by the realization that availability of competent managers capable of running the firm following an acquisition process is not easy.

These findings were also supported by the realization that failure to establish objectives for an acquisition that is in sync with the firm's corporate strategy a danger towards the success of the acquisition strategy and failure to compare acquisitions with alternative means of achieving corporate objectives limits the success of the acquisition strategy. The fact that there are long and tedious legal procedures to accomplish for the success of the acquisition strategy which requires a lot of management and attention depict that these challenge exists. Further, the realization that insufficient attention to post acquisition planning may limit the success of the acquisition strategy revealed the existence of this challenge.

The correlation results demonstrated that there existed a negative and significant association between management challenge and performance of large family owned firms (r -0.673, p 0.000). The regression results also illustrated that there existed a negative and significant relationship between management challenge and performance of large family owned firms (β -0.482, p 0.000). This implies that existence of management challenges results to a decline in the performance of large family owned firms.

5.3 Conclusion

The study concluded that there exist challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. These challenges included due diligence problems, integration challenges, cultural system challenges, and management challenges. The study also concluded that the effect of these challenges on the performance of large family owned firms in Nairobi City County was negative.

The study also concluded that management challenges had the greatest effect, followed by cultural system challenges, then integration challenges and due diligence problems came in last having the least effect. This points out that for the acquisition strategy to be effective, these large firms should endeavor to minimize these challenges in this order.

The specific aspects of management challenges included lack of competent managers to run the firm following an acquisition process is not easy, lack of establish objectives for an acquisition that is in sync with the firm's corporate strategy, long and tedious legal procedures to accomplish for the success of the acquisition strategy and insufficient attention to post acquisition planning which limits the success of the acquisition strategy.

The specific aspects of cultural system challenges included differing attitudes between youthful and elderly family members which lead to misunderstanding during the acquisition process, gender preferences, and family beliefs which affects the management function. The specific aspects of integration challenges included burdensome and cumbersome restructuring process and long and time wasting negotiation procedure.

Further, the specific aspects of the due diligence problem included rush to close the deal in an acquisition exercise by family members, lack of full disclosure of all assets, liabilities, management profile and worth as well as resources to the bidding firm, insufficient familiarity on the part of the acquiring firm management with the business of the firms limits the success of the acquisition strategy and ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business.

5.4 Recommendations

The study recommends that the all stakeholders involved in the acquisition process among the large family owned businesses should use the findings of this study to identify the challenges that deter the acquisition procedures. After the identification, they should come up with solution to these challenges so as to help fast track the acquisition process and thereby improve their performance.

The study also recommends that the large family owned firms should be gender sensitive. Owing to the findings that women constitute a small percentage in the management and ownership, these firms should consider being coherent with the Kenya constitution 2010 which suggests that women should constitute a third of the entire workforce. By so doing the firms would boost gender diversity.

The study also recommends that policy makers in other forms of businesses should use this study as a basis of their understanding of challenges affecting the acquisition strategy and adjust accordingly so as to ensure that these process is smooth. Further, the study recommends that the government should create policies that support growth and sustainability of the family businesses.

5.5. Limitations of the Study

This study experienced various limitations. To begin with, there was trouble in accessing the targeted respondent. The limitation was moderated by contacting the respondents beforehand and making appointments with them on the appropriate time to conduct the interviews.

The researcher also experienced hesitance by respondents to give their feedback as they feared it would be used against them. To mitigate this, the researcher acquired a letter of introduction from the university that guaranteed the respondents that the feedback would be utilized for scholarly purposes and would be held in confidence. The researcher also sought permission from the management of the firms they were working for before approaching them.

Further, there was the issue of unreturned questionnaires and uncooperative respondents proved difficult for the study. This was mitigated through follow ups with phone calls, emails and individual visits made it easier to collect adequate number of the filled questionnaires. The respondents were further assured that the research would not jeopardize their jobs in any way.

5.6 Suggested Areas of Further Studies

The research was seeking to determine the challenges of the acquisition strategy and performance of large family owned firms in Nairobi City County. The study suggests that a similar study can be conducted among other forms of businesses. This would help to determine whether other forms of businesses experience similar acquisition strategy challenges.

The study also suggests that a study can be conducted seeking to establish the solutions challenges hindering the acquisition strategy large family owned firms in Nairobi City County. This would help these firms to look establish ways to counter these challenges. As a result, the performance of the firms would be spurred.

Further, the study suggests that a more extensive study be conducted to establish the influence of the specific aspects of the various challenges of the acquisition strategy. This would help the large family owned firms to identify the aspects that have more weight than other. This would thus give them clarity on where to start when seeking for solutions to these challenges.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

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

P.O. Box 30197
Nairobi, Kenya

DATE 9/NOV/2018

TO WHOM IT MAY CONCERN

The bearer of this letter CAROLINE WANINTA MUSYOKI

Registration No. D61/85770/2016

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.

09 NOV 2018

PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS

Appendix II: Research Questionnaire

INSTRUCTIONS

Kindly fill your response in the space provided or tick (√) as appropriate. All the information provided here will be considered private and confidential for the purpose of this research ONLY.

Section A: Background information

1. Gender of respondents

    a) Male [ ]

    b) Female [ ]

2. What is your level of education?

    a) Diploma [ ]

    b) ATC [ ]

    c) Graduate [ ]

    d) Post-Graduate [ ]

3. Indicate your status in the family

    a) Father [ ]

    b) Mother [ ]

    c) Child [ ]

    d) Others [ ]

4. Indicate you professional/role status (Tick the box where applicable)

    a) Top management

    b) Middle level management

    c) Owner of the business

5. What are the reasons for your business to adopt acquisitions as a strategy for growth?

____

Section B: Due diligence problem and performance of large family owned firms

To what extent do you agree with the following statements on due diligence problem and performance of large family owned firms? Use a scale of 1—5 where 1= strongly disagree and 5= strongly agree.

Component	**1**	**2**	**3**	**4**	**5**
Family representatives in businesses have been reported to be in a rush to close the deal in an acquisition exercise, hence an inappropriate decision.					
Full disclose of all assets, liabilities, management profile and worth as well as resources to the bidding firm is never adhered to					
Honesty is a critical attribute for the success of the acquisition strategy					
Insufficient familiarity on the part of the acquiring firm management with the business of the firms may limit the success of the acquisition strategy					
Ignorance of the acquiring firm's ability to acquire relevant information before the actualization of the acquisition process has been witnessed in our business					

Section C: Integration challenges and performance of large family owned firms

To what extent do you agree with the following statements on integration challenges and the performance of large family owned firms? Use a scale of 1—5 where 1= strongly disagree and 5= strongly agree.

Component	**1**	**2**	**3**	**4**	**5**
The restructuring process is burdensome and cumbersome					
The negotiation procedure is time wasting and long					
It is hard to find an acquisition that clearly fulfils a firm's strategic needs in terms of the desired size					
Functional strengths needed for a successful acquisition are difficult to					

find					
It is difficult to find an acquisition that clearly fulfils the range of products being sought and also the technology to be used					

Section D: Cultural systems challenges and performance of large family owned firms

To what extent do you agree with the following statements on Cultural systems challenges and the performance of large family owned firms? Use a scale of 1—5 where 1= strongly disagree and 5= strongly agree.

Component	**1**	**2**	**3**	**4**	**5**
Attitudes of youthful family members differ from those of the old and this leads to misunderstanding during the acquisition process					
Gender preferences pose a great threat in the acquisition strategy					
Honesty is a critical attribute for the success of the acquisition strategy					
Family beliefs may affect many a management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon					
Entrenched work routines and cultures as well as cumber some tasks pose a danger towards the acquisition strategy					

Section E: Management challenges and performance of large family owned firms

To what extent do you agree with the following statements on management challenges and the performance of large family owned firms? Use a scale of 1—5 where 1= strongly disagree and 5= strongly agree.

Component	**1**	**2**	**3**	**4**	**5**
Availability of competent managers capable of running the firm following an acquisition process is not easy					
Failure to establish objectives for an acquisition that is in sync with the firm’s corporate strategy a danger towards the success of the acquisition					

strategy					
The failure to compare acquisitions with alternative means of achieving corporate objectives may limit the success of the acquisition strategy					
There are long and tedious legal procedures to accomplish for the the success of the acquisition strategy which requires a lot of management and attention.					
Insufficient attention to post acquisition planning may limit the success of the acquisition strategy					

Section F: Performance of large family owned firms

To what extent do you agree with the following statements on the performance of large family owned firms? Use a scale of 1—5 where 1= strongly disagree and 5= strongly agree.

Component	**1**	**2**	**3**	**4**	**5**
Acquisitions helps in increasing of sales volume of the family businesses					
Acquisitions increases the market share of the family businesses					
Acquisitions increases the entrepreneurial confidence					
Acquisitions have help in increasing of the business profit					
Acquisitions have increased the geographical market power of the firm					

Appendix III: Large Family Owned Enterprises in Nairobi City County

1. Kenpoly manufacturers
2. Kenafric Industries
3. Icea Lion
4. The Ramco Group
5. Bidco
6. H.Young
7. Comcraft Group
8. Tuskys
9. Chandarana Foodplus
10. Solestor Agencies Ltd
11. Chester Hotels
12. Charles Kendall & Partners Ltd
13. Barsirim Investment
14. Peponi Schools
15. Yaya Centre
16. Hz Group Of Companies
17. Premier Group Of Companies
18. Lz Engineering
19. Hz Construction And Engineering
20. Air Kenya Aviation Ltd
21. Heritage Hotels Group,
22. Prestige Air, Village Market

23. Commercial Bank of Africa
24. Ricknix Enterprises
25. Makini Schools
26. Unga Group
27. Riverside Park Estate
28. Greenway Agencies
29. Mackenzie Kenya
30. East Kenya Bottlers
31. Spin Knit company
32. Howse And Mc George
33. Sameer Industrial Park
34. Eveready Batteries
35. Equatorial Finance Company
36. Hilltop Ltd
37. Ryce Motors
38. Mitchell Colts
39. Marshalls
40. Apex Cargo Ltd
41. Haco Industries
42. Cassandra Investments
43. Royal Card
44. Rib Shack
45. RMS Group

46. AA Kenya
47. Kaluworks
48. Kabansora
49. Credit Bank
50. Bisha Agencies
51. Jozejo Investments Ltd
52. Cianda House
53. Windsor Hotel
54. Prudential Bank
55. Willeck Trading Co.
56. Mediamax Group
57. Brookside diaries

Source: Association of Large Family Businesses in Kenya (2017)