

**CHALLENGES OF MERGERS AND ACQUISITION STRATEGY
BETWEEN UAP HOLDINGS AND OLD MUTUAL PLC**

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DECLARATION

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

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DEDICATION

This research project is dedicated to my wife, Manuela, and my children Darren and Ryan for their inspiration, support, encouragement and understanding throughout my pursuit of a degree of Master of Business Administration. God bless you all.

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ABBREVIATION AND ACRONYMS

AKI	Association of Kenya Insurers
CFC	Credit Finance Corporation
DR Congo	Democratic Republic of Congo
IFRS	International Financial Reporting Standards
IRA	Insurance Regulatory Authority
IT	Information Technology
M&A's	Mergers and Acquisitions
NSE	Nairobi Securities Exchange
OML	Old Mutual Limited
PE	Private Equity

ABSTRACT

Due to unpredictable environment in which organizations are operating in, organizations use different strategies to cope with the competition in the market. Mergers and acquisitions is one of such strategy used for accelerating growth and entry into new markets as well as achieving synergies, to become more competitive in the marketplace. Due to the dynamic modern day business environment, mergers and acquisitions have become a common phenomenon among various corporations. While a number of firms deliberate on mergers and acquisitions (M&A's) as growth opportunities, they are also able to offer a feasible solution for firms seeking to downsize or firms which are seeking a successful exit strategy. The current study aimed to establish the challenges of merger and acquisition strategy between UAP holdings and Old Mutual PLC. The study employed a case study method to investigate the in the adoption of merger and acquisition strategy between UAP Holdings and Old Mutual PLC. The study used primary data which was collected using interview guide. Respondents for the study were senior leadership team including the managing director, the chief information officer, the chief risk and compliance office, the human resource manager, and a strategy executive. The data collected was analyzed by use of content analysis. The interpretation of data collected for the study were done and presented thematically. The study found that the desire to accelerate growth of market share; to achieve economies of scope; increase revenues; to achieve operational efficiencies and to achieve geographical and product diversification were some of the motives behind merger and acquisition. The study will be useful to managers in organizations undertaking mergers and acquisition strategy by giving them insights into challenges which pose risks to the success of the process. The study will also give insights to policy makers to allow them to draft policies that protect the interest of government and shareholders. The study adds to the body of knowledge about mergers and acquisition strategy and will be useful to scholars with an interest in the challenges of mergers and acquisitions. The study concludes that there were some of the notable challenges experienced in merger and acquisition such as legal framework, high staff turnover, cultural differences and brand dilution. The study gave the following recommendations: organizations undergoing mergers should ensure to find a way to incorporate the existing personnel without having to lay off many employees. Another recommendation is to ensure that the systems are integrated as soon as possible so as to reap the synergies arising from a merger. Further research can be done in future using a different methodology such as regression analysis showing cause and effect in the same context but after several years to find out how the merger is doing and whether time factor has contributed to changes in findings. A similar study can be carried out to investigate the effect of mergers and acquisition on performance using a similar methodology but in a different context and in a different industry.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Even though the terms mergers and acquisitions are usually applied synonymously, they are actually very dissimilar. A merger consists of two firms coming together to become a single firm, whereas an acquisition normally comprises one firm taking over another firm. The existence of the firm which has been taken over or acquired then ceases. There are a number of strategic objectives for firms to take into consideration when making an acquisition and an effective takeover can enable firms realize their strategic goals and enhance cost effectiveness within the enterprise (Tilly, 2015). Though a number of firms deliberate on mergers and acquisitions (M&A's) as growth opportunities, they are able to offer a feasible solution for firms seeking to downsize or firms which are seeking a successful exit strategy (Hatem, Ahmed & Ingy, 2015).

There are a number of theories of M&A, which outline the numerous reasons for which firms engage in M&A. The first theory is the Efficiency Theory of M&A which indicates that mergers occur for the reason that one company's efficiency of management is moved to a company with an inefficient management leading to social as well as private gain (Wadhwa & Syamala, 2015). The second theory is the Strategic Realignment Theory which leans towards the fact that the nature of the economic environment is dynamic. The theory explains M&A as an action for strategic repositioning to the dynamic environment (Leepsa and Mishra, 2016). The third theory, is the Synergy Gain Theory of M&A which indicates that M&A are undertaken for synergy benefits by means of the combined company. It implies that when the two firms pool together, their fixed cost is spread by the resultant larger scale of production (Leepsa & Mishra, 2016).

Due to the dynamic nature of the business environment, firms continuously seek to strategically place themselves in the intense competitive environment. This study is therefore motivated by the recent focus M&A has gained in the recent years due to the fact that M&As are regarded as significant change agents and are an essential component of every business strategy. M&As have become a common strategic choice for firm seeking to accelerate growth of their market share. The known fact being entities evolving, and only the most innovative and nimble are able to survive. For this reason, a number of entities' strategic calls have opted for M&A arrangements.

UAP Holdings first acquired all the subsidiaries of Old Mutual Kenya. Following the acquisition, Old Mutual PLC acquired a majority stake of 60.7 per cent in UAP for Sh25.6 billion (\$253 million) in July 2015. Through the merger, a new integrated customer care center was set up to merge the two companies. Faulu Kenya which was a subsidiary of UAP Holding Ltd also came on board in the merger and acquisition and it is now part of Old Mutual and offers financial services to the clients of the UAP Old Mutual (Mwanza, 2017).

The merger and acquisition between UAP and Old Mutual has created a one stop shop for financial services. The entity will be offering services such as Sim-less financial services across banking, life assurance, general insurance, health insurance, asset management, unit trust, property investment, and stock brokerage to their customers (Maina, 2016). While the key motivation for the M&A actions were to accelerate growth for Old Mutual, the firm has had varied performance following conclusion of the deal.

1.1.1 Concept of Business Strategy

Nickols (2018) describes business strategy as the method by which a business embarks on realizing its desired goals. It can basically be defined as a long-term business planning. Normally a business strategy covers a period of roughly three to five years or even more. Nickols (2018) refers to business strategy as the procedure or sequence of decisions that aid the entrepreneurs in realizing particular business goals. Similarly, it is the long-term draft of the desired image, course as well as destination of the business. Business strategy refers to a series of competitive moves as well as actions that enterprises utilize in attracting customers, compete effectively, as well as realizing organizational goals. They state that it describes the manner in which business ought to be conducted to get through to the sought after ends.

The concept of business strategy is basically concerned with the means of achieving certain goals with courses of action. Therefore, the process of strategic choice entails understanding the kinds of stakeholder expectations and picking strategic alternatives. Usually, the most difficult part is its implementation. After evaluation and selection of business strategy, the remaining task is to translate the strategy into organizational action (Nickols, 2018).

Business strategy is particularly important in retaining customers instead of continuously looking new ones. Therefore, without a sound business strategy it is difficult for organizations generate customer loyalty. Businesses without specific strategies on the way of catering for existing customers risk pushing away them away, giving room for competitors to easily snatch them (De Flander, 2018).

1.1.2 Mergers and Acquisition

Organizations that would like to expand their market share or diversify either their products or geographically need to choose between organic growth or growth achieved through mergers and acquisitions. Organic growth tends to be slow and steady because it takes time to setup business units and go through the growth process. Acquisitions tend to be preferred by firms which seek accelerated growth and are ready to capitalize on opportunities.

According to KPMG (2016), a merger is the amalgamation of two or more firms to form one entity, whereas an acquisition refers to the purchase of an equity stake in a firm by another firm, whether minority or majority. According to Roberts, Wallace and Moles (2016) a merger or an acquisition, from a company's perspective, can be defined as the coming together of two companies to form one new organization. Ashley (2016) refers to M&A as a deliberate handover of control as well as ownership of an entity organized in one or more corporations.

The most common indicator of a successful M&A is that an acquisition enhances earnings per share. Shares are usually issued to buy a firm on a lower price-earnings multiple. Earnings are indeed boosted by a deal of M&A in the short term. However, in the long-term, the value is often lost, generally as a result of the acquiring management team being unable to enhance the target's value the way it anticipates. Companies whose owners are also managers of the firm tend to do better in regards to making successful acquisitions than those with isolated shareholders (Ashley, 2016).

The motivations for M&A strategy depend of the perspective of the entities involved and the reason for the M&A. An acquiring firm has different motivations when compared to a target firm being acquired. M&A's are regarded as significant transformation agents and are an essential element of any business strategy. As the environment changes, the most innovative companies that are quick to respond are able to survive. Therefore, it is a significant strategic call for an enterprise to opt for merger and acquisition arrangements.

1.1.3 Insurance Industry in Kenya

The Association of Kenya Insurers (AKI), was founded in 1987 and serves as the umbrella organization for the insurance industry in Kenya. Prior to AKI, it was referred to as the Insurance Association of Eastern Africa. Any insurance company that is registered in Kenya is open to becoming an AKI member. Its goal is to promote prudent business practices, to safeguard the public and to accelerate the growth of insurance businesses in Kenya. Kenya's insurance industry is administrated by the Insurance Act under the Kenyan Law and controlled by the Insurance Regulatory Authority (IRA) (IRA, 2018).

More mergers and acquisitions are expected in the insurance industry in the near future as new accounting standards meant to improve balance sheet disclosures are taking effect. Insurance Regulatory Authority (IRA) is engaging standard-setting bodies and will be advising companies on compliance to the International Financial Reporting Standards (IFRS) 9 and 17 (IRA, 2018). The regulations that are coming in form of new accounting rules are being introduced to protect customers of insurance companies. The rules introduce stringent capital requirements that ensure that the risk taken up by insurance firms is commensurate to the capital base of the firm.

Presently, there is a total of 57 regulated insurance underwriters operating in the Kenyan insurance market consisting of 54 insurance firms and 4 reinsurance companies. Among the 54 insurance companies, 27 insurers are approved to underwrite general (non-life) insurance business, 16 underwrite long term (life) business while 11 firms operate as composites (underwriting both life and non-life business).

The number as well as structure of insurance underwriters in the market has considerably changed in the last decade with current global giants gaining entry to the market for instance The Prudential Group, Allianz Insurance Group as well as the Barclays Group. Other restructuring activities within the industry have been M&A along with portfolio transfers among current players which have significantly influenced the insurance landscape in Kenya (IRA, 2018).

The insurance industry in Kenya is currently adopting new accounting standards as enforced by the IRA. The new accounting standard are aimed at increasing transparency on insurance contracts. The IRA is demanding that companies implement the standards following a set of internationally accepted guidelines defined through IFRS rules. Both IFRS 9 and 17, will aid financial establishments recognize as well as account for risks more cautiously, essentially in response to the 2008 global financial crisis. As a result of this analysts have predict the impact will be an incentive for mergers and acquisitions since mergers will be part of the solution. The development of Information Technology (IT) systems that will monitor the industry will similarly be on the rise (Ngugi, 2017). Insurance companies could be acquired by bigger firms, or merge in a bid to attain compliance with the new regulations.

1.1.4 UAP Holdings Limited

UAP Holdings Limited is the pan-African financial services company which basically acts as a holding business for a number of UAP enterprises. The group originated in the early 1920's as a result of the incorporation of Provincial Insurance Company of East Africa in London, United Kingdom. UAP Insurance Company Limited was founded in 1994. This was after a merger of Union Insurance and Provincial Insurance that were preceded by the merger of their individual mother companies in the UK- Union of France and Provincial.

The ownership of UAP changed in 1996 as the company became part of AXA following the Paris-based company's acquisition of UAP in France. In 2000, AXA was bought out and UAP Group emerged as a fully-owned Kenyan firm (UAP Holdings, 2017). UAP Holdings Limited, through its subsidiaries, has been providing insurance and investments services as well as property, and stock broking services across the globe.

UAP operates through general insurance, life assurance, property, and investment management and related financial services segments. UAP offers life, aviation, engineering, and fire insurance; and industrial and commercial risks, liability, marine, private and commercial vehicles motor, personal accident, theft, workmen's compensation and employer's liability, and miscellaneous insurance products. The firm is located in Nairobi, Kenya and has 12 businesses operating across six countries in Africa namely in Kenya, Uganda, South Sudan, Rwanda, Tanzania and DR Congo (UAP, 2017). UAP Holdings was the holding company for the numerous UAP businesses. UAP Holdings Limited is a subsidiary of Old Mutual Plc following a merger and acquisition deal between the two companies in 2015.

UAP and Old Mutual reached a deal on a merger ahead of a planned listing. This came about following Old Mutual's increasing its stake in UAP to 60% from 23%. This was achieved through after buying out 37% which were held by private equity (PE) companies namely Aureos, Africinvest and Swedfund. The deal was estimated to be around Kshs 25 billion.

This study was based on the context of UAP Holdings due to the fact its majority stake of 60.7 per cent was acquired by Old Mutual for Sh25.6 billion (\$253 million) in July 2015 through a merger and acquisition arrangement (Ngugi, 2017). UAP had subsidiaries in Kenya, Uganda, Tanzania, Rwanda, South Sudan and DR Congo. This made the firm an attractive option for Old Mutual PLC which sought an accelerated growth into markets that UAP operated in. For the UAP shareholders, Old Mutual provided an ideal exit strategy because the deal offered them an opportunity to get a premium return on their investment in the firm through willingly selling the shares they initially owned to an acquiring firm.

1.1.5 Old Mutual

Old Mutual Limited (OML) is a premium African financial services group that offers a wide-ranging range of financial solutions to retail as well as business customers across major markets in 17 countries across the globe. Its key operations are in South Africa and the rest of Africa, and it also has operations in Latin America and Asia. As of 2017, Old Mutual had over 12 million customers with a workforce of 31,000 employees. Old Mutual is an essential part of the population it serves and larger society on the continent. The company is quoted on the stock exchanges in Johannesburg, London, Zimbabwe, Malawi as well as Namibia (Old Mutual, 2018).

Old Mutual Kenya is a wholly owned subsidiary of Old Mutual PLC. The company is a global financial services provider, with growing operations in life assurance, asset management, banking as well as general insurance. Old Mutual Kenya currently owns a stake in UAP Holdings where all the Kenyan subsidiaries are held. The remaining 60 per cent stake is held by the parent firm through South African-based Old Mutual Emerging Markets (OMEM). The changes in ownership have seen Old Mutual Kenya remaining a holding enterprise with UAP Holdings as its single asset in Kenya.

The goal of the acquisition of UAP from Old Mutual's perspective was to achieve accelerated entry into markets where UAP already had a presence through its subsidiaries across 6 countries in Africa. The acquisition would also enhance insurance, investment management, properties thus, expanding the business. The business integration process following the mergers and acquisition strategy included the merger of similar businesses that existed before the consolidation of UAP and Old Mutual in East Africa in mid-2015.

1.2 Research Problem

Due to the dynamic modern day business environment, mergers and acquisitions have become a common phenomenon among various corporations. This is as a result of the natural objective of businesses to grow. The growth strategy and the need to remain competitive in the dynamic environment are the general justifications for corporations engaging in M&A activities. Because of this increasing phenomenon, there has been a lot of interest in the topic of M&A by researchers. A number of international as well as local empirical studies have been carried out on this concept (Hatem, Ahmed & Ingy, 2015).

In the Kenyan context, in July 2015, Old Mutual acquired a key investment of 60.7 per cent in UAP in several steps. In their first step, UAP Holdings acquired the Old Mutual subsidiaries and its other businesses which were overlapping, like the life insurance businesses. Afterwards the businesses were merged into single life business. The restructuring saw Old Mutual Kenya remaining a holding entity with UAP Holdings as its single asset in Kenya. Thus, Old Mutual Kenya owned shares in UAP under which all the Kenyan subsidiaries are held. The pooled UAP and Old Mutual entity in Kenya was to enhance insurance, investment management, properties, banking as well as securities brokerage therefore building a robust operating stage business (Ngugi, 2017).

Numerous studies have been conducted both globally and locally, in Kenya, on the concept of M&A. Internationally, Pahuja and Aggarwal (2016) conducted a study to investigate the impact of mergers and acquisitions on the financial performance of the Indian banks. The research employed an event study methodology. The research was conducted on nine of the sixteen banks which had undergone takeovers between the years of 2000 and 2014.

Abdulazeez and Yahaya (2016) researched on the impact of M&A on the financial performance of deposit taking banks in Nigeria. They adopted a census study. The study population consisted of twenty-five banks which underwent consolidation between 2002 and 2008. The research employed secondary data obtained from the annual reports as well as accounts of the banks studied and was analyzed by way of T-test statistics. Four Nigerian banks were selected by way of convenience and judgmental sampling methodology.

Internationally, Pahuja and Aggarwal (2016) did a study on Indian banking industry to investigate the impact of mergers and acquisitions on financial performance. The scholars compare profitability and market presence of firms within the industry pre and post the mergers and acquisitions. Moreover, the research was conducted on nine of the sixteen banks which had undergone takeovers between the years of 2000 and 2014.

Yanan, Hamza and Basit (2016) conducted a study on the impact of M&A on firm's financial performance in United States to establish the impact of M&A on firm's financial performance. The study employed panel data analysis with a 6 year time span prior to and after merger and acquisitions, with sample size of 100 firms. The research observed the difference between the pre and post M&A position.

Rahman, Ali and Jebran (2018) also carried out a research that sought to explore the influence of mergers and acquisitions on stock price behavior in Pakistan's banking sector. The scholars used event study analysis where both abnormal and cumulative abnormal returns were calculated for the purpose of determining how mergers and acquisitions affect share prices. Their study sought to establish the effect of M&As on stock price behavior within the banking sector in Pakistan by analyzing the period between 2002 and 2012.

Locally in Kenya, Joash and Njangiru (2015) conducted a study to establish the effect of mergers and acquisitions on financial performance of commercial banks in Kenya. The research adopted a survey study. The researchers focused on all the banks which had undergone mergers and acquisitions for the period between 2000 and 2014. Mwanza (2016) carried out a study to assess the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya.

Akenga and Olang' (2017) similarly in their study sought to examine the effect of mergers and acquisitions on financial performance of commercial banks in Kenya. The study adopted a census approach in which all the six banks that underwent mergers and acquisitions between 2010 and 2017 were considered. As it is evident from the above studies, limited research has been conducted to establish the challenges of mergers and acquisition strategy between UAP holdings and Old mutual Plc.

The study observed companies that had merged or acquired others between the years of 2010 and 2013. Data for two years pre and post-merger was considered to note any differences in return on assets and return on capital. Bange (2017) studied the effects of mergers and acquisitions on stock returns of insurance companies in Kenya. A descriptive design was adopted in the study. The population comprised of 55 Kenyan insurance firms using seven insurance sample companies that had engaged in M&As from 2012 to 2015.

This study hence seeks out to bridge the current conceptual, methodological as well as contextual research gaps by examining the challenges of merger and acquisition strategy between UAP holdings and Old mutual Plc thereby adding to the body of knowledge. This study therefore, seeks to answer the research question: what are the challenges of merger and acquisition strategy between UAP holdings and Old Mutual Plc?

1.3 Research Objective

This study has one objective which is to establish the challenges of merger and acquisition strategy between UAP holdings and Old Mutual Plc.

1.4 Value of the Study

This study would be of value to management since managers ought to understand, anticipate and manage business dynamics inherent in a number of alliances in the modern day networked business environment. Since a merger and acquisition is a smart strategic move for firms with plenty of economic prospects. That said, some M&A transactions are stronger than others. Others fail as a result of poor execution. Hence by understanding the challenges of M&A, managers would be able to adopt successful transition as well as integration plan for merger success.

The government and government policy makers would gain from this study in formulation of well-versed policy pronouncements with an objective of developing and growing the insurance industry while safeguarding financial strength in the financial market. This research can further help in drafting of anti-trust policies as well as regulation for restricting monopolistic practices as well as other unfair competition practices to safeguard level playing field for both small and large insurance companies.

Scholars and academicians who may be seeking out to conduct further studies on mergers and acquisitions of insurance companies can be able to acquire an understanding into the research subject and explore any research gaps not considered by this research. The findings of this research is also be of significance in generation of other theories and models that others carrying out future researches can utilize to give them a basis of preceding knowledge to conduct their researches from. The theories established by this study can inspire other researches and is valuable in crafting the null hypothesis, which were either be attested or challenged by their researches.

This study can greatly benefit investors since they can gain an insight in making investment decisions relating to the two firms studied. This study gives important information to advise buying or selling decisions involving the stocks of firms that are restructuring or expecting restructuring activities as a result of M&A strategy. Individual businesses that are expecting restructuring arrangements by way of M&A can be able to learn from experiences of the two companies involved in this research.

Shareholders of companies engaging in mergers and acquisitions can use this study to gain insights and make decisions on whether to hold or buy shares in the companies involved, or whether to sell their stake in these companies. The existence of challenges highlighted in this study can be a pointer in decision making for shareholders.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that relates to the challenges of mergers and acquisition strategy in business. First of all, theories associated to the subject are described, including their origin, meaning, development, limitations, and relevance to this study. Herein, the theories of efficiency, strategic realignment, and synergy gain are examined.

Secondly, this chapter examines the challenges associated with mergers and acquisition strategy as described by other studies. In this regard, the challenges are identified, explained and referenced. These challenges are relevant because they were written by other authors carrying out M&A related research.

Finally, empirical studies both global and local are reviewed, where previous research which is related to the topic is analyzed. For this section, the scholar is identified and their work briefly analyzed noting their specific topic of research, their findings and recommendations. At the end a summary of the contents of the chapter is then given. Furthermore, in this section the existing research gap is identified from the reviewed empirical studies.

2.2 Theoretical Foundation

There are various theories that explain the effects mergers and acquisitions have on the involved organizations. However, this study concentrates on the efficiency, strategic realignment, and synergy gain theories, which involve the two concepts.

2.2.1 Efficiency Theory

This theory explains that mergers only take place when the coming together of firms is expected to generate adequate synergies that make the deal beneficial to both companies. Therefore, that it is the symmetric expectations of gains to both companies which results in a friendly merger being proposed and accepted (Wadhwa & Syamala, 2015). If there was no gain in value to be expected, it is suggested that the target firm's owners would not agree to go ahead with the acquisition and if the gains are negative to the bidder's owners, the bidder would reject the deal. The efficiency theory predicts value creation with positive returns both to the acquirer and the target (Akenga & Olang', 2017).

Therefore, this theory explains that a merger or acquisition only take place when both firms involved expect to benefit from the move. In addition, it is expected that the merged or acquirer organization registers a higher value and efficiencies that the individual firms involved. However, according to Pahuja and Aggarwal (2016) that is not necessarily the case since in some instances there is no significant mutual gain. This fact points to the presence of challenges in mergers and acquisitions which this research seeks to identify.

However, unsatisfactory results could possibly come about when an organization culture is forced on another organization after a merger conflict. This could possibly take some time and both firms' members could take some time before they become accustomed. Unfortunately, the evolving business environment does not give an organization adequate time to deal with this adjustment. As a result this conflict in cultures of the organizations usually lead to organization's failure (Tilly, 2015).

2.2.2 Strategic Realignment Theory

This theory suggests that mergers and acquisitions occur as a means of enabling firms to quickly adjust to changes in their external environment (Baker & Jones, 2008). For instance, a firm that has an opportunity for growth only within a limited window may be required to apply this strategy since slow internal growth is insufficient to fully harness the opportunity. Such external changes include tax, technology or regulations. In such cases consolidation is an easier way for a firm to adjust since external acquisition helps reduce the time required for adjustment (Bange, 2017).

According to the strategic realignment theory therefore, mergers and acquisitions are a strategic move to help organizations adapt to changes in their external environment with more ease. While this theory explains that organizations should adjust quicker to changes in the external environment after mergers or acquisitions, research shows that that is not necessarily the case (Mwanza, 2016).

Strategic realignment is aimed at ensuring efficient exploitation of the managerial proficiency as well as organization's expertise. It is believed that, by way of external diversification, the acquiring organization can tap into distinct as well as external managerial proficiencies which would enable it boost its performance in entirety. Mergers with strategic realignment foundations enables organization to benefit from economies of scale (Ashley, 2016). This theory is relevant to the study at hand since from it the merger between UAP holdings and Old Mutual PLC can be evaluated for increased adaptability against which challenges can be identified.

2.2.3 Synergy Gain Theory

The synergy gain theory holds that firms enter into mergers and acquisitions in order to achieve synergy. Mwanza (2016) defines synergies as the net incremental gains achieved from a combination of organizations that happens after mergers and acquisitions. According to this theory both firms involved stand to gain from the consolidation. A key motivation for M&A activities is to achieve synergies through the creation of added value in the resulting firm. Synergies tend to be identified before the M&A deal and this does not always guarantee that the identified synergies will be eventually realized. Challenges exist in actualizing the synergies and these can be attributed to an over focus on financial aspects and minimizing the importance of integration (Cartwright, 2011). The buyer firm recognizes specific aspects of the target which are complementary and thus after the merger or acquisition gains while at the same time improving the performance of the target.

Operational synergies are achieved from economies of both scale and scope. In addition, in the post-merger period it is possible to reduce costs and increase revenues as a result of sharing systems, distribution channels and brand names (Bange, 2017). Secondly, financial synergies are achieved through efficient resource allocation which is made possible by enlarged internal capital markets. Finally, managerial synergy arises where the acquiring firm has the advantage of better managerial skills.

In conclusion, synergy gain theory is useful to this study as it explains the aim mergers and acquisitions, which is to create synergy. From this theory, therefore, it is expected that consolidation through M&As result in operational, managerial and financial gain for both firms involved. However, this is not always the case.

Pahuja and Aggarwal (2016) observe that there is no significant improvement in post-merger performance of banks in India. Therefore, on paper, M&A deals and synergies tend to appear be feasible but during actualization of the M&A, a mismatch is often realized. This study seeks to investigate the challenges involved in mergers and acquisitions which then hinder enhanced performance.

2.3 Challenges of Mergers and Acquisition Strategy

In theory, mergers and acquisitions are expected to boost operational and financial synergy, diversification, adaptability and market power. However, this is not always the case and this strategy sometimes leads to a dip in efficiency, market share, share price and profitability. These challenges may occur in communication, employee retention, organizational culture, and incomplete due diligence. King et al. (2004), after studying the post-acquisition performance of firms noted that in most cases the acquiring firms' performance does not positively change as a result of an acquisition. The financial performance of such firms indicates that unidentified variables may explain significant variance in post-acquisition performance.

Akenga and Olang' (2017) also explain that cultural incompatibility is a major challenge in mergers and acquisitions. The scholar, in his study of challenges of mergers and acquisitions as a strategic orientation at CFC Stanbic Bank Limited, acknowledges that in order to achieve the desired strategic and financial objective of any consolidation a new organizational culture needs to be forged. Leadership style, communication means, innovation and technology among other issues need to be agreeable between the parties to the consolidation.

King et al. (2004), after studying the post-acquisition performance of firms noted that in most cases the acquiring firms' performance does not positively change as a result of an acquisition. The financial performance of such firms indicates that unidentified variables may explain significant variance in post-acquisition performance. According to a survey done by PWC (2010), communication breakdown is one of the reasons why post-merger organization synergies fail. Communication eliminates mistrust and uncertainty in the new workspace. After the merger, Ashley (2016) explains that constant communication needs to be maintained even when integration appears to have taken happened successfully.

Mergers and acquisitions generally cause anxiety, stress and conflict of roles among employees. Therefore, some may not be willing to continue working for the new entity especially where there is communication breakdown or where they feel unfairly treated. Furthermore, employees may feel that their job security is threatened thereby opting to leave the firm (Pahuja and Aggarwal, 2016). The main challenge internal to a corporation post consolidation lies in the management of people. Pahuja and Aggarwal (2016) explain that free flow of information is essential in ensuring value adding mergers and acquisitions. According to his study communication breakdown leads to confusion and lack of clarity on the direction of the new entity as well as organizational goals post consolidation.

According to Akenga and Olang' (2017) the acquirer and target should study each other's corporate structures and other general matters including organizational charts and existing agreements and obligations held. In addition, due diligence including a complete tax history, contractual obligations, litigation issues, employee and management issues as well as compliance to laws and regulations should be carefully studied.

During and after the consolidation process during M&As, leadership ought to be maintained leaving no room for a vacuum to occur, while at the same time defining the roles of each employee in order to keep them engaged and eliminate feeling of insecurity and mistrust (Pahuja and Aggarwal, 2016). Mergers and acquisitions generally occur because financial and business rationales add up but often fail to consider cultural implications. Organizational culture refers to the shared beliefs, values and assumptions within a firm which then influence behaviour and attitudes of those within it. Likewise, each organization in a merger or acquisition has its own culture meaning that the two have to find common ground if success is to be realized (Pahuja & Aggarwal, 2016).

Comprehensive due diligence is essential towards ensuring a successful merger or acquisition. It is important for both firms to get complete and honest information about each other on financial, operational and cultural characteristics (Bange, 2017). Both parties should take time to study each other's financial statements and understand their means of operation, goals, beliefs and value system, and management style since lack of clarity on such matters could lead to clashes later on and derail progress in the consolidated organization.

2.4 Empirical Studies and Knowledge Gaps

Empirical evidence suggests that acquiring firms often end up in break-even situations where the firm tries to recover its original investment and considers the acquisition as a failure in the long run (Gates and Very, 2003). Porter (1987) argued a similar view noting that acquisitions are often divested later at a loss. This points to the existence of challenges which hinder firms from achieving successful financial performance.

Internationally, Pahuja and Aggarwal (2016) did a study on Indian banking industry to investigate the impact of mergers and acquisitions on financial performance. The scholars compare profitability and market presence of firms within the industry pre and post the mergers and acquisitions. Moreover, the research was conducted on nine of the sixteen banks which had undergone takeovers between the years of 2000 and 2014. Pahuja and Aggarwal (2016) argue there are no significant improvements in the profitability of an organization as a result of M&A. Their study presents only contextual and methodology gap as the study was done in India, used secondary data while this study focuses on Kenya and relies on primary data.

Yanan, Hamza and Basit (2016) conducted a study in the United States to establish the impact of M&A on firm's financial performance. The study investigates the financial position of 100 firms, pre and post mergers and acquisitions by analyzing data over a span of six years. In addition, the analysis involves a measure of return on equity, return on assets, earnings per share, net profit margin, and sales growth of the acquirer.

The study by Yanan, Hamza and Basit (2016) finds that mergers and acquisition strategy improves a firm's profitability and grows its market share. According to the study, the value of stockholders also improves. A conceptual gap exists as this study's focus is on the impact of M&A on financial performance. A contextual gap also exists because the study was in the United States while this study has Kenya as its context. Yanan, Hamza and Basit (2016) relied on secondary data while this study used primary data from interviews thus presenting a gap in the methodology.

Rahman, Ali and Jebran (2018) conducted a research to explore the influence of M&A on stock price movements in Pakistan's banking industry. The scholars used event study analysis where both abnormal and cumulative abnormal returns were calculated for the purpose of determining how mergers and acquisitions affect share prices. The study involved banks that had undergone M&A between the years of 2002 and 2012. According to their research, some organizations were negatively affected while experienced an improvement in their share returns. The study concludes that the overall effect of M&As on the performance of banks in Pakistan is negative. A conceptual gap arises with regard to M&A on stock price, and a contextual gap, as the study was done in Pakistan.

Akenga and Olang' (2017) similarly in their study sought to examine the effect of mergers and acquisitions on financial performance of commercial banks in Kenya. The study adopted a census approach in which all the 6 banks that underwent mergers and acquisitions between 2010 and 2017 were considered. The study found that this phenomenon has a positive impact on shareholders' wealth and the general asset value of merged or acquiring banks. Conceptual gap exists as this study focus on the effect of M&A on financial performance; contextual gap arise since it focuses on commercial banks in Kenya, it adopted a census approach and on secondary data.

The study findings by Akenga and Olang' (2017) show that a merger and acquisition announcement causes a substantial change in the stock returns in the post-merger period matched to the premerger period. A conceptual gap exists as this study focus on the effect of M&A on stock returns. In additional methodology gap arises since this study adopted event study methodology and secondary data.

Abdulazeez and Yahaya (2016) conducted a research on deposit taking banks in Nigeria to investigate the impact of M&A on financial performance. The study population consisted of twenty-five banks which underwent consolidation between 2002 and 2008. A sample of four banks, which retained their identity following M&A, was taken. According to the study, mergers and acquisitions result in an improvement in financial efficiency of the involved firms thereby encouraging weaker organizations to merge or accept acquisition by stronger ones. The study presents only a contextual, conceptual and methodology gap as the study was done in India, used secondary data whereas study focuses on Kenya, primary data and interview guide.

Locally in Kenya, several studies have also been carried out. For instance, Joash and Njangiru (2015) conducted a survey of commercial banks in Kenya to establish the effect of mergers and acquisitions on financial performance. The scholars studied the effect of mergers and acquisitions on shareholders' value as well as profitability for all the banks which had undergone these activities for the period between 2000 and 2014. According to this research, banks that merge or acquire others enjoy enhanced shareholders' value and profitability.

Joash and Ndirangu (2015) recommend that thorough research be done before merging with or acquiring another bank to ensure the primary motive of increasing profitability is achieved. A conceptual gap existed as this study focused on the effect of M&A on financial performance; contextual gap arise since it focuses on commercial banks in Kenya, it also relied on secondary data.

Mwanza (2016) carried out a study to assess the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. The study considered insurance companies in Kenya that had merged or acquired others between the years of 2010 and 2013. The data for two years pre and post-merger was considered to deduce any differences in return on assets and return on capital. The study observed an improvement in the two parameters, return of assets and return on equities, thereby concluding that mergers and acquisitions enhance financial performance. A conceptual gap existed as this study focused on the effect of M&A on financial performance; contextual gap arise since it focuses on insurance companies in Kenya, it also relied on secondary data.

Bange (2017) studied the effects of mergers and acquisitions on stock returns of insurance companies in Kenya. The research was conducted on 7 insurance companies that have engaged in mergers and acquisitions between January 2012 and December 2015. Furthermore, the study considered a 60-day event window which comprised 30 days prior to and after the merger or acquisition. The study by Bange (2017) presents a methodology gap since it adopted a descriptive research design yet this study adopts a case study design.

This chapter has given a theoretical framework on which this study is based through an evaluation of the efficiency, strategic realignment and synergy gain theories. According to the theories mergers and acquisitions occur for the purposes of building synergy, increasing efficiency and adaptability among other reasons all of which are meant to improve performance or standing of the individual firms. However, this strategy does not always cause significant boost in performance of organizations as expected despite due diligence being done before an agreement is reached for a merger or acquisition.

All these reviewed studies have concentrated on the effect of mergers and acquisitions and found that while sometimes it is positive at others it is negative. Furthermore, they acknowledge that theoretically, only a positive effect is expected. However, they do not address the causes of this difference. Limited research has been done on the challenges of mergers and acquisitions, which would help bridge this gap by explaining existing loopholes which unless avoided then lead to a deviation from the targeted result.

Evidence from other studies suggests that, in the long run, acquisitions are mostly viewed at best as 'break-even' situations by acquiring firms and they are often considered failures (Gates and Very, 2003). Therefore, this study aims at filling this gap through investigating the challenges of mergers and acquisitions through a study of the consolidation of UAP holdings and Old Mutual PLC. These challenges as expressed in this chapter may lie in communication, employee retention, difference in organizational culture or incomplete due diligence.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section encompasses the methodology to be employed by the researcher in carrying out the research. The research methodology mainly covered the research design, targeted population of the study, the data collection process and the data analysis.

Since the study mainly focused on UAP Holdings and Old Mutual PLC, the study adopted a case study research design. For the sole purpose of this study, the researcher majorly used the primary approach in the collection of data. The primary data was obtained from management employees of UAP Holdings and Old Mutual PLC. The data adopted for this study was largely qualitative through interviews of senior management and by reviews of published financial reports from the two firm's involved.

The study's target population was top management of the post-acquisition entity. Top management are directly involved in the implementation of merger and acquisitions as a strategic choice. The study was focused on the case study of the acquisition that occurred so as to establish the challenges that arose as result of the merger and subsequent acquisition.

3.2 Research Design

Research design is considered as the arrangements in the collection and analysis of a study's data. It is primarily aimed at combining different elements that are relevant to a study (Kothari, 2014). Research problems should be established with the intent of guiding and obtaining information.

This study employed a case study method to investigate the in the adoption of merger and acquisition strategy between UAP Holdings and Old Mutual PLC. This research design allowed for collection of relevant details that would not be possible when using other research designs (Yin, 2011).

Adoption of a case study design allowed for in-depth research on the post-acquisition entity to reveal challenges encountered. The data collected allowed for in-depth analysis to unearth the challenges that existed as a due to M&A activities. Case study use similarly helped adapt concepts as well as generate novel hypotheses that were utilized for later testing. Also, within the case study, it was possible to carry out scientific experiments as well as provide the basis for data generalization for illustrating results (Kothari, 2014).

3.3 Data Collection

The research study mainly used primary data in the collection process. The personal interview technique was be employed with the use of an interview guide to obtain data from respondents who were well versed with the merger and acquisition that occurred between UAP and Old Mutual PLC. The interviewees included the senior leadership team including the managing director, the chief information officer, the chief risk and compliance office, the human resource manager and a strategy executive. The interview guide for this research was be both scripted and loose (Cohen & Crabtree, 2006).

The interviewees had an opportunity to give answers and also clarify any interview questions they do not understand. It was be justified to adopt interview guide in this study as it gave guidance concerning what to do or say next, when the interviewee had responded the final question (Cohen & Crabtree, 2006).

The interview guide was appropriate because the respondents were directly involved in the merger and acquisition process and have first-hand experience which provided valuable data on the subject of the study. This enabled the researcher to identify things to be asked about, the sequence of asking, the manner in which to pose the interview questions, as well as how to pose follow-ups. The interview also allowed the interviewees to information that they felt was relevant to the study.

An interview guide acknowledged four crucial facts of human social interactions. These facts are: (1) research questions are not similar to interview questions; (2) individual's adopted concepts are different from their applications of the concepts; (3) interviews are social occasions; and lastly (4) testimony by itself is comparatively weak type of evidence. This interview guide offered a number of ways of accommodating these four crucial facts (Kothari 2014).

3.4 Data Analysis

The data collected in this research was analyzed by way of content analysis whereby replicable as well as valid inferences were be made by way of interpreting as well as coding textual material. Content analysis was appropriate due the qualitative nature of data sought from the interview. Content analysis was at the intersection of the qualitative and quantitative customs. It was used for rigorous investigation of numerous significant but difficult-to-study subject of interest in unearthing challenges of M&A between UAP and Old Mutual PLC. Content analysis was valuable to this study as it was important in the recovery as well as the examination of the degrees of organizational behaviors, stakeholder perceptions, and cultural trends (Yin, 2011).

Content analysis was valuable in bridging the gap between purely quantitative and purely qualitative techniques. Incidentally, content analysis allowed for the analysis of socio-cognitive as well as perceptual concepts that were challenging to investigate using conventional quantitative archival techniques. At the same time, it enabled large samples to be collected that would otherwise be hard to use in purely qualitative researches (Yin, 2011).

From content analysis for primary data, inferences were made from analyzing the data which lead to the identification of consistent themes being brought out from the data. For secondary data, descriptive analysis was applied to the financial statements from which return on assets and return on equity ratios were calculated so as to compare the performance of the firm before and after the merger and acquisition.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter provides an analysis of data collected from the field. The results are presented to highlight the major findings. The study targeted senior management including the managing director, the chief information officer, the chief risk and compliance officer, the human resource manager, a strategy executive, and a manager. The interviewees have held senior management positions during the merger and acquisition process.

Since the interviewees were implementers of strategy in the firm, the data they provided was relevant to the study. The data they provided was also credible because they were directly involved in the merger and acquisition as it happened. The interview yielded data that was qualitative in nature and was analyzed through content analysis. By analyzing the primary data collected, inferences were made which indicated that there were consistent themes in the data.

Out of the five targeted interviewees, all the five targeted were interviewed and provided data resulting in a response rate of 100%. Since the response rate was above 70% and therefore considered adequate in making conclusions for the study (Weisberg, Krosnick & Bowen, 1996). Mugenda and Mugenda (2003) argue that a response rate of 50 percent is adequate while a rate of 60 percent is good; a response rate of 70 percent and above is considered to be excellent.

4.1.1 General Characteristic of the Respondents

The study targeted senior management and requested interviewees to indicate their current designation. From the data given, those who participated in this study held senior management positions including managing director, the chief information officer, the chief risk and compliance officer, the human resource manager and a strategy executive. The interviewees who participated in this study held senior management positions.

The study sought to investigate the duration over which the interviewees had worked in the current position. All the senior managers interviewed were found to have served the organization for five or more years in senior management capacities. This implies that respondents had worked for either of the two firm's before, during and after the merger and acquisition.

The interviewees, in their capacities as senior management, experienced first-hand the challenges of the mergers and acquisition strategy between UAP holdings and Old Mutual Plc. This first hand exposure to the process made them reliable sources of data as they were the implementers of strategy throughout the process and therefore they were aware of challenges that the study sought to establish.

4.2 Merger and Acquisition between UAP and Old Mutual

This study revealed that the primary motive behind merger and acquisition for Old Mutual was to accelerate growth of market share. This is because the target company, UAP, had a presence in six markets across Africa some of which Old Mutual did not have any subsidiaries. Mergers and acquisitions have been a popular strategic movement for global businesses, attaining growth, diversification, or profitability (Fowler and Schmidt, 1988).

Lahovnik and Malenković (2011) argue that in most instances where mergers and acquisitions have taken place, the real winners of acquisitions are the target company's shareholders. This is because they are likely to receive a significant premium which is above the market price of their share value. For this study, interviewees indicated that a primary reason for the shareholders of UAP was to exit the firm. The shareholders were therefore seeking a favorable return on their investment in the firm.

Old Mutual was an ideal acquirer of UAP because it provided a competitive return on investment to the shareholders. Return on assets and return on equity are considered as an important indicator in measuring company's efficiency and financial performance. A number of variables are useful in measuring a firm's financial performance. The first one is return on assets which can be described how a company's directors utilize assets to realize profits. Another variable is return on equity which is a financial ratio that compares profit of a firm to the equity injected (Mboroto, 2013).

By acquiring a majority stake in UAP, Old Mutual would increase its market share by accelerating growth into the markets that UAP operated in. Old Mutual was also seeking to achieve geographical and product diversification to minimize the risk on over relying on fewer markets and to increase the firm's offerings in financial services. Other motives identified included synergy benefits from business units that would complement each other. Likewise, interviewees pointed that for UAP, the motives for the merger and acquisition were different.

The pre-M&A period mean ROA value was 0.038 while the post- M&A period mean ROA value was 0.021 as illustrated in table 4.1 below. The pre- M&A period, the ROE value of UAP increased from 0.183 in year 2012 to 0.368 in year 2014. This indicates a positive change in the ROE values of 104.91% over the 3 year period. In the pre-M&A period, UAP realized an increase in ROA value from 0.023 in year 2012 to 0.055 in year 2014. This resulted in a positive increase in the ROA values of about 41.81% over the 3 year period. The post-M&A period experienced mixed results with the ROA value decreasing from 0.036 in year 2015 to 0.003 in year 2015 and then increasing to 0.025 in year 2016. This represented an overall negative change in the ROA values of 28.57% over the 3 year period.

Table 4.1: Pre and Post-Merger/Acquisition ROA and ROE Values of UAP

Pre-Merger/Acquisition			Post-Merger/Acquisition		
Year	ROA	ROE	Year	ROA	ROE
2012	0.023	0.183	2015	0.035	0.252
2013	0.036	0.253	2016	0.003	0.089
2014	0.055	0.375	2017	0.025	0.180
Mean	0.038	0.270		0.021	0.177

Source: Compiled from Annual Report (April 2013; April 2014; April 1015) of UAP Holdings Ltd

The post- acquisition period posted mixed results with the ROE value decreasing from 0.252 in year 2012 to 0.089 in year 2016 and then increasing to 0.193 in year 2016. This represented an overall negative change in the ROE values of 28.57% over the 3 year period. The company's pre-acquisition period mean ROE value was 0.258 while the post- merger/acquisition period mean ROE value was 0.139. The average vales of ROA and ROE illustrates that UAP had better performance in the pre-merger/acquisition period than in the post-merger/acquisition period implying that UAP experienced challenges after mergers and acquisitions.

The value of ROA for Old Mutual in the pre-merger/acquisition period Old Mutual decreased from 0.433 in the year 2012 to 0.403 and then increased to 0.473 in 2014. The post-merger/acquisition period indicates that ROA of Old Mutual increased from a value of 0.572 in year 2015 to 0.689 in year 2016. This shows an improvement in ROA for Old Mutual. Old Mutual pre- merger/acquisition period mean for ROA value was 0.436 while the post-merger/acquisition period means ICR value was 0.671. This indicates that Old Mutual registered an improvement in its performance after merger and acquisition. Table 4.2 below indicates the pre and post-merger and acquisition of Old Mutual PLC.

Table 4.2: Pre and Post-Merger/Acquisition ROA and ROE Values of OLD Mutual

Pre-Merger/Acquisition			Post-Merger/Acquisition		
Year	ROA	ROE	Year	ROA	ROE
2012	0.433	0.222	2015	0.572	0.195
2013	0.403	0.167	2016	0.689	0.306
2014	0.473	0.188	2017	0.752	0.332
Mean	0.436	0.192		0.671	0.278

Source: Compiled from Annual Report (March 2013, March 2014, March 2015) of Old Mutual

On the preparation process for impending merger, before the merger started, there was communication to the employees on the future expectations. Various channels were in use to ensure this such as companywide meetings, departmental meetings, anonymous sites for posting concerns and an internal weekly magazine called SISI. By doing so, the organization promoted a sense of concern for the welfare of employees promoting their peace of mind in carrying out their daily duties. There was a well structure preparation process which was done through constant and open communication.

Interviewees also indicated that managers underwent change management training programs to prepare them for the transition. Through this preparation process managers have been instrumental at steering their staff in the right direction. This was an added skill to their advantage which can be applied in future changes. The managers had to undertake specialized trainings to equip them with skills that would help the organization realize its integration objectives. They were trained on how to handle the changes that were taking place, including strategies for interacting and communicating with other employees on the anticipated changes.

4.3 Challenges of Mergers and Acquisition Strategy

The main objective of the study was to establish the challenges of merger and acquisition strategy between UAP holdings and Old Mutual PLC. Closing a merger and acquisition deal is a step towards the process of actualizing the strategy. That step is followed by activities such as integration which yield challenges that affect the merger and acquisition. Every merger and acquisition is faced with varying challenges that managers deal with. Should the challenges be ignored they cause major problems that stand in the way of reaping the benefits of the merger and affect the performance of the organization. Varizani (2013) argued that “the key to post merger success is the ability to align culture, structure, processes and strategy to the operating environment” and HR is critical to this process.

The existence of challenges in mergers and acquisition is reinforced by findings that acquisitions are often the cause of declines in the acquiring company’s profitability in the long term (Fowler and Schmidt, 1989) and a decline in shareholder returns (Agrawal, Jaffe and Mandelkar, 1992). A company must therefore always be ready to face some challenges during its merger process and should have contingencies to manage these challenges.

While M&As can lead to economies of scale and scope and increase efficiency, the company ends up larger and more complicated than before which brings about larger costs. The degree of complexity is an important consideration when estimating cost efficiency of a post-acquisition firm (Davidson, 2004).

4.3.1 Employee Retention

The study requested interviewees how the merger and acquisition impacted on employee retention. Dealing with the staff from both companies was a major challenge due to the overlapping in job descriptions and titles. As a result, many employees were laid off from the organization. Among the most affected departments was the Information Technology department.

There were also voluntary staff exits during this period as well by staff who did not feel comfortable with the changes going on. Hambrick and Hanella (1993) argue that an acquired company's executives are placed in a new social setting with a lot of comparisons being done between them and their acquirers. This creates feelings of intimidation and subordination to the acquired company's employees

After the merger and acquisition, employees of the acquired company felt a loss of autonomy and a lack of appreciation by managers in the acquiring firm. This caused voluntary exits from the firm as the employees left the organization. Some employee's positions became redundant due to the duplication of roles and the employees were laid off.

4.3.2 Increased Costs

The cumulative sum of the exit packages, rebranding, integration of systems, among other exercises necessary to achieve synergy has led to increased costs. After the merger and acquisition, overall costs, including salaries and wages, have doubled. The firm's staff costs in particular have also doubled over a period of 3 years (UAP, 2017).

The merger and acquisition resulted in high staff costs notably on human resources during the integration process. Such human resource practices included employee training and recruitment of new employees after the acquisition has led to an increase in costs. Furthermore, some employees who left the organization during layoffs received compensation in form of above average severance packages.

The firm has also had significant legal costs which are as a result of seeking compliance with various laws and regulations. The legal team had to recruit new employees who were costly. External consultants were also contracted to play various roles such as change management and advisory services. The cumulative consultant's fees were costly to the company.

4.3.3 Legal Framework

The UAP and Old Mutual merger and acquisition was a cross border engagement because UAP was headed in Kenya while Old Mutual was headed in South Africa. Interviewees indicated that the required complicated litigation from both parties. The process needed to satisfy regulations from various authorities mandated to oversee the business environment both in South Africa and in Kenya.

The companies also operated in multiple sectors where litigation requirements differ. UAP Old Mutual also had overlapping business in life insurance and asset management which have been operating separately since the merger due to the complex approval process required to integrate the businesses. Although progress has been made in trying to integrate the business, the litigation process is complicated, time consuming and affects the realization of synergies that come with consolidating the costs into one.

The first step that was taken to realize the merger and acquisition was for UAP Holdings to acquire the Old Mutual subsidiaries and overlapping business like life business. After that, the company merged the two life businesses of UAP life and Old Mutual life to create one life business. Each of these steps required satisfaction of various complex legal requirements.

4.3.4 Overlapping Business Functions

During the data collection, the study established that overlapping of business functions was also a challenge experienced during and after merger and acquisition. A critical phase that determines the success or failure of acquisitions is the challenge of successfully integrating the newly acquired company (Lahovnik and Malenković, 2011). Interviewees indicated that there was a challenge because operations of UAP and Old Mutual needed to be integrated into unified business units.

Interviewees pointed out that both UAP and Old Mutual had business units operating similar functions such as life insurance and investments. This meant that business units that needed to operate as one, were functioning as separate entities with separate systems. Lahovnik and Malenković (2011) argue that despite an acquirer choosing a target company wisely, financial performance may still decline if the integration of the two companies is not smooth.

Interviewees in this study indicated that the overlapping businesses increased the number of reconciliations and the complexity of reporting. It also created short term confusion as on the allocation of roles and responsibilities for the affected business units. This actually doubled the workload of employees when doing reports because they needed to consolidate reporting to report one position.

4.3.5 Brand Dilution

The definition of a brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition (Keller, 2006). The study requested the interviewee to indicate whether the re-branding of the company has influenced their position in the market. Interviewees indicated that the merger and acquisition caused management to gradually re-brand the firm. The interviewees suggested that the brand changes affected customer loyalty which they indicated was part of the reason for a decline in renewal of business.

Interviewees indicated that after the acquisition, several advertising and marketing campaigns have been undertaken to transition the brand to UAP Old Mutual with an eventual goal of having Old Mutual as the main brand. The goal of the marketing campaigns are to create brand awareness that reflects the merger and acquisition so as to develop loyalty to the new brand and to retain the brand loyalty customers who were loyal to the previous brand. Interviewees highlighted that the UAP and Old Mutual logos currently appear side by side, after the acquisition and they pointed out the creation of a brand coded “Sisi”, which means together.

According to interviewees, the changes in the brand are a challenge because the UAP brand and positioning in the market, relative to its competitors, was built over many years and was easily recognizable in the market. Customers have identified with the UAP brand over the years and have built expectations from the brand. However, the position of brand in the market is changing after to reflect the merger and acquisition and this affects brand identity and loyalty.

4.3.6 Cultural Challenges

The interviewees indicated that Old Mutual has a presence in countries across multiple continents while UAP was present in multiple countries across Africa. Old Mutual and UAP therefore had diverse cultures with people from multiple backgrounds and countries who have varying cultures. In addition to this, each of the companies had subsidiaries which were culturally diverse. Adopting a unified culture meant change in the organization and this process itself has faced is difficult for employees who were used to the status quo.

The merger and subsequent acquisition brought the two companies together raising challenge of adopting a unified culture across the organization. Differences in management styles were brought out after the acquisition. Some managers were used to rapid decision making based on a factor of risk while another side would take time evaluating alternatives before settling on a decision. The degree of teamwork between the companies before the merger and acquisition was also varied. While some managers from the acquired firm had preferred to work independently, managers from the acquiring firm were used to consultation with their colleagues. Managers at Old Mutual also valued customer satisfaction to a higher degree than their counterparts at UAP and when doing reports, they would include metrics to improve customer satisfaction.

From the findings, it was clear that there were differences between the culture at UAP and the culture at Old Mutual before they merged. The interviewees indicated that cultural differences were a challenge after the acquisition. Interviewees gave examples of differences in managerial styles and employee welfare so that employees have a balanced work-life.

4.4 Discussion of Findings

An important aspect of mergers and acquisitions is that acquisitions may be friendly or hostile. UAP and Old Mutual engaged in a friendly acquisition that was preceded by a merger as both parties agreed to the process. No resistance or legal proceedings instituted to stop the process. From the findings, the financial performance of the post-merger and acquisition period have not been positive. Interviewees pointed out that challenges were faced during the merger. These included employee retention, increased costs, brand dilution, litigation issues, cultural challenges as well as an overlap of business functions.

The study established that one key motive behind merger and acquisition was to accelerate market growth for Old Mutual PLC by accelerating entry into new markets that UAP operated in. Another motive was to achieve geographical and product diversification. These findings support the illustration of Pandey (2008) that the ultimate goal of M&As is the generation of synergies that can improve performance.

Following the merger and acquisition between UAP and Old Mutual, some employees left the firm voluntarily. Management of an acquiring firm should prioritize human aspect in addition to the strategic aspects by acting as partners with the acquired firm's managers (Ashkenas et al., 1998). UAP employees who left may have felt unappreciated after the social setting in the work place changed and new managers were introduced.

For UAP and Old Mutual, the acquisition is a cross border acquisition. This is because Old Mutual is a global firm with its head office in South Africa while UAP had its head office in Kenya. The two companies therefore have diverse cultures with employees from diverse cultural backgrounds. This posed a challenge of adopting a unified culture across the organization and across the subsidiaries. In order to successfully integrate diverse cultures after a merger and acquisition strategy is adopted, three alternatives can be opted for: building a new culture that consists of the best aspects of both cultures; imposing the culture of the buyer firm; and separating the two cultures (Jackson & Spence, 2004).

The merger and acquisition between UAP and Old Mutual created culture clash. Differences in culture between the acquired firm and the acquiring firm in an acquisition can impact the performance of the firm positively or negatively depending on how the managers of the two firms view each other's cultural values (Very et al., 1997). If they managers of the two firms view the values positively, it positively impacts performance. UAP employees are yet to adjust to the new culture in the organization which is dominated by values from Old Mutual. Management has recognized this challenge and is therefore promoting a culture of togetherness and teamwork in a bid to unify the culture in the post-acquisition firm.

After a merger and acquisition takes place, the managers in the acquired firm end up in an unfamiliar work environment where their managerial style is compared with that of managers in the acquirer's firm. While they may have previously had autonomy in decision making, the managers may find themselves needing the approval of managers in the buying form. Hambrick and Hanella (1993) argue that it is important for managers in the acquiring firm to act as partners and not 'conquerors'.

Before the merger started, there was communication to the employees on the future expectations. Various channels were in use to ensure this such as companywide meetings, departmental meetings and an internal weekly magazine called SISI. There was a well structure preparation process which was done through constant and open communication. UAP Old Mutual was therefore able to reduce the speculations and to pinpoint areas that required more attention and clarification. Managers underwent change management programs to prepare them for the transition. These measures kept employees informed and mitigated the risk of communication breakdown which would have had a negative impact.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter looks at a summary of the study on challenges of mergers and acquisition strategy between UAP Holdings and Old Mutual PLC. It also outlines the conclusions from the study and gives recommendations that may be implemented based on the findings of the study and the limitations as experienced by the researcher. The study has established the challenges of mergers and acquisition strategy between UAP Holdings and Old Mutual PLC.

The study revealed that the key motive behind merger and acquisition was for Old Mutual to achieve accelerated growth into the countries that UAP already had a presence into, thereby expanding the market presence of Old Mutual. The study established that the financial performance of the firm after the acquisition was varied and it established the challenges that would affect the performance of the firm.

The key to post merger success is the ability to align culture, structure, processes and strategy to the operating environment (Varizani, 2013). This means that closing a mergers and acquisition deal after negotiation between the acquirer and the buying company does not equate to success for the resulting firm. Managers need to be aware of and successfully navigate the challenges that arise during the integration process to increase the chances of success.

5.2 Summary

Before the merger started, there was communication to the employees on the future expectations. There was a well structure preparation process which was done through constant and open communication. Various channels were in use to ensure this such as companywide meetings, departmental meetings, anonymous sites for posting concerns and an internal weekly magazine called “Sisi”. The organization promoted a sense of concern for the welfare of employees promoting their peace of mind in carrying out their daily duties.

The study established that increased costs were a challenge in mergers and acquisition strategy. Following a merger and acquisition, there are increased legal costs, increased staff costs and costs associated with the integration process including training costs. Financial resources of the firm are often already strained after an acquisition strategy because a premium above market value is normally paid to previous shareholders which can make the firm not profitable in the short run.

The study established that overlapping of business functions was also a challenge experienced during and after merger and acquisition. This was a challenge because operations needed to be coalesced to unified business units. Interviewees pointed out that both UAP and Old Mutual had business units operating similar functions such as life insurance and investments. This overlap increased the number of reconciliations and made reporting for a consolidated position complicated. It also increased the workload of some employees. The overlap also necessitated data migration to a new integrated system which created new risks associated with data migration such as loss of data during migration.

On the cultural challenges, the study established that there were cultural differences between the culture at UAP and the culture at Old Mutual before they merged. Differences in values, beliefs, attitudes and managerial styles of the culturally different firms posed a challenge as the organization sought a unified culture. The study established that Old Mutual and UAP had each initially operated in multiple countries with different cultures. The merger and subsequent acquisition brought the two companies together raising challenge of adopting a unified culture across the organization.

In terms of brand dilution, the study established that the merger and acquisition caused management to gradually re-brand the entity to reflect the acquisition. The changes in the brand are a challenge because the UAP brand and positioning in the market, relative to its competitors, was built over many years and was easily recognizable in the market. People fall in love with brands, trust them, develop strong loyalties to them, buy them, and believe in their superiority (Wheeler, 2006). Changes to the UAP brand after the merger and acquisition affect the positioning of the company in the market.

5.3 Conclusion

This study examines the challenging experiences of a cross border merger and acquisition between UAP and Old Mutual. While there were intended motives behind merger and acquisition, the performance of the firm post-acquisition has not been positive. Varizani (2013) argued that “the key to post merger success is the ability to align culture, structure, processes and strategy to the operating environment” and HR is critical to this process. While M&As can lead to economies of scale and scope and increase efficiency, the company ends up larger and more complicated than before which brings about larger costs.

The changes in the work environment after a merger and acquisition can reduce productivity by distracting employees from their roles as they get occupied worrying about their job security and their role in the new company. This means that firms need to define a clear organization structure that reassures valued employees that their contribution towards organization goals is needed. This minimizes voluntary exits of valued employees from the firm.

The study also concludes that there were some of the notable challenges experienced in merger and acquisition. These includes as the legal framework and procedures that are time consuming which has made the life business and assets management unable to fully merger their operations. It is also difficult to integrate the systems of two different companies to work as one system and it was quite expensive. It was clear that there were cultural differences between the culture at UAP and the culture at Old Mutual before they merged. Unifying the culture was a challenge.

It is important for firms engaging in mergers and acquisitions to pay close attention to the integration phase and not view the closing of the merger and acquisition deal as an indicator for success. The degree of complexity is an important consideration when estimating cost efficiency of a post-acquisition firm (Davidson, 2004). This study concludes that employee satisfaction after a merger and acquisition is important in the success of the process. Employees need to have job satisfaction and managers need to motivate employees and improve their work conditions. This improves the commitment of employees to their job and increases the retention of key and talented employees who can make a contribution to the post-acquisition firm.

This study concludes that the brand of a firm is influenced by mergers and acquisition strategy. Customers develop brand loyalty over time and a brand distinguishes a company and its products or services from that of competitors in the market. When a brand was tied closely to a firm, as was the case with UAP, the brand is affected by a merger and acquisition that seeks to transition the brand to reflect a new reality. Managers need to be conscious of the effects of changing branding after a merger and acquisition. If customers associate the brand of the acquiring firm with high pricing, for instance, they may cease their loyalty to the company after the acquisition.

Managers in the acquired firm end up in an unfamiliar work environment where their managerial style is compared with that of managers in the acquirer's firm. While they may have previously had autonomy in decision making, the managers may find themselves needing the approval of managers in the buying firm. Hambrick and Hanella (1993) argue that it is important for managers in the acquiring firm to act as partners and not 'conquerors' of their counterparts in the acquired firm. This eliminates feelings of intimidation that can threaten the productivity of employees.

This study concludes that there are increased costs associated with mergers and acquisitions. The costs arise from activities such as laying off redundant employees, hiring new employees, re branding the organization, integrating the two businesses so that they operate seamlessly. It is important that customer needs are still met despite the changes taking place in the organization so as not to lose business. The study also concludes that failure to carry out planning including budgeting for costs creates challenges for the organization.

This study also concludes that cross border acquisitions face unique cultural challenges. The diverse cultures from the firms creates a challenge in attempting to adopt a unified culture. Some employees feel like they are giving up cultural values and beliefs that they have held for long as a result of the merger. The acquiring firm tends to prefer to impose its culture on the target firm and this causes stress to employees who end up feeling dominated on resulting in resistance to the changes taking place. Furthermore, cultural conflicts are compounded when firms have subsidiaries which have different cultures. After the acquisition, it is a challenge to unify the culture across the subsidiaries.

5.4 Recommendations

Managers of firms involved in mergers and acquisitions should pay great attention to the integration stage. Closing the deal for the merger and acquisition is not an indicator for success of the entire process as challenges that can affect performance of the new entity are present. The managers need to determine the validity of the plans for integration. The integration plan should contain human resource factors; ensure the corporate structure provides for clear decision making; ensure the critical process are in harmony; and create a dynamic management team with internal skills and external expertise if required (Deloitte, 2015).

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

It is recommended for a firm to conduct a cultural assessment in the early stages of a merger and acquisition. Cultural differences of the firms can lead to cultural conflicts which reduce employee productivity. A timely cultural assessment identifies cultural differences and similarities in the two companies' values, beliefs, management styles and attitudes. The strengths of the cultures, as well as the weaknesses should be pointed out and an appropriate strategy put in place to unify the culture and adopt one that works best for the post-merger and acquisition organization.

Firms engaging in mergers and acquisitions need to have periodic evaluations that include on non-financial aspects of the merger and acquisition. It is not enough for managers to assume that because a deal was reached, then the process is successful. Challenges in mergers and acquisitions can affect financial performance of a firm. If the challenges are detected early, corrective strategic actions can be applied to reduce negative undesired effects and preventative measures can be applied to ensure the challenges do not reoccur. The periodic evaluations can also work as a learning process for firms to learn from their mistakes.

This study recommends that funds need to be budgeted for and set aside to cater for activities related to the merger and acquisition. The organization requires significant financial resources for activities such as recruitment, layoffs, training, integration and marketing. Restructuring of the organization to align it with the new strategy is also a costly exercise that requires adequate funds and planning. An organization need to have the ability to implement change and this can necessitate costs associated with change management such as hiring of consultants.

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

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

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

5.5 Suggestions for Further Research

A similar study of should be done at the same organization, UAP Old Mutual, after a number of years to establish if the merger and acquisition strategy brought about additional challenges in the long-run. This study was done 2 years after the firms were finally granted approval to formalize their merger and acquisition process and the challenges highlighted were those experienced in the short run. After the post-acquisition process, more challenges are faced by managers as time elapses.

A replication of this study can be conducted covering the entire industry in Kenya. Delloite (2015) argue that an influx of capital into the Kenyan market from alternative market sources is expected to kick-start mergers and acquisitions activity in the short to medium term. This is because insurers are seeking economies of scale. Research can be done in form of a survey of the entire insurance industry in Kenya. Studies may also be done in other industries such as the telecommunications or manufacturing industry on mergers and acquisitions to have new knowledge in the area. A different industry may bring in a different perspective of the challenges in mergers and acquisitions.

A study can be done to measure the degree of the challenges established in this study. The extent to which the challenges of mergers and acquisitions established have an impact organizations can provide useful insights when compared with the financial performance of firms. Organizations experience challenges in varying degrees and a measure of this would be useful information to establish a relationship between the extents of challenges to the financial performance.

5.6 Limitations of the Study

This study was not free from limitations. For one, interviewees indicated that some information was confidential at the moment of the interview because they felt that it would affect the competitive position of the firm. This was despite the researcher explaining and providing a letter indicating that the research was purely for academic purposes. Some managers felt their responses would create a negative perception for them within the company.

The timing of the study was also a limitation in that the integration process was ongoing and respondents felt it was too soon to experience the challenges of the merger and acquisition. This was because the acquisition process was completed 2 years ago which respondents approached felt was not long enough for the integration process to be completed. Respondents felt that more challenges could yet be experienced and unearthed.

This study relied on largely qualitative data obtained from primary data collection utilizing an interview guide. The degree of the challenges established was not measured yet this could be an important factor. The study also focused on the merger and acquisition between two firms which eventually become one company. However, there are other mergers and acquisitions particularly relating to the insurance industry in Kenya which if studied could enrich the challenges faced in mergers and acquisition strategy.

This study also relied on managers from UAP Old Mutual who are based in Kenya. However, the merger and acquisition was a cross border acquisition because the Old Mutual Plc head office is based in South Africa. There could be other challenges from the perspective of senior managers based in the parent company.

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APPENDICES

APPENDIX I: Interview Guide

- 1) What is your current designation?
- 2) How long have you been in your current position?
- 3) What was the driving force behind the merger and acquisition?
- 4) What are the implications of the merger and acquisition?
- 5) Was there preparation process for impending merger? If yes what were the challenges facing preparation process?
- 6) Did the company experience communication challenges?
- 7) If Yes, What are the communication challenges experienced?
- 8) Does communication breakdown lead to confusion and lack of clarity on the direction of the new entity?
- 9) How has merger influenced employee retention?
- 10) Do employees feel that their job security is threatened?
- 11) Has employee turnover has led to high costs in recruitment of new staff?
- 12) Has the merger led to leadership vacuum?
- 13) How has the leadership structure changed since the merger?
- 14) What are the cultural challenges facing the merger?
- 15) Was there comprehensive due diligence toward ensuring a successful merger?
- 16) It is important for both firms to get complete and honest information about each other?
- 17) Were there challenges caused by differences in managerial styles between UAP Holdings and Old Mutual?

APPENDIX II: Interview Introduction Letter



**UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS**

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Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 8-NOV-2018

TO WHOM IT MAY CONCERN

The bearer of this letter NOAH TOLO AMOLO

Registration No. D61/5130/2017

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.

**PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS**

APPENDIX III: Confirmation of Data Collection



UAP INSURANCE COMPANY LIMITED

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PO Box 43013 - 00100, Nairobi, Kenya
Tel +254 (20) 2850 000
Email uapinsurance@uap-group.com
www.uapoldmutual.com

To Whom It May Concern,

This is to confirm that the bearer of this letter Mr. Noah Amolo registration number D61/5130/2017 carried out interviews in our organization as part of data collection for a research project titled “**Challenges of Mergers and Acquisition Strategy between UAP Holdings and Old Mutual PLC**”.

The results should be solely used for academic purposes.

Any assistance accorded to him will be highly appreciated.

Thank you.



APPENDIX IV: Company Financial Statement

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Operating and other expenses (continued)

(b) Company

	2017 Kshs '000	2016 Kshs '000	
Staff costs (Note 10 (b))	499,111	298,237	↑
Depreciation (Note 19 (b))	39,413	50,617	
Amortisation of intangible assets (Note 20 (b))	24,480	19,996	
Travel Costs	14,289	11,626	
Office running costs	458,855	44,854	↑
Directors Expenses	31,683	28,047	
Consultancy fees and expenses	53,581	42,512	
Repairs and Maintenance costs	468	1,142	
Publicity and marketing expenses	58,232	21,328	
Subscriptions costs	13,803	29,914	
Software costs	152,861	96,365	
Licenses costs	29,866	621	
Bank charges and other expenses	89,471	55,171	
Total	1,466,113	700,430	↑

There are no individually significant items included in other category.

10 Staff costs

(a) Group

	2017 Kshs '000	2016 Kshs '000	
Salaries and wages	2,081,815	1,943,495	↑
Social security benefits costs	145,799	50,511	
Retirement benefit costs:			
Defined benefits scheme (Note 23)	(20,733)	(116,811)	
Defined contribution scheme	100,388	80,531	
Other staff costs	371,796	559,544	
Total	2,679,065	2,517,270	

APPENDIX V: Plagiarism Test Results

CHALLENGES OF MERGERS AND ACQUISITION STRATEGY BETWEEN UAP HOLDINGS AND OLD MUTUAL PLC

ORIGINALITY REPORT

9%	7%	4%	5%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	erepository.uonbi.ac.ke Internet Source	1%
2	staging.nationmedia.com Internet Source	1%
3	Submitted to University of Strathclyde Student Paper	1%
4	www.iajournals.org Internet Source	1%
5	ijecm.co.uk Internet Source	1%
6	Zahoor Rahman, Arshad Ali, Khalil Jebran. "The effects of mergers and acquisitions on stock price behavior in banking sector of Pakistan", The Journal of Finance and Data Science, 2018 Publication	<1%
7	MATEJ LAHOVNIK. "Strategic Factors Underlying Acquisition Performance in a Post-	<1%