

**EVALUATION OF FACTORS AFFECTING POST MERGER FINANCIAL
PERFORMANCE OF INSURANCE COMPANIES IN KENYA**

BY

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MASTERS IN SCIENCE FINANCE AND INVESTMENT

2017

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**“A DISSERTATION SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES AND
RESEARCH IN PARTIAL FULFILMENT OF THE AWARD OF THE DEGREE OF
MASTER OF SCIENCE, FINANCE AND INVESTMENT”**

KCA UNIVERSITY

2017

DECLARATION

This dissertation is my original work and has not been presented for examination to any other university for the award of a degree.

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This dissertation has been submitted for examination with my approval as university Supervisor

Signature..... Date.....

DOMINIC OJWANG

SUPERVISOR

DEDICATION

This dissertation is dedicated to my family and friends. Thank you for the love, support and always being there for me.

ACKNOWLEDGEMENT

First and foremost, I thank the almighty God for granting me good health and strength to undertake this dissertation.

I thank my Supervisor, Mr. Dominic Ojwang for his guidance and direction throughout the entire dissertation.

Am indebted to Lucy whose insight and guidance was very helpful in writing this dissertation.

I will be eternally grateful to my family for their sacrifices, encouragement and support throughout the process. I also acknowledge the support given by members of the KCA University School of Business and Public Management without which I would not have completed this dissertation.

ABSTRACT

Insurance Companies mergers play a vital role in insurance industry corporate finance by enabling firms achieves varied objectives and financial strategy. In Kenya, insurance companies have been merging with the goal of improving their overall financial performance. Studies done on mergers have not conclusively established whether or not insurance companies in Kenya benefit from mergers. Most studies have observed that insurance companies' mergers did not lead to an improvement in financial performance as indicated in their profitability and earnings ratios. This study sought to discover, identify and uncover how change management, culture integration, personnel management and management integration are likely to influence the financial performance of the merged insurance firms in Kenya. Therefore a structured literature review was conducted to identify relevant theoretical and empirical evidence where merged insurance companies financial performance and its dependencies of change management, culture, personnel management and management integration are discussed. A conceptual framework was formulated evolving around the dependent variable of financial performance of merged insurance companies and the independent variables of change management, culture, personnel management and management integration. The theories utilized were the Production theory, market imperfection theory, differential efficiency theory, synergy, pure diversification and hubris hypothesis. The study employed a descriptive research design. The target population of this study was CEO, CFO, Strategic managers and Project managers of 15 merged insurance companies in Kenya between 2002 and 2017. The study employed a purposive sampling procedure in coming up with a sample size of 100 respondents. The study generated quantitative data where quantitative data was coded and entered into statistical packages for social sciences (SPSS Version 17.0) and analyzed using descriptive statistics. The study utilized a questionnaire distributed through drop and picked later method. The study found that most (74%) of the respondents were male and (26%) were female. Additionally, 58% of the respondents were graduate students. The study found a positive and significant relationship between all independent variables and the dependent variable. Personnel integration had the most significant impact on financial performance of merged insurance, followed by culture integration, management integration and change management. This study discussed the theoretical significance and adds to the literature on mergers of insurance companies in Kenya. The study concluded by recommending that organisations should consider change management, culture, management integration and personnel management since it positively influences the financial performance of insurance companies.

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ABBREVIATIONS AND ACRONYM

M&A	Mergers and Acquisitions
U.S	United States of America
CEO	Chief Executive Officer
CFO	Chief Financial Officer
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
EPS	Earning per share
NSE	Nairobi Stock Exchange
HR	Human Resource
SME's	Small and Medium Enterprises
GFI	Good of Fit Index
CFI	Comparative Fit Index
RMSEA	Root Mean Squire Error of Approximation

DEFINITION OF TERM

Mergers: An insurance company merger is a deal to unite two existing insurance companies into one new company. Mergers are commonly done to expand insurance company's reach, expand into new segments, or gain market share. All of these are done to please shareholders and create value. Kemal, (2011).

Mergers Performance: This involves evaluation of insurance company creation of value over time. Various measures are used to evaluate insurance company performance which include the insurance company's share price; accounting measures such as sales, profits, return on assets, and return on investments; or involve managers' subjective assessments of performance. Davis, (2011)

Return on Assets: Return on assets is an indicator of how profitable insurance company is relative to its total assets. ROA gives an idea of how efficient management is at using its assets to generate earnings. It's calculated by dividing insurance company's annual earnings by its total assets. Thomas M.L, (2012)

Return on Equity: Return on equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures insurance company profitability by revealing how much profit insurance company generates with the money shareholders have invested. Thomas, M.L (2012)

Return on Sales: Return on sales is a ratio used to evaluate insurance company's operational efficiency; ROS is also known as an insurance company operating profit margin. This measure provides insight into how much profit is being produced per shilling of sales. An increasing ROS indicates that insurance company is growing more efficient, while a decreasing ROS could signal inefficiency. Thomas M.L, (2012)

Earning per share: Earnings per share is the portion of insurance company's profit allocated to each outstanding share of common stock. Earning per share serves as an indicator of insurance company's profitability. Thomas M.L (2012)

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Mergers are largely evidenced in the insurance corporate finance world. Insurance mergers involve bringing together separate insurance companies to form larger ones. The principle behind merging is to create shareholders value over and above that of the sum of the two separate insurance companies. Strong insurance companies will buy other insurance companies to create a competitive and cost effective insurance company. Insurance companies come together to gain a greater market share and to achieve greater efficiency

Because of these potential benefits, target insurance companies will at times agree to merge when surviving alone is hard. DiGeorgio, R, M, (2002) observed that insurance mergers are of great practical importance in strategic, monetary and social terms. However it has been noted that many insurance mergers underperform generally since overall performance remains low and insurance mergers continue to show high rates of failure. Existing empirical research has not clearly identified those variables that impact on insurance merged companies' performance.

Joyce and Felicia, (2014) argues that Kenya is leading in insurance merger practice in East Africa. In 2015 Old mutual Insurance Company purchased 60.7% of UAP Holding at 23 Billion. Increase in insurance mergers in Kenya has been facilitated by the Competitive authority establishing a competitive act which became operational in 2011. Kenya economy growth in 2012 attracted foreign investors who in turn merged with existing insurance firms.

1.1.1 Global Trend of Insurance Companies' Mergers.

Insurance companies mergers is increasing globally as shareholders seek alternative ways to deploy excess capital, boost or diversify revenue growth, build economies of scale and ultimately improve profitability. Bruner, R.F (2004).

Mergers in insurance companies respond to both structural and cyclical factors. Changes in regulation, technology and distribution can all be catalysts given that they affect competitive

conditions, but their impact is gradual. Developments in the business cycle, associated moves in financial markets and underlying market conditions are also important influences on insurance firms' merging decisions, though there are other factors influencing mergers in insurance companies. Angwin, D (2001)

Globalization is also driving mergers. Insurers from advanced countries continue to focus on overseas expansion in high growth markets. Increasingly too, insurers from developing economies, especially Asia, are eyeing mergers in advanced markets as a way to deploy their growing capital and diversify geographically. However, executing successful cross-border insurance companies' mergers is more challenging than domestic deals, hence the need for targets with high synergies and ease-of-integration potential. Bruner, R.F (2004).

In North America, the overall level of insurance companies' transactions over the last five years shows activity picking in 2011, and then trending steadily downward. Historically, USA has dominated in terms of overall share of insurance companies' mergers in the industry due to the size and maturity of the world's leading insurance and reinsurance market. However, in 2014 there was a significant shift in that Europe overtook USA in terms of the volume of transactions completed. In Europe, insurance companies' mergers activity took a more positive aspect in 2014 as the market gain considerable confidence and momentum. Europe even overtook America to become the most active region for insurance companies' mergers transactions during the same period.

1.1.2 Insurance Companies' Mergers in Kenya

The Kenyan insurance industry experienced a wave of mergers in 2014 as local insurance companies and financial services firms flexed their merging muscle in order to grow their revenues, consolidate their market share and expand regionally. Foreign insurance multinationals and international investors have been attracted to the Kenyan insurance market due to increased investor confidence arising from greater growth potential and stability in the sector. AKI, (2014) The Kenyan insurance industry is among the top insurance markets in Africa in terms of attractiveness and growth potential. This has led to foreign investors to enter the market by buying stake in the existing local insurance companies

as the fundamentals for future growth remain apparent. Some of the mergers were as a result of the legal requirement that no one individual should own more than 25% of the share capital of an insurance company. In some cases, mergers resulted from foreign insurance multinationals establishing a foothold in Kenya with the aim of expanding to the rest of the East and Central African regions. Going forward, more mergers are to be expected particularly in view of the proposed increase in minimum capital, Finance Bill, (2015). In the 2015/16 budget, the government has proposed to increase the minimum capital requirement for insurance companies to Kshs 600 million for companies underwriting general insurance and Kshs 400 million for long term insurance business by June 2018. This is likely to accelerate mergers in the coming years. AKI, (2014)

1.2 Statement of Problem

Financial performance of merged insurance companies is an important topic that insurance companies cannot ignore. Insurance companies are constantly looking into ways to improve their financial performance after they have merged. Due to the fact that there is a need to assess the post merger financial performance of insurance companies in Kenya, it is clear that there is a need to address and evaluate the factors that influence the post merger financial performance of merged insurance companies in Kenya. It is against this background that the researcher seeks to study the factors affecting the post merger financial performance of insurance companies in Kenya. There many challenges faced in promoting the success of insurance companies mergers which affect the post merger financial performance of the merged insurance companies leading to low returns and high turnover. Angwin, D (2001)

This study sought to evaluate the factors that influence post merger financial performance of insurance companies in Kenya.

This research study seeks to establish and fill the research gap by conducting a comprehensive review of the factors that influence post merger financial performance of insurance companies in Kenya.

1.3 Objectives of the Study

1.3.1 General Objectives

The general objective of this study was to evaluate the factors that influence the post merger financial performance of Insurance companies in Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were as enumerated below:

- a. To determine the effects of change management on post merger financial performance of insurance companies in Kenya.
- b. To investigate the effects of management integration on post merger financial performance of insurance companies in Kenya.
- c. To establish the effects of personnel management on post merger financial performance of insurance companies in Kenya.
- d. To assess the effects of culture integration on post merger financial performance of insurance companies in Kenya.

1.4 Research Questions

In order to attain the research objectives, the study sought to provide answers to the following questions:

1. Does culture integration influence the post merger financial performance of insurance companies?
2. Does change management affects the post merger financial performance of insurance companies?
3. Does personnel management affects the post merger financial performance of insurance companies?
4. Does management integration influence the post merger financial performance of insurance companies?

1.5 Scope of the Study

This study focused on evaluating factors influencing the post merger financial performance of insurance companies in Kenya.

The study was limited to insurance companies that have merged for the last fifteen years in Kenya.

1.6 Delimitations

This study involved the evaluation of how culture integration, change management, personnel management and management integration influences post merger performance of insurance companies in Kenya. To achieve this, the researcher formulated a questionnaire to collect data from the respondents in merged insurance companies listed in the NSE for the time period 2002 to 2017. This practice of analyzing financial performance is widely accepted and has been replicated in many previous empirical studies and so, it is hoped that the validity of this study will be greatly enhanced.

1.7 Limitation of the Study

This study only tested four post merger factors namely; change management, culture integration, personnel management and management integration. There are other post merger factors that have been put forward by various researchers in the field of finance that also strive to explain the post merger financial performance of insurance companies but there are no general consensus, as to which among them, is the most superior.

Despite the fact that not all post merger factors were tested, the findings of this study will greatly boost the struggle for the search of main factors that influence post merger financial performance of insurance companies in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section draws on literature in the area of mergers. Secondary materials such as books, journals and articles which carry precious research work on the study topic are analyzed. The material is of importance to this study as it forms a basis for observation which will be made during the study in line with the study objective.

2.1 Theoretical Foundation

Several competing theories of Mergers have been analyzed by scholars. Among them are differential efficiency theory, inefficient management theory, synergy, pure diversification, strategic realignment and the hubris hypothesis. These theories provide the foundation for the concepts used in the study of insurance mergers performance.

2.1.1 Production Theory

The production theory states that, firms operate with cost, revenue and profit functions all of which could be affected by M&A's. One rationale often given for M&A's is economies of scale, usually associated with the cost function. Cummins, (2008), The argument is that firms operating at sub-optimal scale may be able to achieve scale gains more quickly through M&A's than through normal growth. Although evidence on the potential for scale economy gains in various industries is mixed scale of economies may provide a potential valid motivation for M&A, s. Economies of scope provide another production theory rationale for mergers and acquisitions. Scope economies are present in costs, revenues and in profits. Cost economies of scope generally arise from the joint use of inputs such as managerial expertise, customer lists, computer technologies and brand names. Revenue economies of scope are often said to arise due to reductions in consumer search, acquisition costs and improvement in service quality from the joint provision of related products such as life assurance and automobile insurance. In some US industries scope of economies is evidenced by the potential gains through company efficiency provided by larger production in M&A's. Company inefficiency arises

when firms fail to operate on the cost, revenue or profit frontiers but rather incur higher costs to earn lower revenues. There is some evidence that insurance M&A transactions that have led to efficiency gains in the US life and personal lines insurance industries. Cummins, (2008). Here I employed this approach to gain an understanding into the overall goal of insurance mergers which is the post merger financial performance.

2.1.2 Market Imperfections Theory

According to Bruner R F, (2004) mergers also may be value –related due to the existence of various market imperfections and information asymmetries. One important market imperfection is the existence of costs of financial distress. Financial services firms such insurers face stringent solvency regulation which creates the potential distress costs. Insurers that are over-leveraged and in weak financial conditions incur increased regulatory costs and potential operating restrictions. Moreover, since buyers of insurance are especially sensitive to on solvency risks, insurers with poor financial health are likely to lose their best customers to rivals. Since larger insurers have lower insolvency probabilities, mergers can be beneficial to the extent that increases in scale are accompanied by reduction in income volatility due to enhanced diversification. The existence of corporate income taxation also provides a rationale for mergers as a possible mechanism for increased net cash flow. Hence management of the merger and target should be highly involved in order to offer advise since they have been in the operations for long and they are aware of any loopholes that might exist that might hinder the ultimate goal of post merger financial performance being achieved. Bruner R F, (2004)

Financial synergies theory argues that asymmetric information in financial markets and insufficient liquid assets may hinder firms from undertaking valuable investment opportunities. Bruner R F, (2004). This theory shows that the main aim of insurance mergers is to improve financial performance hence it's important to evaluate the underlying factors that might hinder this goal being achieved.

2.1.3 Differential Efficiency Theory

This theory states that some firms perform below their potential and as a result have below average efficiency. Hence a firm which performance is efficient can acquire a firm whose performance is below average and as a result the firm with below average efficiency will perform as the efficient firm. Bruner R F, (2004) this theory suggests firms in similar kinds of business endeavors is more likely to be potential acquirers.

Inefficient Management Theory states that some firms perform below their potential hence when acquired by efficient firms their potential will be achieved. This is as a result of investors respond to a merger whereby the management of the target has employed inefficient policies to run the firm hence investors argue that if they acquire the target they will employ efficient management policies and hence the performances of the merger will be greatly improved. These policies include ensuring that the cultures of both merging firms are well integrated and all employees are involved in the process to ensure efficiency. Bruner R F, (2004)

2.1.4 Synergy

This theory argues that when two firms come together the performance is efficient and better than when the firms were operating separately. Synergy can be financial synergy and operating synergy. Bruner R F, (2004) The operating synergy theory postulates that even when both the target and the bidder are equally efficient they simply combine their resources which lead to synergistic benefits due to economies of scale and complementary benefits. Bruner R F, (2004) the financial synergy theory emphasizes that debt capacity of two combined firms will be larger than summation of debt capacities of two individual firms. Financial synergy can also be driven by the credit rating of both the firms, the tax differential of the merging firms (Kumar, 2011). This synergy goal can fail to be achieved due to ignoring the most important drivers of the mergers which include culture management and personnel integration. Kamal, (2006)

2.1.5 Pure diversification.

This theory states that mergers are as an effect of diversification. Firms merge to diversify operation and as a result gain from the diversification. Diversification provides numerous benefits to managers, employees, owners of the firm and to the firms itself. Diversification through mergers is commonly preferred to diversification through internal growth, given that the firms may lack internal resources or capabilities required. For diversification to be effective there is need for strategic realignment to the changing environment. Bruner R F, (2004). This theory argues that firms use the strategy of mergers as a technique to rapidly adjust to changes in their external environments which is very competitive hence instead of depending on internal growth firms merge to keep pace with the changes in the environment it operates in. Bruner R F, (2004)

Change management is a crucial factor in post merger financial performance hence the management of the merging firms should ensure that the process is flawless and all staff in both companies are involved in the merging process regardless of their position in the firm. Thomas M (2012)

2.1.6 Hubris Hypothesis

This theory argues that the merging is as a result of managers own potential motives and not for economic gain. Managers compete to gain a target for the sake of winning a contest. While merging, the bidding firm identifies a potential target firm and values its assets while the valuation is below the market price then deal is broken but if the valuation is above the market price the merging bid is taken. The theory argues that managers commit errors of over-optimism in evaluating merging opportunities due to excessive pride Roll, (1986). It's also referred to as the managerial gain theory which is inspired by the principle agent theory that emphasizes conflict between shareholders and managers whenever there is incomplete and asymmetric information between them. Mortis, (2007)

This theory further states that the main objective of merger which is financial performance of the post merger is violated since mergers are driven by greed. Roll, (1986). Hence for the post merger

financial performance to be achieved, the management, personnel and shareholders should be well integrated to ensure the merger deal is efficient.

2.2 Review of Empirical Evidence

Katuu, (2003) states that empirical research has not clearly identified the variables that influence the performance of the insurance companies' mergers. He argued that the research done has not looked into the right set of variables that influence insurance companies' mergers performance. Important variables highlighted in some literature are omitted in others and hence the connectedness among the key variables is not evaluated at the different stages of the insurance companies' mergers process.

According to Kwoka, (2002), insurance companies' mergers have often failed to significantly add to the value of the merging companies' shares. Martin, (1992) studied 304 mergers that took place between 1965 and 1989 and observed a negative but insignificant abnormal return for the mergers. Locally the relationship between mergers and firms performance has been subject of abundant research in several fields and it has produced mixed results. Katuu, (2009) conducted a survey of factors considered important in mergers decision by selected Kenyan based firms. Muya, (2013) carried a survey of experiences of insurance companies merger and found that mergers do not add significance value to the merging firms. Ileri, (2014) conducted a survey on effects of mergers on financial performance of insurance firms in Kenya. From his findings there is a positive correlation between mergers and financial performance in the post merger firms.

Yilmaz (2011) conducted a study on the impact of insurance mergers on performance in Turkey. He used the stock market approach and accounting figures. In the stock market approach he found that stock returns for Turkish companies during the window period of the insurance merger were higher than the insurance industry average. The profitability ratios used to measure performance in his study were the ROA, ROS and the ROE

The results showed that ROA and ROS were significantly lower in post merger than pre merger. However the ROE declined significantly post merger. He therefore concluded that a merger negatively affects financial performance of the merged firm.

Kumar (2011) also conducted a research on post merger performance of insurance corporate firms in India. He used a sample of twenty insurance mergers listed on the Bombay stock Exchange. His finding showed that insurance mergers in India perform better post merger unlike in the pre merger stage. This was as a result of efficient utilization of assets which in return generated higher operating cash flow.

Pilloff (1997) researched on merged insurance performance in USA, his study showed that on average there was no significant gain in the value or performance from the insurance mergers. The study also indicated that the target insurance firms' shareholders gained at the expense of the acquiring firm.

Kithinji (2007) carried out a study on the effects of mergers on financial performance of non-listed insurance companies in Kenya. His research involved insurance firms that merged between 1994 to 2001. He compared performance of the insurance during pre and post merger using profitability ratios, return on Assets, shareholders Equity and total assets ratios. In his findings a significant improvement in the performance was observed in the insurance firms that merged as compared to the insurance firms that did not merge.

Korir (2006) examined the effects of mergers of 10 listed insurance companies that merged between 2001 to 2005 and compared the result with 10 listed insurance companies that had not merged for the same period. He analyzes the shares traded, market capitalization and profits to measure performance. The result he got indicated that there was a positive improvement in the performance of the insurance companies that merged.

Mukele (2006) conducted a study on the factors that determine the choice of mergers partners in Kenya. He was looking to establish the determinants of choice of firms that had been through mergers from 2001 to 2004. He gathered that firms in the market that had opted for mergers amounted to 53.1% while those that opted for acquisition were 46.9%. He concluded that the factors that determine their choice included knowledge transfer and management, cultural distance, organization distance, resource redeployment and revenue based synergistic consideration. The effects that occur

after mergers were asymmetry between the firms in terms of joint decision making and political process, location specific acquisition performance, management styles, reward and evaluation systems. He also found that ownership was divided between locally owned (34.3%), foreign (34.4%) and a portion of both locally and foreign owned (31.3%). Other findings in the study show that firms will get into a merger with a partner who will facilitate transfer of knowledge based resources. Partners were also concerned about cultural differences and similarities. It was found that firms that had matching core values were the preferred partners. The study also showed that the closer the organizations distance the better because business practices, institutional values, corporate and professional cultures are similar. He concluded that anticipated economies of scale drive firms into mergers. Resource deployment and revenue based synergistic considerations showed that mergers expected increase in the market average through geographic cover and extension of production line.

Barasa (2008) conducted a study on the effect of mergers announcement on share prices quotes at the NSE. The study was carried out on 11 companies that had merger announcement from 1999 to 2005. It was found out that mergers announcement do not affect share prices of the NSE quoted companies.

Ndura (2010) in his study of mergers established that mergers had no effect on profitability, capital adequacy and long term solvency of the merging firms. Katuu, (2003) Conducted a research on impact of mergers on the financial performance of the merged firm in Kenya. They used profitability ratios, ROE and EPS. The study showed that there is no effect on profitability after merging. Also there was no significant marginal increase in utilization of Assets after merger. Hence the study concluded that there was no impact on the NSE listed merged firms on their financial performance.

In summary the empirical literature has tackled the concept of profitability on merging insurance companies. However little has been done on evaluating factors that boost post merger financial performance of insurance companies in Kenya.

Most of the studies were done in different environments which cannot be generalized to developing countries especially Kenya. Hence this study tries to bridge the gap.

2.3 Factors That Influence Post Merger Financial Performance of Insurance Companies In Kenya

After a merger transaction is completed the legal and financial aspects are efficiently handled. This new organisation need to be operated and managed appropriately to ensure that value is created. The post merger factors below will ensure that the newly merged company will thrive. They include:

2.3.1 Personnel Integration

Anderson (1999) suggests that in the strategic planning phase, personnel should assess the corporate cultures of the two organisations to identify areas of divergence which could hinder the integration process. Communication methods, compensation policies, skills set, and company goals need to be assessed. Before reaching the deals, companies should agree on what elements of their respective cultures should be retained and how they will rectify significant differences. Pikula, (1999) agrees that there is a need to be proactive rather than reactive. When the negotiations for mergers have been completed, strategies should be developed which will ensure that the human aspects will not be hindered, but will facilitate in the successful combination of the two organisations. Bruner, (2004) also agrees that strategy influences the outcome of mergers integration, but suggests that other factors such as; deal design, negotiation, and process management are also vital to merger success. While research undertaken by KMPG, (1999) suggests that insurance companies which gave a priority to the selection of management teams, cultural assessment and communication plans were, on average, more likely to produce a successful outcome.

2.3.2 Cultural Integration

Rankine, (2008) suggests that one of the factors adding value through mergers is to act quickly to integrate the new business, therefore preparation is essential. Any preparation must be conducted at a stage when there is very little time available and should involve the development of a detailed integration plan. Eccles (1996) agrees, but suggests that preparation is not the main factor in integration success. In order to combat fear, any newly merged business should make the mode of

running their merger immediately, clearly and decisively obvious. Cartwright and Cooper, (2002) suggests that; the problem of integrating two, often previously rival, workforces and their cultures and getting them to co-operate and work together cannot be underestimated. There is always an inherent danger that the merging company will destroy the very attributes that caused it to want to buy the company in the first place. Whilst it may sound relatively straight forward, as Schweiger, (2002) suggests; integrating mergers is a complex process that requires knowledge, insights, and energy of many people. A crucial part of successful integration is whether insurance companies can socialise employees effectively into the newly merged entity so that they learn accepted ways of behaving in that organisation Aguilera et al,(2006). Research has also recommended that a harmonious integration of the beliefs and values of a merging company and the ability to integrate organisational cultures is more important to success than the financial or strategic factors Majidid, (2007). DiGeorgio (2002) suggests that; the bottom line on culture fit is very important a lot of thought needs to go into it. Cartwright and Cooper, (2002) agree that differences in all cultural dimensions are important and can be potential barriers to integration. While Habeck et al, (2000) suggests that cultural integration is critical to the success of any mergers, if it can be managed as a defined process. Overcoming cultural differences is by far the most troublesome aspect of making mergers work. People from different cultures are suddenly thrust together and expected to address complex issues of strategy and working practices, which can lead to competition between employee groups and hostile attitudes. Anderson, (2009) says that employees typically emphasise or exaggerate the differences between organisational cultures. Distorted perceptions and hostile feelings toward employees from the other organisation may become common, and failures are typically attributed to the other company. Cultures collide; employees find that behaviour once sanctioned is no longer rewarded, maybe not even approved of, and perhaps may be even punished employees can become confused, then frustrated Pritchett, (1997), which often results in a post merger conflict or culture clash Anderson, (1999).

2.3.3 Change Management

It is well known that mergers will create an expectancy of change Cartwright and Cooper, (2001). Change is omnipresent. Societies change, technologies change, markets change, competition changes.

If others change and you do not, your relative position alters. So you change, or worse, are changed. Heller, (2006) suggested that; if organisations did not change they would stagnate and decline. She agrees that however impressive the potential benefits of merger, they will always require change, and this makes the human factor critical. Changing the way in which organisations conduct their business, managerial style, systems, procedures and the symbols of their identity, means changing people and their organisational culture. Most mergers need a high degree of integration because they drive considerable human and organisational change. They also state that the kind of change in merger is often the biggest that individuals, and the organisations they work for, will have experienced. Gaplin and Herndon, (2000) agree that a merger creates immense change management issues, but suggest that actions aimed at specific integration processes should help to minimise the risks and stack the odds in favour of making the deal work. Devine,(2003) states that; the reality of many mergers is that they are often extremely difficult and stressful events for many people. Merger studies reveal that employees need emotional support and practical skills in managing change in order to survive the upheaval. While Pritchett, (1997) agrees, he also suggests that people may also often resist change and dislike the sort of uncertainty that arises from mergers, especially if they think it is being badly handled. However Hardy, (1999) says that; resistance to change is based on fear, and that people should expect change after merger and should be ready for its implementation, which will ultimately reduce levels of uncertainty. Rankine, (1998) disagrees, he believes that failures in change management issues are related to the speed of change and failure to act swiftly, results in confusion all round.

2.3.4 Management Integration

Management of virtually any business will find there is no shortage of problems to contend with at the merging stage Pritchett, (1997). Garrow (2006) suggests that leadership or management contribute significantly to the success or failure of a new deal. It has to be demonstrated, and it has to be shared.

Gaplin and Herndon (2000) agree that leadership is important in providing clear direction for the move into an uncertain future of a new business. Managers in the merging firms can take a variety

of managerial actions to help ensure effective integration of merged employee's into the newly merged firm. A crucial task for upper management and leaders is to sell the idea of effective integration, policies, values, and systems to employees Aguilera et al., (2006). Sometimes top management knows merger is not proceeding well in certain respects but chooses to turn its back on the problems. Anderson (1999) agrees, but suggests that managers should in most cases be familiar with and prepared to deal with the Merger Syndrome in which employees initially react to the merger. It is quite clear that leadership is a most urgent priority.

Human resource challenges during the post mergers integration process may prevent exploitation of the potential synergy that can arise from sharing resources, transferring skills and resources. Good human resource practices can motivate managers and employees and they will be committed to produce excellent knowledge and resource transfer and create knowledge of integration capabilities. HR should train employees on how to deal with conflict and new assignments during the integration period. (Emanuel G, et al, (2013)

Pritchett (2006) suggests that in a merger situation there are usually some major changes people have to deal with. Employee's very often feel a strong sense of loss. The close-knit work group may be sacrificed because departments are merged. Some people lose authority, and a lot of people may lose a significant degree of job satisfaction. Some people in the company will have to struggle with strong feelings such as fear, worry, sorrow, anger, and regret. It is therefore important that managers recognise people react differently to the same situation. Someone's opportunity is someone else's threat Schweiger, (2002). Pritchett (1997) agrees that; employees commonly get blindsided, emotionally jolted, by the news that their corporate family is being reshaped and given a new authority structure. It is well documented that mergers are particularly stressful forms of organisational change, because they are associated with loss and lack of control and result in change, uncertainty and increased workload for employees. They usually result in uncertainty, insecurity, and fears concerning job loss, job changes, job transfers, compensation changes, and power, status and prestige changes. Cartwright and Cooper (2002) state that; even in successful mergers, the stressful

nature of the experience has been shown to produce a negative residual effect on the psychological health of employees. While Rankine (1998) states that; any merger who take human resource management seriously tend to incorporate human resource planning within their overall business planning process and therefore should be well equipped for the merger syndrome.

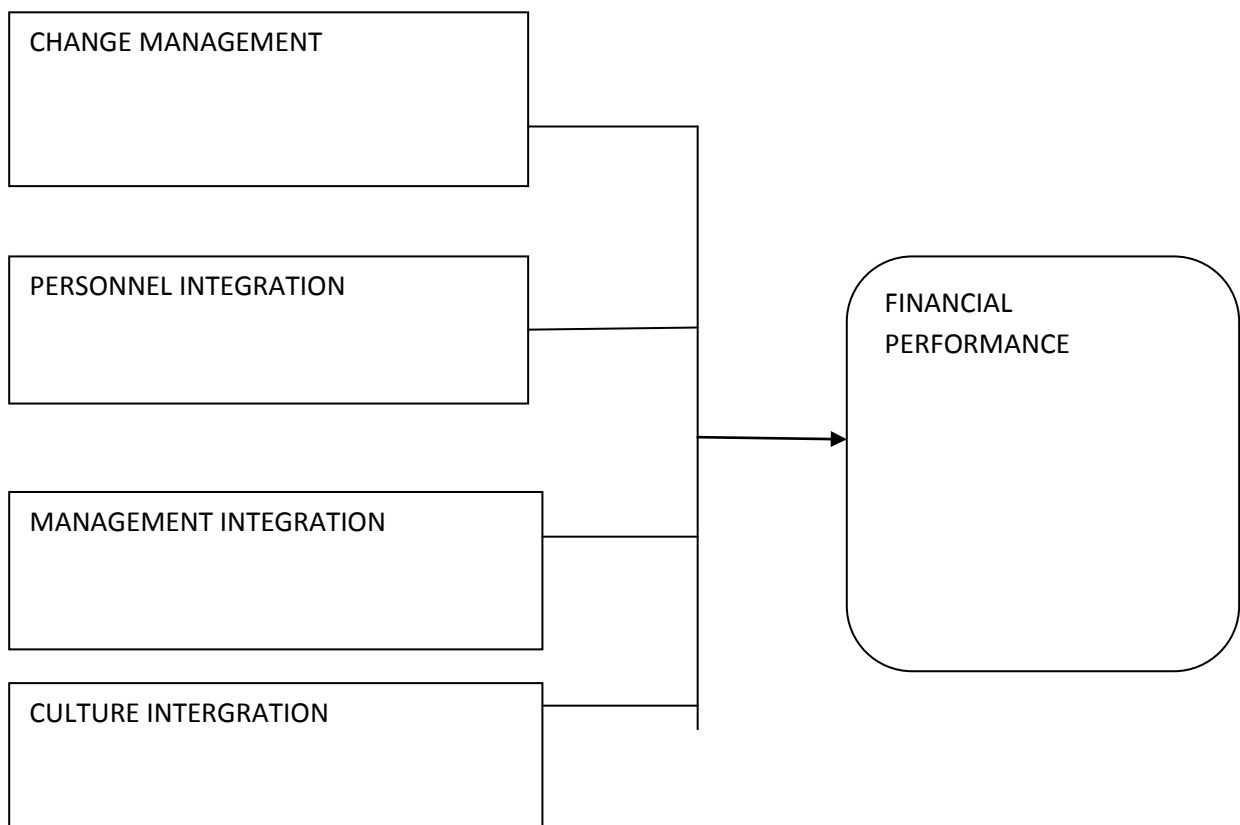
2.5 Conceptual Framework

A conceptual framework is a logical illustration of the interrelationships between the study variables as envisaged by the research. The conceptual framework for this study is elucidated in figure 1 below.

Conceptual Framework

Independent Variables

Dependent Variable



Source: Author (2017)

Figure 2.1 Conceptual framework

As outlined in figure 2.1, there are four independent variables namely change management, personnel integration, management integration and culture integration. On the other hand there is one dependent

variable which is financial performance. The framework hypothesizes that there exist a relationship between each of these independent variables and the dependent variable.

The research variables are operationalized in the table below:

2.6 Operationalization of the Variables

VARIABLE	TYPE	MEASUREMENT
Change Management	Independent	<ul style="list-style-type: none"> • Reduction of staff turnover. • Productivity of the staff improved. • Effective communication and Ease of information flow. • Ease of decision making. • Willingness of staff to take up new roles. • Willingness of staff to give up some roles to new staff. • Positive attitude towards new employees.
Personnel Integration	Independent	<ul style="list-style-type: none"> • Attitude towards fellow staff members. • Attitude towards new managers introduced. • Willingness to share information with new staff. • Willingness to do usual duties in a different way. • Level of fear of being lay off. • Willingness to take a lay off package. • Seamless flow of work in the merged organisation. • Happy and contented employees. • Staff working efficiently without micromanagement by the managers. <p>Well perceived culture by all parties involved on the merger.</p>
Change Management	Independent	<ul style="list-style-type: none"> • Willingness of the new and existing staff to adopt to the new culture guidelines. • Willingness of staff to attend to daily roles

		<p>differently.</p> <ul style="list-style-type: none"> • Willingness of staff to report to new management. • Attitude towards new management. • Level of fear by staff of being laid off.
Management Integration	Independent	<ul style="list-style-type: none"> • Perceived sense of confidence in the new management. • Willingness to work under the new management. • Staff satisfaction with the new leadership and the new management way of operation. • Level of interaction between management and staff.
Financial Performance	Dependent	<ul style="list-style-type: none"> • Shareholders achieve their main goal which is value of investment and economy of scale. • Operation cost is reduced. • Perception pertaining whether the market share has increased. • Perception of the merged insurance growth prospects ahead. • Perceived direction that management is taking the merged insurance company.

Source: Author (2017)

CHAPTER THREE:
RESEARCH METHODOLOGY

3.1 Introduction

This section highlights the methodology that was used in carrying out the study. It consists of the research design that was used in the study, the data collection techniques and data analysis. According to Polit and Hungler (2003) methodology refers to ways of obtaining, organizing and analyzing data.

3.2 Research Design

The study adopted a descriptive research design. The descriptive research design attempts to describe a given situation in a bid to generate more information. Descriptive research focuses on the what, where and how aspects of a given scenario, it also focus on the qualities of relationship between the distinct variables of the study.

In this study the focus was to evaluate the factors that influence post merger financial performance of Insurance companies in Kenya.

3.3 Target Population

The target population of this study is insurance companies that have merged in Kenya between 2000 to 2017 as shown below.

1	Insurance Company	RESPONDENT
2	ICEA Lion Insurance Company	7
3	UAP Old Mutual Group	7
4	APA Insurance	7
5	Heritage Insurance Company Limited	7
6	UAP Provincial Insurance Company	7
7	Kenindia Assurance Company Limited	7
8	Mercantile Group	7
9	Phoenix Insurance	7
10	Metropolitant Cannon Insurance Kenya	7
11	Britam Kenya	6
12	Barclays Life	6

13	Panafrica Life Insurance	6
14	Madison Insurance	6
15	Resolution Health East Africa	6
	TOTAL	100

Source, Author, (2017)

3.4 Sampling Design and Sample Size.

A sample is a subset of a population on which a study is conducted to arrive at results which can be generalized over the entire population. The researcher target was public insurance companies since this information is publicly available. The researcher used purposive sampling technique since the insurance companies to be selected have already been identified. The study period was from 2000 to 2017.

3.5 Instrumentation and Data Collection

The researcher used primary data. Primary data was collected from first-hand experience through questionnaires, where the researcher distributed the questionnaire to respondents to gathered information. The respondents for this research are CEO, CFO, strategic managers and project managers of the 15 selected merged public insurance companies in Kenya. The respondents were selected depending on their positions in the organisation this enables them have an in depth understanding of the performance experienced by the firm after the merging process.

A 5 – point likert scale was used to assess the factors that affect the financial performance of merged insurance companies where 1 – Strongly agree, 2 – Agree, 3 Not sure, 4 – Disagree and 5 – Strongly disagree.

Permission from the organization was sought and consent from individual managers was requested through a formal introduction letter.

3.6 Reliability and validity of the research instrument

By the use of the Cronbach,s Alpha the research was able to test the internal consistency of the techniques used to test the reliability of the research instruments. The Alpha value normally ranges from 0 to 1 with the reliability increasing with increase in value. Coefficiency values greater than 0.7 generally denotes that the instrument is reliable Mugenda, (2008).

Validity is the extent to which an instrument measures what it is intended to measure. It focuses a lot on reducing errors in the data collected and measurement. In as much as there are various forms of validity, the research was keen on ensuring validity and content validity in this research.

3.7 Data Analysis

Tukey (1961) defined data analysis as procedures for analyzing data, techniques for interpreting the results of such procedures, ways of planning the gathering of data to make its analysis easier, more precise or more accurate, and all the machinery and results of statistics which apply to analyzing data. Data analysis involves data preparation where data is checked for accuracy, entered into a computer, examined critically and making inferences Kombo & Tromp, (2006). The data collected from the respondents was in a qualitative form and content analysis method was used in analyzing the data. Content analysis is defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding Berelson, (1952). Content analysis is the systematic qualitative description of the composition of the objects or materials of the study Hsieh and Shannon, (2005). It involves observation and detailed description of objects, items or things that comprise the object of study. The theme that was used in the analysis was informed by the variables identified in literature.

Data collected through questionnaires was cleaned, edited and coded. SPSS Statistics model was used to analyse the data.

The study also used inferential statistics to strengthen the relationship between dependent variable and the independent variables, the study conducted inferential analysis which involved coefficient of determination, ANOVA and a multiple regression analysis.

The study also used multivariate statistics which involved factor analysis where the large set of variables were reduced to a small set of factors components.

Data was analyzed using a regression model of the form:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i \dots \dots \dots (i)$$

Where:

Y = post merger performance of insurance companies in Kenya

α = constant – post merger firm performance in the absence of post merger success factors.

X_1 = personnel integration

β_1 = Coefficient of X_1 (Change in the dependent variable due to a unit change in X_1)

X_2 = cultural integration

β_2 = coefficient of X_2 (change in the dependent variable due to a unit change in X_2)

X_3 = change management

β_3 = coefficient of X_3 (change in the dependent variable due to a unit change in X_3)

X_4 = management integration

B_4 = coefficient of X_4 (change in the dependent variable due to a unit change in X_4)

ε = error term

t –test statistic will also be used to measure significance of the test. 95% confidence interval will be considered ideal.

CHAPTER FOUR
FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the actual analysis which was carried out in this research. It presents data findings aimed at determining the factors that influence the post merger financial performance of insurance companies in Kenya. Data analysis methods employed involved quantitative and qualitative procedures. The study used accounting ratios to analyse the financial performance of the 15 insurance companies that have merged under study. For pre merger period, ratios for both the acquirers and the target were examined so as to get an indication of the relative performance of the acquirer and the target. For the post merger period, the focus of the analysis was on the combined institution. Pre merger average data was compared with the post merger average data in determining the changes occurred in performance following the merger.

4.2 Response Rate

Out of the one hundred questionnaires issued in this study, 92 Questionnaires were filled satisfactorily and submitted to the researcher. This shows a response rate of 83.3%, which was satisfactory. According to Mugenda & Mugenda (2003), a 50% response rate is adequate. A 60% response rate is good while a response rate above 70% is rated very well. The response rate of the study is as shown in table 1 below:

TABLE 1

Response Rate

	Questionnaires administered	Questionnaires filled and returned	Percentage
Respondents	100	92	83.3%

Source: Author (2017)

4.3 Demographics of the participants

The sampling technique used for the selection of the sample for the purpose of this study demonstrates the expertise and experience of the participants, Table 2 below sets out their demographics. These are set out in no particular order. This was deliberately done to preserve the anonymity of the participants with regard to the quotations used in this report. Thus, the sequence of the list of participants as set out 100 in Table 2 bears no relevance to the use of participant numbers in the body of this report. It is clear from Table 2 that the sample consisted of participants who have extensive expertise, skills and experience of conducting Merger deals. Not only are these participants very senior executives in their organisations but, they actually have practical experience of originating, structuring, negotiating, executing and implementing Merger deals. The companies from which the participants were drawn consisted of fifteen Insurance companies that have merged over the last fifteen year in Kenya.

Fifteen of the participants are chief executive officers, fifteen are chief financial officer, and the others are senior executive in charge of the strategy and projects for mergers and acquisitions in their companies. Most of these participants are highly regarded and respected business people and some of them are recipients of numerous business awards.

Table 2: Demographics of the participants

Participant	Number	Company Listed/unlisted
CEO	25	Listed
CFO	25	Listed
Strategic managers	25	Listed
Project managers	25	Listed

Source: Author (2017)

4.3.1 Gender of the Respondents

From the ninety two respondents, sixty eight were men while twenty four were women. Considering this percentage wise, more than three quarters (74%) of the respondents were men. This shows the dominance of men in corporate organisations management. Table 3 outlines the gender of the respondents.

TABLE 3
Gender of Respondents

Gender of respondents	Frequency	Percent
Female	24	26%
Male	68	74%
Total	92	100%

Source: Author (2017)

4.3.2 Age of the Respondents

According to table 4 below, majority of the respondents were aged fifty and below. This result shows that the Kenya insurance industry has confidence with young and knowledgeable people to run corporate companies unlike in past years whereby senior management had advanced in age.

TABLE 4
Age of Respondents

Age of Respondents	Frequency
30-34	10
35-39	30
40-44	41
50 and above	11
Total	92

Source: Author (2017)

4.3.3 Level of Education

The education levels of the respondents, as shown in table 5 below were absolutely impressive. Out of the 92 respondents, only 27 didn't have a master's degree .the other 65 respondents had at least one master's degree.

TABLE 5

Level of Education

Level of Education	Frequency	Percent
Tertiary	0	0%
Undergraduate	27	29%
Masters	53	58%
Doctorate	12	13%
Total	92	100%

Source: Author (2017)

4.3.4 Years of service

The research sought to know the number of years each respondent had spent at their respective employer. This was a key metric since people with many years of service would ordinarily be acquainted with the internal processes of the mergers. Additionally, since they are senior employees, they would be acquainted with the managerial decisions made and adhered to during and after the merger. The years of service for the respondents are summarized in table 6 below:

TABLE 6

Years of service

Years of service	Frequency	Percent
0 - 3	7	8%
3 - 6	28	30%

6 - 9	27	29%
9 - 12	22	24%
Above 12	8	9%
Total	92	100%

Source: Author (2017)

Note that most of the senior managers sampled had served for between 6 to 12 years by the time of data collection. These are followed in number by those whose years of service were 3 to 6 years. This suggests that there is a lot of turnover in the senior management level hence managers serve for few years and move to other organisations or personal engagements. This could be due to increase in number of experts in the corporate world.

4.4 Study Variables

In this section, the data collected on study variables was discussed in details. The researcher used a five point likert scale to collect information pertinent to constructs of each variable.

4.4.1 Change Management

The respondents were in general concurrence that change management has a major impact on the financial performance of the insurance companies in Kenya. Responses under this variable endorsed the fact that before a Merger is implemented due diligence should be carried out to ensure that change management have been adhered to since it have a major impact on the firms performance in the long run. Companies that spend the time and money on cultural integration and change management during diligence and integration reap the benefits. A well-integrated, engaged workforce is more efficient and productive. Costly turnover can be diminished. Change management at the individual level is about managing and facilitating employee experiences in various stages of a merger. Employees typically go through multiple emotional states while dealing with the change

A summary of responses under the change management variable is shown in table 7 below:

TABLE 7
CHANGE MANAGEMENT

Change management	N	Min	Max	Mean	Std. Dev
Did the firm prepare its employees, customers and other stake holders of the merger before it was effected	92	1	2	1.18	.390
Did the communication before merger to stake holders have any impact on the post-merger firms performance	92	1	1	1.00	.000

Source: Author (2017)

4.4.2 Management integration

This section handles information which was collected under the variable pertaining management integration. Responses under this variable endorsed the fact that after the Merger strategy has been set up for takeoff. And the firms have effectively merged. Management integration should be closely monitored to ensure that the merged firm performs as expected and even beyond. A merger needs a strong leader for the Decision Management Office. He or she must have the authority to make triage decisions, coordinate taskforces and set the pace. The individual chosen should be strong on strategy and content, as well as process.

A summary of responses under the management integration variable is shown in table 8 below:

TABLE 8
MANAGEMENT INTEGRATION

Management integration	N	Min	Max	Mean	Std. Dev
Is integration of management important in the post-merger phase	92	1	2	1.64	.482
Did integration of management influence the performance of the firm	92	1	2	1.79	.407

Should all managers in both target and merger retain their positions after the merger	92	1	3	2.67	.537
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Source: Author (2017)

4.4.3 Personnel Integration

This section handles information which was collected under the variable pertaining personnel management. Responses under this variable endorsed the fact that personnel management is important as a major source of improvement of the financial performance of mergers in insurance companies in Kenya.

A summary of responses under the personnel management variable is shown in table 9 below:

TABLE 9
PERSONNEL INTEGRATION

Personnel integration	N	Min	Max	Mean	Std. Dev
Does personnel integration between the merging firms have an influence on the post-merger performance	92	1	3	2.60	.575
Did your firm give priority to personnel integration during post-merger phase	92	1	3	2.45	.581
Develop a formal integration plan by top management teams of both companies	92	1	3	2.36	.566
Establish an effective communication strategy to keep the target's employees well informed	92	1	2	1.97	.179
Provide sufficient resources for post-merger integration	92	1	3	2.37	.507

Source: Author (2017)

4.4.4 Culture Integration

This section handles information which was collected under the variable pertaining culture integration. Responses under this variable endorsed the fact that culture integration is important as a major source of improvement of the financial performance of mergers in insurance companies in Kenya. The success of any given merger often depends heavily on the ability of the two firms to integrate their workforces into a unified whole. A merger can fail for any number of reasons, but cultural differences are increasingly thought to be a major cause of post-merger dysfunction.

A summary of responses under the culture integration variable is shown in table 10 below:

TABLE 10
CULTURAL INTEGRATION

Cultural integration	N	Min	Max	Mean	Std. Dev
Does differences in management styles between merging firms matter	92	1	3	1.98	.468
How do you rate the degree of centralization and autonomy of the target's employees	92	1	2	1.86	.350
Should the cultural system of the merging firm be assimilated into the target's culture	92	1	2	1.93	.248
Establishing a sense of unity between the two firms	92	1	3	2.35	.501

Source: Author (2017)

4.4.5 Post Merger Financial Performance of Insurance Companies in Kenya

Financial performance was the dependent variable of this study. The researcher's responses on the constructs of firms' financial performance are summarized in table 11 below.

TABLE 11

FINANCIAL PERFORMANCE OF POST MERGER INSURANCE COMPANIES IN KENYA

Post-merger performance	N	Min	Max	Mean	Std. Dev
Does change management affect the post merger financial performance of insurance companies in Kenya	92	1	3	2.67	.537
Does personnel integration affect the post merger financial performance of insurance companies in Kenya	92	1	3	2.02	.209
Does management integration affects the post merger financial performance of insurance companies in Kenya	92	1	3	2.22	.531
Does culture integration affects the post merger financial performance of insurance companies in Kenya	92	1	3	2.11	.405
Do you see the merging of the firm as a big step towards improving the firm's financial performance	92	1	3	2.24	.803

Source: Author (2017)

4.5 Pre estimation Diagnostic Tests

The researcher carried out a number of diagnostic tests on the data to appraise its suitability for usage with the envisaged empirical model, i.e. multi linear regression. These are the test for multicollinearity and normality.

4.5.1 Testing for Multicollinearity

Multicollinearity occurs when two or more independent variables in a dataset are highly correlated such that they can be expressed as linear combination of each other. It reduces the robustness of regression analysis by making the model to be highly sensitive to small changes in data. As illustrated in table 12 below: all correlation coefficients were below 0.5. Hence we can conclude that there was no multicollinearity in the dataset.

Table 12

Correlation Matrix

		Post-merger performance	Personnel integration	Cultural integration	Change management	Management integration
Post-merger performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	92				
Personnel integration	Pearson Correlation	.318**	1			
	Sig. (2-tailed)	.000				
	N	92	92			
Cultural integration	Pearson Correlation	.385**	.436**	1		
	Sig. (2-tailed)	.000	.000			
	N	92	92	92		
Change management	Pearson Correlation	.235**	.209**	.341**	1**	
	Sig. (2-tailed)	.000	.000	.000		
	N	92	92	92	92	
Management integration	Pearson Correlation	.259**	.301**	.357**	.225**	1**
	Sig. (2-tailed)	.000	.000	.000	.002	
	N	92	92	92	92	92

** . Correlation is significant at the 0.01 level (2-tailed).

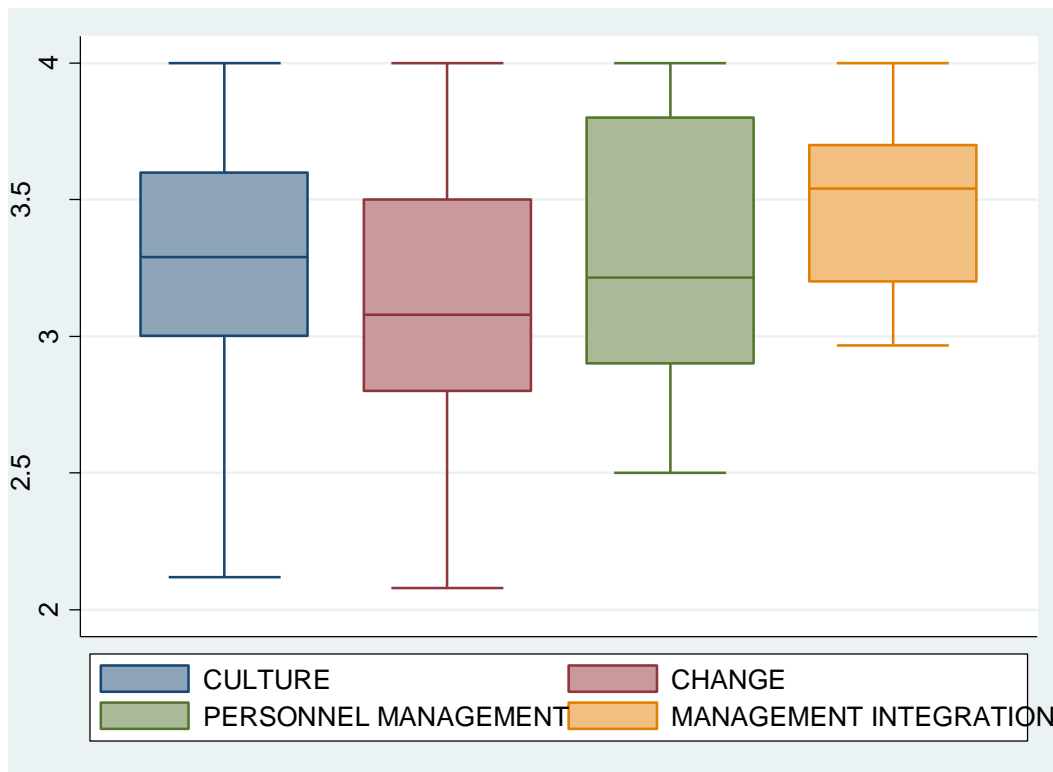
Source: Author (2017)

4.5.2 Pre Estimation Test for Normality

The researcher used box plots to explore the normality of the four research variables. The data in the culture variable, change variable, personnel management and management integration was found to be normally distributed. No outliers were noted from the data collected.

FIGURE 2

Box Plots



Source: Author (2017)

4.6 Regression Analysis and Post Estimation Results

The generally acceptable results of the diagnostic test gave the researcher the green light to conduct ordinary least squares regression analysis. The results of this analysis together with those of other salient post estimation procedures are described in this part. Table 13 below shows the output of regression analysis.

Table 13
Regression Analysis

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.246	.069		-3.567	.001
Personnel integration	.335	.049	.353	6.878	.000
Cultural integration	.259	.062	.200	4.158	.000
Change management	.485	.062	.234	7.820	.000
Management integration	.322	.040	.349	8.069	.000

a. Dependent Variable: Post merger performance

Source: Author (2017)

According to the regression analysis, all regressors had a positive impact on firms' performance. Low (≤ 0.05) p values indicated that the relationship between the dependent variables (firms performance) and each regressors was significant. The general regression equation can therefore be re-written as:

$$Y = -0.246 + 0.335X_1 + 0.259X_2 + 0.485X_3 + 0.322X_4 \dots \dots \dots \quad (ii)$$

Where:

Y = Post merger Performance of firms

-0.246 = constant – firm performance in the absence of post merger factors.

X_1 = Personnel Integration

0.335 = Coefficient of X_1 (Change in the dependent variable due to a unit change in X_1)

X_2 = Culture Integration

0.259 = coefficient of X_2 (change in the dependent variable due to a unit change in X_2)

X_3 = Change Management

0.485 = coefficient of X_3 (change in the dependent variable due to a unit change in X_3)

X_4 = Management Integration

0.322 = coefficient of X_4 (change in the dependent variable due to a unit change in X_4)

4.6.1 Reliability Analysis

The data obtained from the research was evaluated for reliability by calculating the Cronbach's Alpha coefficients for each regressor. The respective values of this coefficient are at table 14 below:

TABLE 14

Cronbach's Alpha

Variable	Number of item	Cronbach's Alpha
All Variables	19	0.953
Personnel integration	5	0.897
Cultural integration	4	0.772
Change management	2	0.831
Management integration	3	0.903
Post-merger performance	5	0.815

Source: Author (2017)

The threshold for the cronbach's alpha is 0.7. If the values of this coefficient for a variable exceeds 0.7, the data of the pertinent variable is deemed to have strong internal consistency and hence reliable.

4.6.2 R – Squared

The R- Squared of a regression indicates the percentage of variability within the dependent variable which can be explained by variability within the independent variables. A high value of R- Squared therefore indicates both goodness of fit of the empirical model used in analysis and a high level of construct validity for the research questionnaire. The r- Squared for this regression was 0.949 as shown in table 15 below:

TABLE 15

R – Squared

Regression Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974 ^a	.949	.947	.09345

a. Predictors: (Constant), Management integration, Change management, Cultural integration, Personnel integration

Source: Author (2017)

This means that 94.9% of variations of firms' performance can be attributed to variations in personnel, cultural, management and change management.

4.6.3 Analysis Of Variance

The analysis of variance (ANOVA) test results for this study are shown in table 16 below.

The researcher concluded that the overall regression was significant since the p value of the ANOVA test was less than that of the level of significance (0.05)

TABLE 16

Analysis of Variance

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	14.110	4	3.527	403.934	.000 ^b
Residual	.760	87	.009		
Total	14.870	91			

a. Dependent Variable: Post merger performance

b. Predictors: (Constant), Management integration, Change management, Cultural integration, Personnel integration

Source Author (2017)

4.6.5 Factor Analysis

Exploratory factor analysis (EFA) was done using the Principle component analysis in order to reduce the factors used to measure the variables. Bryne, (2010) argues that, where all the steps are followed, highly correlated variables would be clustered together into a distinctive factor. EFA gives information about a number of factors that best characterizes the data. This analysis was carried out since multiple regression proved inadequate. The purpose was to narrow down or drop some of the variables and find out whether the remaining variables would justify the improved performance of post merger performance. The reliability test of the research questionnaire was done so as to decide if the research tool yields reliable results. Reliability is uniformity of measurement Bollen, (1989). Drost, (2011) points out that approaches to estimate test reliability in research are test-retest reliability, split-halves, and internal consistency among others.

Kaiser-Meyer-Olkin (KMO) test of adequacy and Bartlett's Test of Sphericity were carried out before factor analyses to test for inter correlations among the variables and the suitability of data.

KMO should vary between 0 and 1. A value of 0 indicates dispersions which lender factor analysis inappropriate whereas a value close to 1 shows a good pattern which should result in very reliable interrelated factors as shown in table 17 below. It is a rule of thumb that KMO should be ≥ 0.7

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.687
	Approx. Chi-Square	179.331
Bartlett's Test of Sphericity	Df	28
	Sig.	.000

Source: Author (2017)

Table 18: Test of Data Suitability

Principal component analysis was used for factor extraction and determine the factors that can be used to best represent the inter relationships among the set of variables. Abdi & Williams, (2010).The model H_0 was assumed to be correct and hence accept. Model H_a should therefore be rejected. In this case the P-value should be greater than 0.05

Computation of degrees of freedom
 Number of distinct sample moments: 66
 Number of distinct parameters to be estimated: 25
 Degrees of freedom (66 - 25): 41

Result (Default model)

Minimum was achieved
 Chi-square = 43.735
 Degrees of freedom = 41
 Probability level = .3561

Source: Author (2017)

The factor loadings range from 0.928 to 0.512 which were all above 0.5 and indicated that convergent validity was met. The path coefficients were negative though the p-values were higher than 0.05. Figure 3 show the path model where the regression coefficients within are positive but between are negative. The results in table 19 below indicate the unstandardized regression coefficients which

are positive which suggest that the factors considered in these study positively post merger performance of firms in Kenya. These factors PMq_2, PMq_3, PMq_4, Pq_3, Pq_4, Pq_4, Cq_2, and Cq_4 are significant and therefore support the hypothesis.

			Estimate	S.E.	C.R.	P	Label
Evaluation	<---	Personnel	-.239	.285	-.839	.401	
Evaluation	<---	Cultural	.769	.234	3.287	.001	
PMq_1	<---	Evaluation	1.000				
PMq_2	<---	Evaluation	.700	.125	5.614	***	
PMq_3	<---	Evaluation	1.116	.142	7.868	***	
PMq_4	<---	Evaluation	1.061	.136	7.812	***	
Pq_2	<---	Personnel	1.000				
Pq_3	<---	Personnel	1.355	.258	5.250	***	
Pq_4	<---	Personnel	1.073	.227	4.735	***	
Pq_4	<---	Personnel	1.372	.257	5.330	***	
Cq_1	<---	Cultural	1.000				
Cq_2	<---	Cultural	.965	.227	4.249	***	
Cq_4	<---	Cultural	1.866	.399	4.677	***	

Table 19 Regression Weights: (Group Number 1 - Default Model)

Source: Author (2017)

4.6.6 Description of Variables Used

PMq_1	Does change management influence the post merger financial performance of insurance companies in Kenya
PMq_2	Does personnel integration affects the post merger financial performance of insurance companies in Kenya
PMq_3	Does management integration influence the post merger financial performance of insurance companies in Kenya
PMq_4	Does culture integration influences the post merger financial performance of insurance companies in Kenya
Pq_2	Did your firm give priority to personnel integration during post-merger phase
Pq_3	Develop a formal integration plan by top management teams of both companies
Pq_4	Establish an effective communication strategy to keep the target's employees well informed
Pq_5	Provide sufficient resources for post-merger integration

Cq_1	Does differences in management styles between merging firms matter
Cq_2	How do you rate the degree of centralization and autonomy of the target's employees
Cq_4	Establishing a sense of unity between the two firms
e1-e12	Measurement and Random Errors

Table 19 Description of Variables Used For Confirmatory Factor Analysis in Table 17 and Figure 18
Source: Author (2017)

4.6.7 Confirmatory factor analysis

Suhr (2006) argues that Confirmatory factor analysis (CFA) is a statistical procedure used to confirm the factor arrangement of a set of experiential variables. CFA assists the researcher to test the hypothesis that an association between experiential variables and their underlying latent constructs exists.

The researcher employed confirmatory factor analysis to establish the path analysis and determine the relationship between the dependent and independent variable. The Chi square, RMSEA and the goodness of fit index (GFI) are the most popular for determining the absolute fit. Table 20 and figure 3 presents the model fit results and hypothesized relationships respectively. The Chi-square test statistic is not significant at 0.05 but according to the hypothesized model then accept. The RMSEA was 0.104 and the Goodness of Fit Index was 0.818. RMSEA is an outright measure of fit based on the non-centrality factor and it estimates the amount of error of approximation per model degree of freedom and takes sample size into account. GFI is a fitness index that looks at the variances and covariance taken care of by the model. A RMSEA value of 0.8 and a CFI value above 0.8 and NFI values between $0.8 \leq & \leq 1$ are indicators of good fit. The

Criteria	Cut off Value	Model Result	Description of fit
Chi-Square	$P < 0.05$	43.735	Small the Number , better fit
p-value	≥ 0.05	0.3561	Good
GFI	Above 0.8	0.818	Good

CFI	Above 0.8	0.782	Good
NFI	$0.8 \leq & \leq 1$	0.720	Good
RMSEA	≤ 0.08	0.104	Close to good

Table 20 Model Fit Indices to assess the post merger performance of merged insurance companies in Kenya.

Source: Author (2017)

In conclusion the Principal Component Analysis extracted the following factors as the strongest factor in explaining the factors considered to significantly contribute to merger performance of merged insurance companies in Kenya to a very large extent as evident through Confirmatory factor Analysis.

1. Did your firm give priority to personnel integration during post-merger phase
2. Develop a formal integration plan by top management teams of both companies
3. Establish an effective communication strategy to keep the target's employees well informed
4. Provide sufficient resources for post-merger integration
5. Does differences in management styles between merging firms matter
6. How do you rate the degree of centralization and autonomy of the target's employees
7. Establishing a sense of unity between the two firms

Standardized Chart

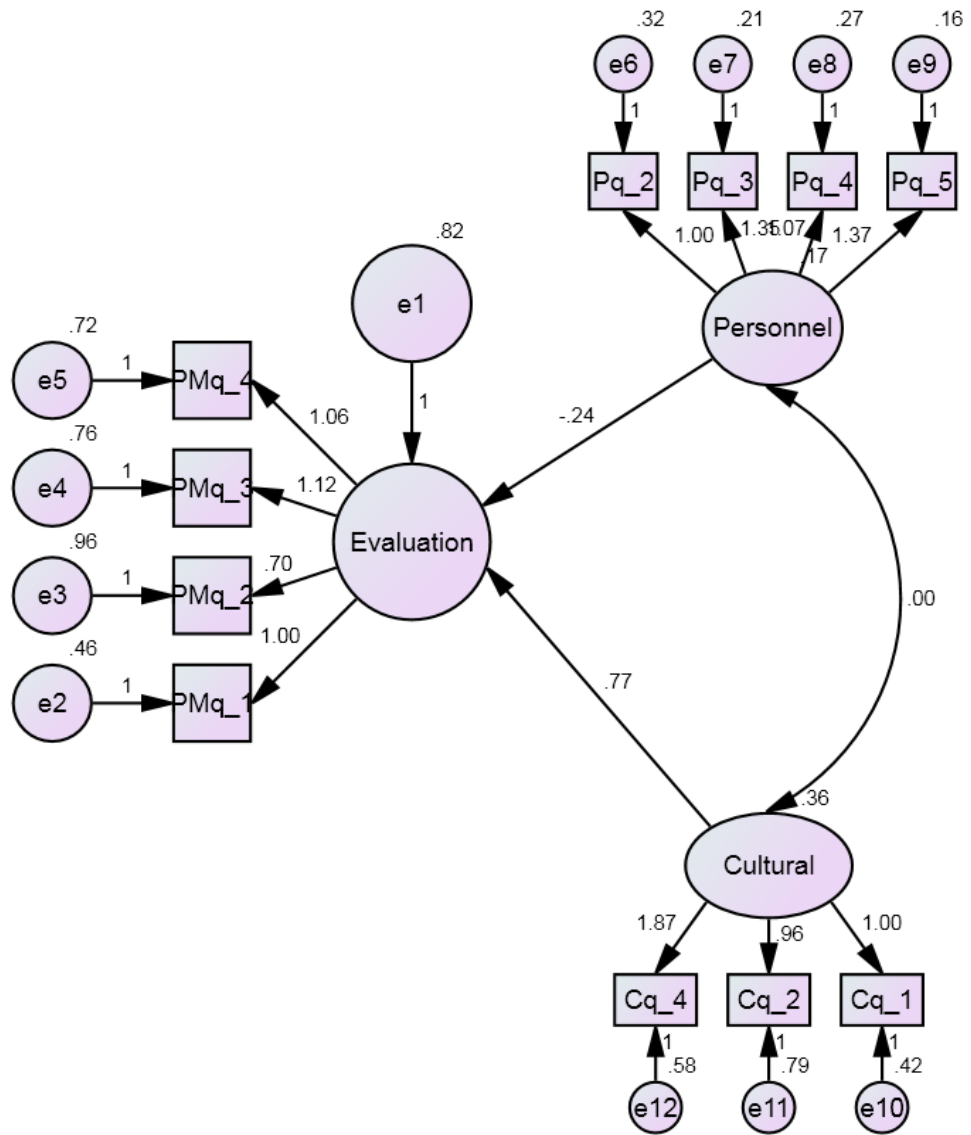


Figure 3: Hypothesised evaluation of factors that influence the post merger financial performance of insurance companies in Kenya.

Source: Author (2017)

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The findings from chapter four are first summarized in this chapter. Conclusion and recommendations are then presented and then the chapter concludes with an elucidation of suggested areas for further research. The objective of the study was to evaluate the factors that influence the post merger financial performance of insurance companies in Kenya.

5.2 Research Findings

This part provides a discussion of the main findings of the research, with respect to the relationship between each independent variable and the dependent variable.

5.2.1. Personnel Integration and financial performance.

The study found a positive and significant relationship between personnel integration and post merger financial performance of insurance companies. From the study most (60%) of the respondents stated that personnel integration had an influence on post merger performance. Also 58% stated that priority should be given to personnel integration, while 60% stated that a formal integration plan should be developed by top management of both companies. Additionally 70% of the respondents stated that effective communication should be established between all parties of the merging firms. In the regression analysis, a unit increase in personnel integration was found to lead to a 0.335 increase in financial performance.

Generally senior managers will not go out of their way to emphasise the importance and value of the employees from the companies merging, the main concern is usually on the immediate goal of financial return. However, any CEO building an insurance company merger for the long term must focus on their company and this is often most effective when there is a tight bond between personnel integration and the financial performance of the insurance companies. Kemal, (2010)

5.2.2 Cultural Integration and financial performance

The study found a positive and significant relationship between culture management and post merger financial performance of insurance companies. From the study most (72%) of the respondents stated that difference in management styles between firms matters in the overall merger financial performance, 75% of the respondents stated that there should be autonomy of the target employee and the degree of centralization should be balanced for all staff. Additionally 73% of the respondents stated that the culture systems of the merging firms should be assimilated. In the regression analysis, a unit increase in culture integration was found to lead to a 0.259 increase in financial performance

Culture must be a main focus in efforts to integrate insurance companies, because when left to itself culture will often undermine value-creation. Efforts to address culture should be based on the recognition that culture is both powerful and implicit, that employees are unlikely to change their cultural beliefs in response to exhortations to adopt new cultural values, and that culture can be rigorously linked to behaviours that affect business value. Kemal, (2010) the focus on business value is essential to positioning culture in a way that business leaders will agree to support it. By tying culture to value-creation and to identifying and changing specific behaviours when necessary, culture can become an effective tool for achieving post merger financial performance of insurance companies in Kenya.

5.2.3 Change Management and financial performance

The study found a positive and significant relationship between culture management and post merger financial performance of insurance companies. From the study most (73%) of the respondents stated that employees should be prepared well before the merger is affected. Additionally, 90% of the respondents stated that communication was done effectively before the merger was effected. In the regression analysis, a unit increase in change management was found to lead to a 0.485 increase in financial performance.

The study revealed that companies should have a proper change management system in place during mergers. Companies involved should understand each other culture and understand the

importance of change. At the same time leaders from both sides should understand the complexities and keep employees from both side involved during the integration. They management should be very clear and honest in what they communicate to the employees otherwise risk of resistance and sabotage will proliferate within the merging firms. Providing clear, consistent and honest communication also helps companies to retain customers and loyal employees and thus increases the efficiency of the merged companies and also increases the overall financial performance of insurance companies. Kemal, (2010)

5.2.4 Management Integration and financial performance

The study found a positive and significant relationship between management integration and post merger financial performance of insurance companies. From the study 64% of the respondents stated management integration influences the overall post merger financial performance of the firm. Additionally, 55% of the respondents stated that both managers of the target and the buying insurance company should maintain their position during the merger in order to ensure the merging process is smooth. In the regression analysis, a unit increase in change management was found to lead to a 0.322 increase in financial performance.

Identifying important parts of management integration and providing different strategies for each part is main guide in this research. Moreover, this research brings out a tool interacting and acknowledge human parts of the deals rather than the technical parts. Management Integration ensures that information is organized in ways that can produce timely and effective decisions from your staff and leads directly to achieving a highly competitive organization. Furthermore, accepting the importance of human parts of the deals seems substantial for organizations success. Kemal, (2010)

5.3 Conclusion

This study validated the link between, personnel integration, change management, culture integration, management integration and the post financial performance of merged insurance companies in Kenya. All the independent variables were found to have a positive and significant relationship with financial performance: personnel integration was found to have the largest effect on financial performance,

followed by culture integration then change management and finally management integration. There have been many drivers for effective mergers integration strategies throughout literature. This theoretical research is bringing some of the important drivers during the integration of mergers and provides wide angle on integration strategies. Therefore, identifying crucial information in various researches and establishing an effective integration perspective are the major tools for this research.

These studies conclude that all four independent variables had a positive and significant relationship with post merger financial performance of insurance companies in Kenya.

The research recommends that firms intending to merge in the future should first analyse the culture and personnel factors since they were found to influence the post merger firm performance positively.

5.4 Recommendation

Based on the objectives of the study, the following recommendations were reached: the study recommends that merging insurance firms should embrace the human factor in the merging process, Identifying crucial parts of integration and providing different strategies for each part was the main guide in this research. Moreover, this research brings out a tool for acknowledging human parts of the deals rather than the technical parts. Furthermore, accepting the importance of human parts of the deals seems substantial for organizations success. Therefore, this tool can be used for future researches as measuring the organizations performance due to integration strategies.

5.5 Recommendation for Further Study

This study focused on insurance companies in Kenya and excludes other industries; hence the researcher encourages future studies on other sectors such as Banks, SME's, medical sectors, technology sectors, logistics firms, property industries and other sectors in the economy. Scholars can research on how the variables in this study influence tax advantage, economies of scale and cost cutting of the insurance companies or other sectors.

The research investigated on merged insurance companies in Kenya, thus excluding insurance companies that have been acquired. A research should be done for those insurance firms which has undergone acquisition and a comparison done to offer better information to scholars and stakeholders.

One may also be interested to know the kind of strategies used by the insurance company to assess performance. This research considered four variables; Culture integration, Change management, management integration and personnel integration. Other studies may use additional variables, Future research should not be restricted to these variables only, but can consider other major variables. Significance of the results could possibly be improved by applying more variables. The use of more variables could better capture the dynamics of companies' performance.

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APPENDIX 1: QUESTIONNAIRE

I request your feedback on below questionnaire to assist in acquiring practical knowledge for both practitioners and academics. Please take a few minutes to complete this survey. Each item is ranked according to the degree of importance you assign to each phase of the merging process. A score of one (1) represents least in importance (not relevant) and four (4), the item that is most important (relevant) to a successful acquisition as measured by its value adding result.

SECTION A: BACKGROUND INFORMATION

Gender	Tick
Male	
Female	

Age	Tick
Less than 20 years	
21 -30 years	
31 – 40 years	
41 -50 years	
Above 50 years	

Level of education	Tick
First Degree	
Second degree	
Doctorate	

How long have you worked for this organization?	Tick
Less than 3 years	
3 -6 years	
7 – 10 years	
More than 10 years	

Section B: Factors Influencing Post Merger Financial Performance of Insurance Companies in Kenya

In Likert Scale, Please rank the following factors in terms of their importance for consideration in the post merger financial performance of insurance companies in Kenya.

1: Very important 2: Important 3: Neutral 4: Slightly important 5: Unimportant

PERSONNEL INTEGRATION	1	2	3	4	5
• Does personnel integration between the merging firms have an influence on the post merger financial performance					
• Did your firm give priority to personnel integration during post merger phase					
• Did your insurance company develop a formal integration plan by top management teams of both companies					
• Did the company establish an effective communication strategy to keep the target’s employees well informed					
• Did the company provide sufficient resources for post merger integration					

CULTURAL INTEGRATION	1	2	3	4	5
• Does differences in management styles between merging firms matter					

<ul style="list-style-type: none"> • How do you rate the degree of centralization and autonomy of the target's employees 					
<ul style="list-style-type: none"> • Should the cultural system of the merging firm be assimilated into the target's culture 					
<ul style="list-style-type: none"> • Does establishing a sense of unity between the two merging firms important for the merger to succend 					

CHANGE MANAGEMENT	1	2	3	4	5
<ul style="list-style-type: none"> • Did the firm prepare its employees, customers and other stake holders of the merger before it was effected 					
<ul style="list-style-type: none"> • Did the communication before merger to stake holders have any impact on the post merger firms performance 					

MANAGEMENT INTEGRATION	1	2	3	4	5
<ul style="list-style-type: none"> • Is integration of management important in the post merger phase 					
<ul style="list-style-type: none"> • Did integration of management influence the performance of the firm 					
<ul style="list-style-type: none"> • Should all managers in both target and merger retain their positions after the merger 					

SECTION C: POST MERGER PERFORMANCE EVALUATION CRITERIA.

Post merger performance evaluation criteria for determining whether the merger was a success. In Likert Scale, Please rank the following factors in terms of their importance for consideration in the post merger phase.

1: very important 2: important 3: neutral 4: slightly important 5: unimportant

POST MERGER PERFORMANCE EVALUATION	1	2	3	4	5
• Does change management affect the post merger financial performance of insurance companies in Kenya					
• Does personnel integration affects the post merger financial performance of insurance companies in Kenya.					
• Does management integration affects the post merger financial performance of insurance companies in Kenya					
• Does culture integration influence the post merger financial performance of insurance companies in Kenya					
• Do you see the merging of the firm as a big step towards improving the firms performance					

Source: Author, (2017)

APPENDIX 2: INSURANCE COMPANIES IN KENYA

List of Insurance Companies in Kenya regulated by the Insurance Regulatory Authority
1. AAR Insurance Kenya
2. APA Insurance - Part of Apollo Investments Company
3. Africa Merchant Assurance Company – AMACOO
4. Apollo Life Assurance
5. AIG Kenya Insurance Company
6. British-American Insurance Company Kenya Limited
7. Cannon Assurance Company Limited
8. Capex Life Assurance Company
9. CIC General Insurance
10. CIC Life Assurance
11. Continental Reinsurance
12. Corporate Insurance Company
13. Directline Assurance Company
14. East Africa Reinsurance Company
15. Fidelity Shield Insurance Company
16. First Assurance Kenya Limited
17. GA Insurance Company
18. Geminia Insurance Company
19. ICEA LION General Insurance Company

20. ICEA LION Life Assurance Company
21. Intra Africa Assurance Company
22. Invesco Assurance Company
23. Kenindia Assurance Company
24. Kenya Orient Insurance
25. Kenya Reinsurance Corporation
26. Liberty Life Assurance Kenya Limited
27. Madison Insurance Company Kenya
28. Mayfair Insurance Company
29. Mercantile Insurance Company
30. Metropolitan Life Insurance Kenya
31. Occidental Insurance Company
32. Old Mutual Life Assurance Company
33. Pacis Insurance Company
34. Pan Africa Life Assurance
35. Phoenix of East Africa Assurance Company
36. Pioneer Assurance Company
37. Real Insurance Company
38. Resolution Insurance Company
39. Takaful Insurance of Africa

40. Tausi Assurance Company
41. Heritage Insurance Company
42. Jubilee Insurance Company Limited
43. Monarch Insurance Company
44. Trident Insurance Company
45. UAP Insurance Company
46. UAP Life Assurance Company
47. Xplico Insurance Company

Source: IRA (2017)

APPENDIX 3: STUDY SAMPLE (INSURANCE)

1	Institution	Merged with	Current Name	RESPONDENT
2	ICEA	Lion Of Kenya Insurance Company	ICEA Lion Insurance Company	CEO,CFO, Project manager and Strategic manager
3	UAP	Old Mutual	UAP Old Mutual Group	CEO,CFO, Project manager and Strategic manager
4	Apollo	Pan – Africa General Division	APA Insurance	CEO,CFO, Project manager and Strategic manager
5	Norwich Union Fire Insurance Society	Legal And General Insurance Company	Heritage Insurance Company Limited	CEO,CFO, Project manager and Strategic manager
6	Union Insurance	Provincial Insurance	UAP Provincial Insurance Company	CEO,CFO, Project manager and Strategic manager
7	Indian Insurance Companies	All Merged	Kenindia Assurance Company Limited	CEO,CFO, Project manager and Strategic manager
8	Mercantile Insurance	Moroccan Saham Group	Mercantile Group	CEO,CFO, Project manager and Strategic manager
9	Phoenix Assurance Of East Africa	Union Insurance	Phoenix Insurance	CEO,CFO, Project manager and Strategic manager
10	Cannon	Metropolitant	Metropolitant	CEO,CFO,

	Assurance Limited Kenya	Insurance	Cannon Insurance Kenya	Project manager and Strategic manager
11	Real Insurance Group East Africa	Britam Kenya	Britam Kenya	CEO,CFO, Project manager and Strategic manager
12	Barclays Africa	First Assurance	Barclays Life	CEO,CFO, Project manager and Strategic manager
13	Panafrica Insurance	Gateway Insurance	Panafrica Life Insurance	CEO,CFO, Project manager and Strategic manager
14	KCB Group	Madison Insurance	Madison Insurance	CEO,CFO, Project manager and Strategic manager
15	Resolution Health East Africa	Leapfrog Holdings	Resolution Health East Africa	CEO,CFO, Project manager and Strategic manager
			TOTAL	100

Source: IRA (2017)

APPENDIX 4: TOTAL VARIANCE EXPLAINED AND PATTERN MATRIX

Total Variance Explained							
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.539	31.735	31.735	2.539	31.735	31.735	2.537
2	1.913	23.908	55.643	1.913	23.908	55.643	1.915
3	1.023	12.792	68.435	1.023	12.792	68.435	1.025
4	.696	8.704	77.139				
5	.624	7.806	84.945				
6	.529	6.606	91.551				
7	.376	4.696	96.247				
8	.300	3.753	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Pattern Matrix^a

	Component		
	1	2	3
Provide sufficient resources for post-merger integration	.846		
Develop a formal integration plan by top management teams of both companies	.821		
Establish an effective communication strategy to keep the target's employees well informed	.779		
Did your firm give priority to personnel integration during post-merger phase	.730		
Establishing a sense of unity between the two firms		.856	
Does differences in management styles between merging firms matter		.807	
How do you rate the degree of centralization and autonomy of the target's employees		.725	
Did the communication before merger to stake holders have any impact on the post-merger firms performance			.982

Extraction Method: Principal Component Analysis.
 Rotation Method: Promax with Kaiser Normalization.
 a. Rotation converged in 3 iterations.

Source: Author, (2017)