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Short Term Performance Implications of Privately Quoted Companies After the Announcement of Merger and Acquisition: A Case of UAP Holding Limited in Kenya

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Abstract

The contemporary business environment has been highly complex and dynamic with organizations facing unprecedented amount of competition due to globalization and technological innovations. Merger and acquisition is one of the most popular organization strategy that organizations apply when faced with this kind of operating environment acquiring resources, skills, and competencies beyond their organization control. Many studies have been done to support implementation of M&As within organizations but they have indicated conflicting outcomes with some showing that it negatively affect organization performance and others indicating they positively affect performance. However, none of the studies done has concentrated on the effect within the privately traded organizations and very few but conflicting studies have been done on this relationship in Kenya. This study therefore sought to assess the effects of merger and acquisition on the performance of privately trading organizations in Kenya. The study was grounded upon the efficiency theory, the market power theory, and economic production theory. Reviewed literature revealed existing gaps related to the literature. The study adopted descriptive research design on short run data collected at UAP Insurance within the pre-merger (2012-2014) and post-merger (2015-2017) periods for various performance statistics, where descriptive analysis was applied to assess the differences and independent sample t-test. The study found that M&A affects the net profit margin, Return on Assets, Return on Equity, and earnings per share with all these performance indicators showing that the post-merger period had poorer performance than the pre-merger period. The study further observed that the M&A implementation caused serious disruptions in the operating environment and organization culture of the organization, which was bound to have negative implications on organization performance, employees and shareholders. The study recommends that organizations should avoid M&A strategy unless their current assets are able to fund their current liabilities beyond the short run period, as the declined performance was linked to the disruptions experienced from M&A implementations. The study also recommends that M&A intended changes should occur sequentially to cushion the organization internal operations from the disruptions due to the changes. Study suggests further studies assessing the long term impact of M&A on organization performance.

Keywords: Mergers and acquisitions; Insurance sector; Performance; Operations management.

1. Introduction

The dynamics and competitive atmosphere of modern business is changing in line with changing global environment. The fast changing business environment has created an environment where only the strong survive as the weaker organisations face isolation (Akinbuli and Kelilume, 2013). According to Chen (2013), the contemporary operating environment requires skills, capacities, technologies and resources to prosper beyond its boundaries organisation survival. With limited resources and tough economic times, majority of companies resort to mergers and acquisitions (M & A) to attract additional resources which creates the necessary competitive advantage (Mboroto, 2013). These competences include access to skills outside the current tangible and intangible assets. Contemporary organisations have identified the facts that even the most capable and knowledge-intensive companies have to identify and leverage resources and competencies produced beyond their borders as part of their organisational strategy to maintain competitiveness and profitability (Gosh and Das, 2013). Through mergers and acquisitions, companies can tap into new resources and skills needed for growth and survival in a fast growing business.

The main logic behind mergers and acquisitions is to facilitate the growth of organisations both internally and externally. Through mergers and acquisitions, organisations can lead to growth optimisation when production and marketing operations are enhanced. Though the primary goal of implementing Mergers and Acquisitions is to improve performance, there are instances where organisations have suffered extensive financial losses leading to complete organisation failure (Akinbuli and Kelilume, 2013). This notwithstanding, M&A remains a key strategy for enhancing organisational growth. Recent empirical research confirms that M&A indeed have the capability to generate shareholder value.

Mergers involve the amalgamation of two or more organisations, where all or one of them ceases to exist legally. A subsidiary merger, occurs where the target company becomes a subsidiary of the parent company. According to Cassim (2008), mergers occur in various forms such as statutory, subsidiary, or regulatory consolidation. In a statutory merger, the procuring company accepts the assets and liabilities of another company following the government policies in effect within the country of operation. Through a statutory consolidation, two or more companies merge following a statutory directive to become a new company. Acquisitions take place when a company secures a controlling stake, a legal subsidiary, or selected critical assets of another company (DePamphilis, 2014).

Galpin and Herndon (2014) categorised mergers and acquisitions into three different groups: horizontal, vertical and conglomerate mergers. Horizontal merger arises when two or more competing firms producing and selling similar products merge, where the firms raise their cross elasticity of demand and supply since their products are considered as the same by their buyers. A vertical merger occurs between firms operating at different stages of production having a serial functional link for the manufacture of the final product. The conglomerate merger occurs between firms running unrelated business activities.

Various theories have been posted explaining the relationship between M&A and firm growth. The synergy theory holds that the organisation management pursues efficiency gains when they merge with another efficient business target and improving the performance of the goals (Choi and Weiss, 2005). The economic theory, on the other hand, explains the reasons behind the occurrence of mergers, whether as a consequence of efficiency accrued through attained economies of scale or other synergies; efforts creating market power, formation of monopolies or oligopolies; gaining market discipline, notably instances where incompetent target management is removed; self-serving attempts by acquirer management to over-expand other agency costs; and to take opportunities for diversification (Cassim, 2008). The economic theory maintains that organizations operating at sub-optimal scale may achieve scale gains at a quicker pace through M&A than through internal growth. The market power theory posed by Choi and Weiss (2005) contends that M&A creates value by increasing the market power, permitting the post-merger entity to earn higher economic returns.

Views posited by Eccles *et al.* (2009), revealed that the successful implementation of M&A depends mostly upon the industry or the prevailing management preferences. This is the reason behind the choice of some companies to embrace internal builds instead of buying or acquiring particularly in instances where the management realise they require product or process knowledge while they can easily capitalize on another opportunity instead of the buying process. Notwithstanding the downside of the strategy implementation, M&A has been implemented in voluminous forms and industries.

The M&As have become popular in Kenya for an organisation wishing to gain a competitive advantage in their various industries such as banking, insurance, oil, gas, electricity among others (Kemal, 2011). The insurance sector has also embraced M&A as a key growth and profitability strategy. The identified motives behind M&A in the insurance sector include increased share capital levels, distribution networks and market share expansion, and access to best global practices, among others. The sector pursues expansion and solidification of the existing business line through waves of M&A, partly due to the need to conform to regulatory directives and to increase the organisation's profitability. The idea of corporate mergers is justified in terms of the resulting synergies where the organisations involved seek to improve their performance as a single entity. Additionally, other benefits attributed to M&A observed include: increased market share and power, economies of scale, reduced taxation, widened geographical areas, entry into new markets, eradication of inefficient management teams, among others, (Mboroto, 2013). This study sought to assess M&A practices within the insurance industry in Kenya.

1.1. Statement of the Problem

Due to the increasing competition and globalised economies, adoption of the M&A strategy is expected to intensify on a large scale with organisations aiming at achieving a competitive edge in the industry (Mender, 2014). There are many studies previously done assessing the effects of M&A strategy on organisation performance, growth and other aspects, with studies finding that M&A leads to there was an improvement in financial performance with an increase in return on assets, return on equity and reduction in cost to income ratio. However, other studies have shown conflicting results on the performance implications of M&A in the insurance industry, such as one by Hubbard (2001) which observed that approximately half of M&A fails to meet their set objectives and attributes this failure to various reasons such as mismatch in size between target and acquired companies, diversification into dissimilar industries, cultural barriers with new organization legislations, and dissimilar operating practices and procedures. This is the motivation of the study seeking to understand the effects of M&A on the performance of insurance companies in Kenya by undertaking a case study in the UAP insurance company. The study sought to find answers to the research questions: what are the M&A experiences in UAP Insurance? What are the state of pre and post-M&A performance of the UAP insurance? What effects did M&A have on the operations within UAP Insurance and Old Mutual companies?

1.2. Study Objectives

The general objective of this study is to assess the influence of M&A on the performance of UAP insurance in Kenya.

i. To establish the experiences of UAP Insurance in Kenya;
ii. To assess the influence of M&A on the performance of UAP Insurance in Kenya;
iii. To determine the impact of M&A on the operations within UAP Insurance and Old Mutual companies in Kenya.

1.3. Value of Study

This study is significant to the insurance industry which plans to or has undertaken M&A in Kenya with the hope of improving their performance. The research benefits the investors and institutions wishing to make decisions concerning mergers or acquisitions. The study aids the policymakers to maximise the value of the concerned stakeholders based on the merger and acquisition strategy implemented by the organisation. The research is also beneficial to scholars and researchers wishing to understand the relationship between M&A and performance of insurance institutions in Kenya.

2. Literature Review

This section offers a critical and comprehensive review of literature related to the M&A discourse proffered by different scholars. It involves an analysis of the secondary materials acquired from published journals, theses, books, and conference proceedings. The section discusses the empirical outcomes of studies on M&A, related theoretical issues, mergers and acquisitions, effects of mergers on organisation performance and other related topics.

2.1. Theoretical Review

There are numerous theories that the M&A practices and their consequences on organisation performance are grounded upon. Most arguments that relate to M&A comprise the discussion of its overall impact on organisation performance. The theories that will be adopted in this study includes the efficiency theory, the market power theory, synergy theory and economic production theory.

2.1.1. The Efficiency Theory (Synergy)

The synergistic mergers theory states that the management of an organisation seek the attainment of efficiency gains by coalescing efficient business targets with their business to improve performance outcomes. Organization purchasers have to identify the particular complementary relationship between the company and that of the target organisation. Consequently, though the target organisation is already showing good performance, it's bound to perform better when it joins a complementary counterpart, the buyer organisation. This theory infers that the target organisation performs well before and after the actualisation of mergers (Gaughan, 2007).

This theory was brought forward by Weston and Brigham (1992). It is built on the presumption that M&A are planned and executed by organization management with the purpose of realising synergy. The synergy can be in financial, operational or managerial forms. Financial forms of synergy refer to where M&A involving investment in independent businesses results in lower costs of capital achieved when companies can lower their investment portfolio systematic risks. Additionally, the size of the organisation increases upon getting into M&A, ensuring the company has access to cheaper capital and allowing the company to develop internal markets that operate on superior information and apportioning money more proficiently (Jensen and Murphy, 1988). The operational synergy, on the other hand, arises from coalescing the operations previously separate such as combining the sales force or acquiring knowledge transfer which is thought to lower cost of involved business units or facilitate the company in offering products and services that are unique (Porter, 1985). Managerial synergy is realised where the managers in the purchased organisation have superior planning and monitoring capabilities, (Porter, 1985).

The theory survives on the assumption that M&A only precede the expectation that it generates enough synergy to ensure that the deal benefits both involved parties. Where fears of non-positive value generation are arrayed to the owners of the organisation being purchased, they are likely not to sell or submit to the acquisition requests. On the other hand, where bidders expect negative gains, they are not expected to complete the acquisition deal. Therefore, the efficiency theory predicts that M&A leads to value creation with positive yields for all the parties in the agreement, (Banerjee and Eckard, 1998); (Klein, 2001).

2.1.2. Market Power Theory

Market power theory dwells on the market participants comprising of persons, firms, partnerships, and other groups of participants influencing price, quality and products nature in the marketplace (Montgomery *et al.*, 1985). Market power theory argues that M & A creates value whenever they raise the market power of the organisation, giving the post-merger entities a chance to receive higher yields. But on the contrary, there are studies which confirm the rationale for the gain in market value in some industries as questionable. A study by Choi and Weiss (2005) found the structure of the theory to be the structure poor with the research they conducted indicating that the performance and concentration of large-sized organisations lead to poor market and anti-competitive conditions.

The occurrence of a horizontal merger leads to competitor loss in the market which builds benefit gains for merged companies while driving up product prices in the market for the customers. M&A at times doesn't maximise value for the participants. There is existing evidence confirming that some managers fail to always act in the best interest of shareholders but rather pursue varying degrees of their interests. The management at times works towards own net worth and incomes maximisation, engaging in extreme perquisite consumptions while taking actions that are inconsistent with organisation value maximisation. Additionally, the management at times may participate in programs whose value is questionable growing organisation scale to increase compensation and prestige (Jensen and Murphy, 1988)

2.1.3. Economic Production Theory

The economic production theory posits that organisations operate within the cost, revenue and profit functions which are all affected by M&As. The critical backing argument for M&A is that it leads to the acquisition of economies of scale, at times associated with the reduced cost function. It is argued that organisations operating at a sub-optimal level gain value quicker via M&A strategy than pursuing common growth strategies. The existing evidence of potential scale economy gains within different industries offers mixed reactions, though it is widely accepted that scale economies provide a compelling motivation for M&As (Cummins and Xie, 2009).

Economies of scale deliver additional production theory justification for M&As. The economic scope is extant in the costs, revenues and profits aspects of the organisation. The cost economies of scope, in general, arise from joint inputs application including the managerial expertise, customer lists, computer technologies and brand names. Revenue economies of scope on the other hand often result from the reduction in customer search or the acquisition costs and the expansion of service or product quality from embracing joint provision of similar products, an example being offering life and automobile insurance.

2.2. Mergers and Acquisitions

A merger is the concept of two or more organisations joining forces where they end up operating as one. The companies may merge and take up the identity of one of the existing companies, or merge to form a company with an entirely new identity (Hitt *et al.*, 2001). The merger may occur through swapping of stocks or cash payment to the target. A swap in stocks introduces the risks of the deal to shareholders of involved companies. On the other hand, acquisition refers to the transaction where one company assumes partial or full control of another company's assets, either directly or indirectly, allowing them to gain control of the company management (Kovacich and Halibozek, 1991). An organisation seeking to acquire another is referred to as 'acquiring company', while that being acquired is the 'target company'.

Brealey *et al.* (2004) categorised M&A into four areas as horizontal, vertical conglomerate, or reverse. This classification relies upon the nature of business for the two entities when M&A strategy is applied. Horizontal M&A refers to instances where the involved parties are involved in similar lines of business or our competitors. Organizations seek horizontal M&A to attain synergy between their business units. Vertical M&A include parties that are in the same line of business but different production aspects. Conglomerate M&A on the other hand, involves parties in different or unrelated fields of business and is done to help reduce the costs of capital and overheads to gain efficiency.

Majority of organisations are involved in M&A for the sole aim of increasing the scope of their operations to improve their long-term profitability. M&A deals in most instances occur under a friendly atmosphere with participating companies partaking in a due diligence process for eventual success. In some cases, it happens through hostile takeover where purchasing organisation buy outstanding majority shares of the company in the open market. M&A has recently become famous due to heightened competition, reduced trade barriers, inter-country capital flow and globalisation with deregulation and integration of countries' economies.

The M&A activities in Kenya are administered within the Competition Act and are managed by the Competition Authority of Kenya. The principal objective of the Act and Authority is enriching people welfare in Kenya through the promotion and protection of effective competition in the markets. The primary jurisdiction is market structure and conduct regulation aiming to enhance customer welfare. The Authority acts as the advisor to the Kenyan government on matters competition by carrying out market inquiries, and policies, procedures and legislation reviews, ensuring that the policies, procedures and legislation do not lead to unhealthy competition.

2.3. Empirical Review

Many studies have indicated their interest in assessing the M&A and organisation performance relationship. Rahman *et al.* (2014) reviewed the impact of managerial efficiency on the operating performance of Malaysian companies. The study was carried out with the objective of evaluating the changes in administrative efficiency following mergers and acquisitions among Malaysian corporate firms. The study used a descriptive research design and utilised secondary data collected from the financial and managerial reports of the Malaysian corporate firms. An analysis of data on administrative efficiency for a period of five years before the merger year and five years after the merger year for each acquiring firm during the period between 2002 and 2011. Correlation matrix and multiple regression analysis were applied to study the association between managerial efficiency and operating performance of the selected firms in the pre-and post-merger periods. The study results revealed that the administrative ability of the chosen firms decreased in the immediate period following the M&A but improved in the medium and longer terms.

In a study of the impact of mergers and acquisitions on the organisational performance of selected acquirer and target firms in India, Gupta and Banerjee (2017) explored the effect of managerial efficiency on the corporate performance of selected companies in India. The study performed an analysis of both primary and secondary data to ascertain the impact of managerial efficiency on the organisational performance of the sampled companies in India. The findings of the study showed that administrative capability of the sampled firms tended to deteriorate in the immediate period following the M&A as a result of the initial high operational costs arising from the merger and acquisition activities.

In a review of the improvements of post-merger corporate performance using a case of Egypt, Ismail *et al.* (2014) sought to examine the effect of managerial efficiency attributable to M&A on the profitability of selected corporate firms in Egypt. The chosen study twelve Egyptian corporate firms that had engaged in M&A using stratified and judgmental sample selection methods. The study used secondary data obtained from the published annual reports and financial accounts of the selected corporate firms. The study data was analysed through regression analysis using the Statistical Package for Social Sciences (SPSS). The study results showed improved efficiency in the period after the merger and acquisition when compared to the period before. The study concluded that mergers and acquisitions helped the acquiring firms in Egypt enhance their operational efficiency.

In a study to investigate the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya, Ndung'u (2011) performed a comparative analysis of the bank's performance pre and post-merger periods between 1999 and 2005. The study adopted a descriptive research design. The study's population was 36 Kenyan commercial banks. The study used secondary data obtained from the from the NSE and CBK databases as well as from the banks' financial statements. The study data were analysed using descriptive statistics and the t-test. The study findings revealed that there was an improvement in the commercial banks' managerial efficiency after mergers. The study found that the sampled banks had been able to improve their operational efficiency in the post-M&A period compared with the pre- M&A period.

Mboroto (2013) did a study on the effect of mergers and acquisitions on the financial performance of Petroleum Firms in Kenya. The study adopted a descriptive research design. The survey targeted four petroleum firms that had engaged in mergers and acquisitions in Kenya's Oil Sector between the years 2002-2012. The study used secondary data collected from the NSE Annual Statement of Accounts and financial reports of the sampled firms. Comparisons were made between the mean of 3-years pre-merger/acquisition and 3-years post-merger/acquisition period using financial ratios and paired t-test. Besides, the study analysed to compare the sampled organisation performance against the industry average. The study results revealed that the sampled petroleum firms performed better in the period after the M & A when compared to the period before. The same study revealed an increased managerial efficiency during the period after the merger.

In another study, Inoti *et al.* (2014) investigated the impact of acquisitions on the financial performance of listed acquiring firms in Kenya. Specifically, the study sought to explore the effect of managerial efficiency on the financial performance of the listed acquiring companies in Kenya. The study adopted a descriptive research design and used a purposive sampling procedure to select 11 listed firms that had engaged in acquisitions in Kenya between 2001 and 2010. Key financial ratios were computed and used to determine the company's pre and post-acquisition managerial efficiency and financial performance levels while the paired t-test was used to determine whether there was a significant difference between the means of the two periods for each ratio. From the study findings, it was apparent that there was no significant difference in pre and post-acquisition managerial efficiency and profitability ratios of the studied firms. The study, concluded that administrative competence attributable to corporate acquisitions did not affect the financial performance of the acquiring firms.

In a study to analyse the consequences of mergers and acquisitions on human resource in India, Vijaywargia (2016) sought to evaluate the impact of mergers and acquisitions on the employees' job motivation and satisfaction and on their psychological and behavioural impact. The study sampled six companies that had engaged in M&A between 2005 and 2014. The study utilised chi-square tests using SPSS to analyse the study variables. The study results found an unsatisfying level of job security and motivation and psychological, behavioural aspects among workers who worked post Mergers and Acquisitions. The study further noted that though M&A are seen as tools to boost business in today's international marketplace, they have a low success rate, probably as a result of their primary target being financial and legal issues instead of the human factors.

Kenneth (2012) sought to establish the effect of M&A on employee outcomes. The unit of observation in the study was the individual worker, which allowed the researcher to provide a more direct and systematic empirical evidence on the effects of mergers and acquisitions on employees outcomes. The study analysed employer-employee data for the entire population of workers in over 19,000 manufacturing plants in the USA for the period 1985-1998. The empirical evidence suggested that employee outcomes were more favourable when only part of the company was bought or sold or when the firm engaged in an unrelated acquisition. The study, however, warned that any workforce reductions that are undertaken should be based on objective, fair, and consistent criteria communicated to all employees.

Yusuf (2016) examined the impact of mergers on the organisational performance of the Jordanian Industrial Sector. The study attempted to analyse the post-merger impact on employee performances in the Jordanian industrial sector. Seven industrial companies involved in merger deals between 2000 and 2014 were included in the study sample. Two years pre and post-merger employee outcome data were used to test the significance. Paired sample t-tests were applied on the employment outcome data using SPSS in data analysis. The study results indicated that the overall employee performance of merger Jordanian industrial companies improved insignificantly in the post-merger period. The study thus concluded that M&A had an insignificant effect on employee outcomes within the Jordanian Industrial Sector.

Carriquiry (2017) studied the impact of mergers and acquisitions on employee turnover. The study sought to analyse the effect of M&A on employee turnover and how employee mobility affected firms' human capital resources. The study did that by looking at how M&A increased the probability of turnover for different groups of employees at the target firms. The study predicted that M&A represent exogenous shocks for employees of the target firm, increasing their likelihood of leaving the firm. Also, recognising that M&A can be very different treatments, the study explored the effect of different types of M&A. The study found that, for a matched sample of Danish firms and employees, M&A generally increased employee turnover, with employees fundamentally driven out due to increased human capital.

Gwaya (2015) studied the effect of mergers and acquisitions on the financial performance of commercial banks in Kenya. The study focused on banks that had engaged in M&A in Kenya between 2000 and 2014. The study applied the census technique to include all the 14 banks that had merged or acquired others during the stated period. Data were collected using questionnaires. The received data was analysed using descriptive statistics with the help of SPSS. The study found out that mergers and acquisitions enhanced the market share performance of the banks involved in M&A in Kenya. The study further identified the desire to increase market share as one of the main reasons why Kenyan banks merged or acquired others. However, the study recommended that thorough feasibility studies should be carried out before the M&A process can be done.

3. Research Methodology

The study adopted a descriptive research design. This is a scientific research method involving accurate observation and description of the behaviour of a subject (Mugenda and Mugenda, 2013). The model is appropriate for studies seeking to describe the characteristics of specific groups, estimate the proportion of people with particular traits and make predictions (Cooper and Schindler, 2011). The design is suitable to the study helping describe existing state of affairs without variables manipulation (Kothari, 2004). The study sought to review the performance of companies using the recently announced Merger & Acquisition of UAP Holdings Ltd by Old Mutual in the year 2015. The researcher sought to review both primary and secondary data to establish the performance of a privately quoted company after announcement of a merger and acquisition. The secondary data was obtained from the annual financial and management reports of UAP – Old Mutual for a period of 7 years between 2011 and 2017 allowing for pre-merger and post-merger assessment. The researcher divided the seven year period into two parts: (i) Period before M&A (i.e. 2011-2015) and the after the M & A (i.e. 2016-2017). The purpose of the study was to perform a comparative assessment of the organisational performance two periods to make a conclusion on whether an announcement of a M&A has any effect on organisational performance. Data were analysed through descriptive statistics. Two-tailed paired sample T-test statistics were also used at a 95% confidence level to test whether there were statistically significant differences of means between pre and post M&A variables.

Net profit = Revenues – cost

$$\text{Net profit margin} = \frac{\text{Profit after taxes}}{\text{Sales}}$$

$$\text{Return on Assets/investments} = \frac{\text{Profit after taxes}}{\text{total Assets}}$$

$$\text{Return on Equity} = \frac{\text{Profit after taxes}}{\text{Shareholders' equity}}$$

$$\text{Earnings per share} = \frac{\text{Profit after taxes}}{\text{No.of ordinary stocks}}$$

$$\text{Incurred Claims Ratio} = \frac{\text{Total claims Incurred}}{\text{Net Earned Premiums}}$$

$$\text{Net Commission Ratio} = \frac{\text{Net Commissions}}{\text{Net Earned Premiums}}$$

$$\text{Management Expense Ratio} = \frac{\text{Underwriting Management Expenses}}{\text{Net Earned Premiums}}$$

4. Discussion of Findings

The study objective is to assess the effect of recently undertaken M&A in UAP Insurance Ltd on the performance, as a case of the effects of M&A on organisation performance in the in Kenyan insurance industry. Data analysed informed our findings involving analysis of various performance ratios. The results were displayed with a short discussion of the findings for the various effects within the company. These outcomes are discussed in this section starting with an explanation of the merger and acquisition in the company.

4.1. The M&A Occurrence in UAP Limited and Old Mutual in Kenya

Before the 2015 merger, UAP Insurance Limited existed as an insurance organisation with its shares trading privately within the unit trust market. Old Mutual initiated the merger process with the objective of forming a wholesome financial services company. The process kicked-off in 2014 when Old Mutual, an asset management company, acquired controlling stake of Faulu Microfinance Bank to catapult the company into the banking business and then acquired controlling stake at UAP Limited to enter into the insurance sector. The resultant company is known as UAP Old Mutual Group - East Africa, later revised to UAP Holdings Limited (UAPHL), with a view of becoming publicly traded later in 2018 (the company has expressed interest in becoming publicly listed in the NSE).

The principal objective of forming the UAP Holdings Limited (UAPHL) was to consolidate the life and asset management businesses in the short term in Kenya subject to regulatory, and shareholder approval as both UAP and Old Mutual had competing firms in the market. The merger of these entities sought to improve operational efficiencies and to gain economies of scale through leveraging the widened customer base and strong balance sheet of the combined objects. In his address in 2016, the UAP Old Mutual Group Chairman, Dr. Wanjui, observed that "the integration of the UAP and Old Mutual entities in East Africa continues apace, and we have made substantial gains in beginning the realisation of revenue and cost synergies, (final steps being seeking conclusion) of the shareholder and regulatory approval processes for the merger forming UAP Holdings Limited (UAPHL), so as to augment the operating and financing capacity".

Upon completion, the merger process successfully acquired Old Mutual subsidiaries, particularly the Life and Asset Management businesses, which positioned the company as a leading provider of Integrated Financial Services in East Africa. The merger brought about significant changes in the insurance company and had had huge impacts on the operations of the organisation. However, positive sentiments have been proffered regarding the merger from the organisation management with the views being that with the integrated business, the group stand to reap enormous benefits through strengthened operations, learnings on best practices, greater product innovation, driven and motivated employees and a robust combined brand for the East African business.

4.2. Pre & Post Merger Performance of UAP Limited and Old Mutual

The study used descriptive statistics to describe the pre-merger and post-merger performance situation at UAP holdings limited. The results allow one to compare various performance indicators within the pre-merger and post-merger periods to determine the difference if any which will signify the change financially and to which direction. Table 1 presents the outcomes of the detailed assessment of the performance information.

Table-1. Pre & Post Merger Performance Information

Performance Measures	Pre M&A Period				Post M&A Period			
	2012	2013	2014	Mean	2015	2016	2017	Mean
Net profit	1,747(M)	2,211(M)	2,296(M)	2,085(M)	693(M)	1,221(M)	1,963(M)	1,292(M)
Net profit margin	21.14%	20.08%	14.80%	18.67%	7.43%	5.35%	7.81%	6.86%
Return on Assets/ investments	5.60%	5.47%	3.96%	5.01%	1.84%	1.45%	2.08%	1.79%
Return on Equity	11.88%	12.26%	9.69%	11.28%	5.04%	4.67%	6.38%	5.36%
Earnings per share	0.65%	0.86%	0.79%	0.77%	0.42%	0.39%	0.57%	0.46%
Incurred Claims Ratio	60.28%	63.84%	71.69%	65.27%	66.17%	63.76%	47.20%	59.04%
Net Commission Ratio	18.87%	17.16%	18.17%	18.07%	21.02%	17.56%	11.54%	16.71%
Management Expense Ratio	58.23%	52.97%	56.08%	55.76%	64.88%	54.20%	30.52%	49.87%

From the assessment, the study found that UAP holdings limited realised higher profits in the pre-merger period than the post-merger period (Pre-Merger Ksh. 2.085 Billion; Post-Merger Ksh. 1.292 Billion). The profit margins, return on assets, return on equity, earnings per share, incurred claims ratio, net commission ratio and Management expense ratio were all found to be higher in pre-merger period than the proportions observed in the post-merger period. The Net profit margin was found to decrease from 21.14% in 2012 to 14.8 in 2014, then reduced further in 2015 (7.43%) and slightly increased to 7.81% in the year 2017. This trend is replicated in the other performance measures, with some such as Earnings per share showing a declining trend, and management expense ratio being observed to show neither increasing nor decreasing trend, but the factor showed higher management expense ratio in the pre-merger period than the post-merger period. These performance indicators, therefore, confirms that the organisation performed better in the pre-merger period than the post-merger period.

4.3. The Impact of Mergers on Levels of Organisation Performance

To further understand the effect of M&A on the performance of insurance organisations, the study undertook an independent sample t-test. The independent sample t-test results allowed for the comparison of the various performance measures within the pre-merger and post-merger periods. Each of the two samples was analysed for the before and after merger outcomes. The difference in returns deemed as abnormal returns was tested using the 5% significance level. Results presented in Table 2 indicate a reduction in the organisation performance. It was observed that the organization performance indicators of Net profit, net profit margin, return on assets, return on equity, earnings per share, incurred claims ratio, net commission ratio, and management expense ratio all were reported to be lower within the post-merger period than the pre-merger period, an indication of decrease in performance from what was observed in the pre-merger period. These outcomes confirm that the merger and acquisition at UAP Holdings Limited caused a decline in the organisation profitability, efficiency, and reduced liquidity. A measure of the returns that the company realises from its capital, which was calculated as profit before interest and tax divided by the difference between total assets and current liabilities indicated lower profits realized in the organisation in the post-merger period than in the pre-merger period. These descriptive statistics were as presented in Table 2.

Table-2. Summary of Descriptive Statistics

Performance	Period	N	Mean	Std. Deviation	Std. Error Mean
Net profit	Post-Merger	3	1,292,331,670	638,053.505	368,380.363
	Pre-Merger	3	2,085,306,670	295,196.938	170,432.032
Net profit margin	Post-Merger	3	.068633	.0132429	.0076458
	Pre-Merger	3	.186733	.0339602	.0196069
Return on Assets/ investments	Post-Merger	3	.017900	.0031796	.0018358
	Pre-Merger	3	.050100	.0091165	.0052634
Return on Equity	Post-Merger	3	.053633	.0089969	.0051943
	Pre-Merger	3	.112767	.0138717	.0080088
Earnings per share	Post-Merger	3	.004600	.0009644	.0005568
	Pre-Merger	3	.007667	.0010693	.0006173
Incurred Claims Ratio	Post-Merger	3	.590433	.1032717	.0596239
	Pre-Merger	3	.652700	.0583787	.0337049
Net Commission Ratio	Post-Merger	3	.167067	.0479726	.0276970
	Pre-Merger	3	.180667	.0085967	.0049633
Management Expense Ratio	Post-Merger	3	.498667	.1758510	.1015276
	Pre-Merger	3	.557600	.0264456	.0152684

To confirm the existence of a difference between the pre-merger and post-merger periods performance, the study undertook independent samples t-test analysis for the comparison between the various performance measures. The two samples for each listed firm were demarcated by the before and after merger observations. The difference between the pre-merger and post-merger performance was assessed were indicated at the 5% significance level. This is illustrated in table 3 below.

As presented in Table 3, the study observed that the Levene's Test for Equality of Variances shows P-values higher than the expected 0.05 leading to failure to reject the null hypothesis that "the variances between the two samples are equal", which confirms that the variances in pre-merger performance are not significantly different from the difference in post-merger performance.

Table-3. Effects of M&A on Organisation Performance

Independent Samples Tests		Levene's Test for Equality of Variances		T-Test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-Tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Net profit	Equal variances	1.253	.326	-1.954	4	.122	-792975	405896	-1919922	333972
	No Equal variances			-1.954	2.819	.152	-792975	405896	-2133021	547071
Net profit margin	Equal variances	4.224	.109	-5.612	4	.005	-.1181000	.0210449	-.17653	-.05967
	No Equal variances			-5.612	2.595	.016	-.1181000	.0210449	-.19140	-.04479
Return on Assets/ invest-ments	Equal variances	5.595	.077	-5.776	4	.004	-.0322000	.0055743	-.04768	-.01672
	No Equal variances			-5.776	2.479	.017	-.0322000	.0055743	-.05224	-.01215
Return on Equity	Equal variances	1.183	.338	-6.195	4	.003	-.0591333	.0095458	-.08563	-.03263
	No Equal variances			-6.195	3.430	.006	-.0591333	.0095458	-.08747	-.03079
Earnings per share	Equal variances	.016	.904	-3.689	4	.021	-.0030667	.0008313	-.00537	-.00076
	No Equal variances			-3.689	3.958	.021	-.0030667	.0008313	-.00538	-.00075
Incurred Claims Ratio	Equal variances	1.986	.232	-.909	4	.415	-.0622667	.0684912	-.25242	.12789
	No Equal variances			-.909	3.160	.427	-.0622667	.0684912	-.27413	.14959
Net Commission Ratio	Equal variances	4.474	.102	-.483	4	.654	-.0136000	.0281382	-.09172	.06452
	No Equal variances			-.483	2.128	.674	-.0136000	.0281382	-.12793	.10073
Management Expense Ratio	Equal variances	5.942	.071	-.574	4	.597	-.0589333	.1026693	-.34399	.22612
	No Equal variances			-.574	2.090	.622	-.0589333	.1026693	-.48287	.36500

Therefore, the ‘equal variances assumed' row will be fit for the performance assessment. The t-tests assessing the equality of the means indicated varying outcomes of the differences in means between the pre-merger and post-merger periods. The study observed that the Net Profits, Incurred Claims Ratio, Net Commission Ratio, and Management Expense Ratio, indicated p-values higher than 0.05, an indication that within these performance measures, the means of pre-merger and post-merger periods were not significantly different for each other, an indication that these measures show no difference between the pre-merger and post-merger periods in UAP Insurance, hence the pre-merger and post-merger periods were similar in relations to these indicators.

However, other key performance measures such as Net profit margin, Return on Assets, Return on Equity, and Earnings per share, had p-values less than 0.05 leading to the confirmation that the model has a statistically significant difference in the pre-merger and post-merger performance ratios. From the analysis, the Net profit margin is lower in the post-merger period than the pre-merger period by 11.81%; the Return on Assets is lower in the post-merger period than the pre-merger period by 3.22%; Return on Equity is lower in the post-merger period than the pre-merger period by 5.91%; and Earnings per share is lower in the post-merger period than the pre-merger period by 0.31%; as indicated by the significant mean differences. Therefore, though some performance indicators shows no difference between pre-merger and post-merger periods, the study observed significance difference in the performance indicators showing that the performance in pre-merger period was significantly higher for the organization than post-merger period, causing a significant decline in performance in the short run upon UAP insurance adoption of M&A strategy.

4.4. Staff Changes upon Acquisition and Standard of Service

Various studies have indicated that the mergers and acquisitions are usually followed by were significant reductions in the workforce size of the target companies, attributed to the elimination of redundant positions following the successful merger/acquisition. Others have observed that M&A influences employees' job motivation and satisfaction with key psychological and behavioural impacts being experienced. In UAP Insurance, the announcement of the merger preceded a massive job loss, more so for the key employees at the top management level who, prior to the merger implementation, significantly influenced the organization performance. The merger led to the resignation of whole UAP Insurance board of directors in 2015 except for the Chairman and two executive directors, with the resigning members being replaced by new faces. Such a change in the organisation is highly disruptive one which can easily cause a decline in organisation performance.

4.5. Merger and Organization Operations

One of the worst effects of M&A within organizations is the large scale disruptions that they bring with them. The study found that the operations at UAP Insurance were widely disrupted upon the implementation of the merger strategy. Some of the observed disruptions were: change in organization management and governance structures; large numbers of employee resignations (both forced and wilful); review of strategic plans, vision, direction and values heralded with a new strategic plan in 2015; and a new operating model which encompassed – new principles of governance, a new legal and regulatory environment, revised organization values, rules and roles, new statutory and regulatory obligations, new board charter, and revised salary, remuneration, incentive and benefits structures. All these disruptions within the same period of time tend to affect the human resource efficiency in the organization and higher operating costs, technological integration, and hence the performance of the organization. Another key change is the short term objective of the organization.

A review of the 2015, 2016, and 2017 financial reports of UAP Holding revealed that their key focus in the organization is the integration of UAP Insurance and Old Mutual into one financial services entity, the UAP Holding Limited. Mergers take up considerable amounts of managerial time and talent (perhaps as much as fifty per cent at the level of top-executives) hence are a distraction form the official organization business and usually require enormous amounts of funds to get done, hence the key disruption is in the funding and managerial aspects of the organization as it entails enormous levels of distraction from the organization main business. The financial report of 2015 and 2016 had a cautionary statement to the stakeholders discouraging political discourse within the M&A decision. Permeation of politics into the organization is bound to affect the organization operating environment and internal processes within the organization. These observations support the observed decline in organization performance at the UAP Holdings.

4.6. Impact of M&A on Consumers

The M&A in the finance sectors are largely as a result of destabilization within the competitive environment for financial services, which is brought about by the national deregulation of markets and the increase in new methods of dealing with customers. In particular, the growth in electronic networks open up the financial services market to an increasing number of competitors, who are no longer reliant on a traditional branch network in order to attract custom. The Insurance sector is worst affected by various market changes and similar situations led to the merger between UAP Insurance and Old Mutual Company. The merger occurred due to the changes in the market competitive forces leading to the majority shareholder seeking to sell their stake in UAP Insurance which was bought by Old Mutual who needed to have an all-round financial organization offering banking (had earlier acquired Faulu Bank), Insurance services (through acquisition of UAP Insurance) and Old Mutual as an asset management company, hence the M&A was informed by the need for both companies to integrate company services and realize synergy and economies of scale, which would improve the companies competitiveness. Generally, it is therefore difficult to assess the impact of mergers and acquisitions on consumers, not only because this aspect is not usually considered in popular or scientific analysis, but also because it is often difficult to disentangle the direct impact of M&As from the impact of other factors like increasing competition or technological change.

The impact of M&As on product provision, choice and the cost of products, is argued that in general, the number of products on the market has increased significantly after M&A, offering more choice at reduced prices, unlike for new market entrants seeking to compete on the basis of price. Merger companies are able to utilize new information and communication technologies allowing them to save costs by operating with fewer branches – or without a traditional branch network. Due to changes in management, new products are created hence the customers have a wider product offering.

Majority of clients are able to benefit from the increase in product choice and proliferation of information and communication technology based services, though a significant minority of individuals are detrimentally affected by M&A as they lack access to requisite information and ICT to access the expanded product offering. It was observed that increasing integration from the merger at UAP Insurance is likely to strengthen the organization as a financial services provider leading to competition restrictions and therefore may in the long run be a dis-benefit to consumers. It is argued that competition restrictions often arise from merger activity as it counteracts competitive pressure, which would lead to the company offering in the long run lower quality products and services at higher prices.

4.7. Impact of M&A on Shareholders

The UAP Insurance merger was done only three years ago and therefore it might be very early to report doom but the study already observed a significant decline in the return on equity and earning per share within the organization, an indication that the organization shareholders are bound to realize lower returns in future from their shares held with UAP Holdings Limited. This therefore means that the shareholders are likely to lose their share values in the short run, especially due to the integration disruptions, with possibility of continued decline in the middle run. However, the company is planning to go public instead of trading privately like in the past, hence the risks of the M&A will be shared to a wider stakeholder group.

Previous studies indicates that the impact of merger announcements on the share price of the acquiring company is negative in the medium and long-term, while the impact on the share price of the target company is in most instances positive. According to Gaughan (2007), the acquired companies, which did well prior to the merger, deteriorated after the event while acquired companies which did badly in advance of merger went from bad to worse. He further observed that between 19-47% of all acquisitions were disinvested within 10 years of acquisition. From these observations, the stakeholders of UAP Insurance are more likely to realize negative effects of the M&A on their organization.

5. Conclusion

Mergers and acquisitions are popular as they are said to offer the insurance sector operational efficiency, profitability, synergy, enlargement of size and enhancing the customer base. However, from the observed outcomes and the preceding discourse, the study found that M&A has a negative effect on the performance of the organization in the short run. It was observed that M&A leads to reduction in organization net profit margin, Return on Assets, Return on Equity, and earnings per share. The company performed significantly better prior to the merger period than it performed after the merger period. This confirms that in the short run, the involvement of an organization in M&A would lead to deterioration in performance, in form of profitability, operational efficiency and hence negative gains in competitive advantage. Therefore, despite the observation of evidence of synergistic benefits and the presence of probabilities of achieving economies of scale and scope as the basis for implementing M&A decision, the companies are bound to experience poor financial performance in the short run.

The study observed high levels of disruptions in the organization arising from the need for the organization to integrate with the acquiring organization, which might be the reason behind deterioration in organization performance. The organization employees, operations, consumers and shareholders were observed to be negatively influenced by the M&A Implementation which would clearly lead to the poor organization performance of the organization. The organization experienced a high level of employee and top management team resignations including the full board of directors which fully disrupted the organization decision making paradigm at U.A.P insurance causing far reaching implication in the organization operations, which definitely would affect the consumer and stakeholders in the organization. The study therefore concludes that the adoption of M&A strategy at UAP Insurance led to disruptions in the human resource aspect of the organization which led to large scale disruptions in organization operations and performance.

The merger itself affected organization operations at UAP insurance arising from large scale disruptions that arose in the operating environment of the organization. It was observed that one key operations dynamic affected by the merger is the decision making paradigm with the top management team overhaul that was experienced in the organization indicating a full change in management which in some instances lead to a poor team congruence and therefore low chances of organization success in the short run. The organization structures, information technology, and legal and regulation structures were greatly affected by the M&A leading to further disruptions in the operating atmosphere of the organization. All these factors are most likely bound to negatively affect the performance of the organization, like they did to the performance of UAP Holdings in the short run. The study therefore concludes that M&As cause great levels of disruptions in the organization operating atmosphere which is bound to negatively affect the organization performance. The study also concludes that M&A causes the reduction of shareholder value in the short run and is likely to cause reductions in share prices and shareholder equity.

6. Recommendations

Based on the study findings, the study recommends that organizations should be highly careful while making the decision to adopt the M&A strategy. The study observed that the organization implementing M&A strategy is bound to experience poor performance in short run period with major disruptions in the operating environment. Therefore, M&A is not the right strategy for the promotion of short-term financial strength, while greater caution should be exercised to ensure that current assets of both companies are in a position to put out their current liabilities effortlessly and support the company within the short run period where profitability is bound to decline and major disruptions experienced.

The study recommends that organizations adopting M&A strategy should try to ensure minimal disruptions as the observed performance decline is linked to the operational and structural disruptions experienced at the organization. So as to achieve this, organizations facing mergers and acquisition should sequentially integrate with each other at a pace that would ensure that the organization is able to still run normally and the key decision making organs are full operational within the whole integration period. The abrupt organization changes that organizations facing M&A resort to are bound to negatively affect the organizations and are likely to complicate the integration process.

Going by the literature review undertaken, no research has been done to assess the effect of M&A on organization performance in the long run. From the findings in this study, the short term effects are great where, unlike the expectations, M&A leads to a decline in organization performance, faced with the disruptive atmosphere and vulgar nature of the integration process, which are not there in the long run (beyond 10 years after M&A). If this decline persists in the long run, it would be expected that organizations would avoid this strategy and adopt other better strategies. The study therefore suggests that research should be done to assess the effects of M&A implementation on organization performance in the long run, using the similar methodology of pre & post - merger period comparison of the annual financial information available from the organization studied.

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Appendix-1. UAP Holding Raw Data

Year	2017	2016	2015	2014	2013	2012
Revenue (000)	20,524,339	19,418,009	16,510,928	16,688,003	12,741,336	9,490,623
Costs (000)	18,522,000	19,420,025	16,512,943	16,690,017	12,743,349	9,492,635
Profit (000)	1,963,206	1,220,633	693,156	2,296,229	2,211,740	1,747,951
Profit after taxes (000)	1,210,118	825,775	896,599	1,667,187	1,810,401	1,381,031
Sales (000)	15,493,114	15,427,036	12,069,426	11,263,533	9,014,382	6,533,244
Total Assets (000)	58,087,416	57,026,802	48,724,654	42,083,725	33,109,989	24,657,973
Shareholder Equity (000)	18,980,219	17,694,270	17,795,261	17,198,048	14,761,650	11,620,312
No. of Ordinary Stock	211,411,635	211,411,436	211,146,889	211,419,889	211,419,889	211,419,889
Total Claims Incurred (000)	9,390,155	9,835,963	7,986,649	8,074,794	5,754,811	3,938,295
Net Earned Premiums (000)	19,895,332	15,427,036	12,069,426	11,263,533	9,014,382	6,533,244
Net Commission (000)	2,295,432	2,709,098	2,537,284	2,046,702	1,547,030	1,232,618
Underwriting management expenses (000)	6,073,027	8,361,413	7,831,123	6,316,980	4,774,785	3,804,377