EFFECTS OF MERGERS AND ACQUISITIONS ON ORGANIZATIONAL PERFORMANCE OF INSURANCE INDUSTRY IN KENYA: A CASE STUDY OF SANLAM

By

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DECLARATION

This dissertation is my original work and has not been submitted for an award of a degree in any other University.

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

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DEDICATION

I dedicate this dissertation to my family the bedrock upon which my life revolves around.

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ABBREVIATIONS AND ACRONYMS

ECOWAS	Economic Community of West African States
IRA	Insurance Regulatory Authority
NSE	Nairobi Securities Exchange
M&A	Mergers and Acquisitions
RDT	Resource dependency theory
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences
USA	United States of America

ABSTRACT

In today's globalized economy, mergers and acquisitions are being increasingly used by corporates world over to improve their competitiveness and performance through increased market share, product diversification, cost and risk reductions, resource mobilization and economies of scale among others. However, despite their prominence, the failure rates of mergers and acquisitions remains high while their effect on organizational performance remains contested. This study sought to examine the effects of mergers and acquisitions on organizational performance of the Insurance Industry in Kenya using a case of Sanlam Kenya. The study adopted a descriptive research design. Sanlam Kenya was the study unit. The study used secondary data which was obtained from the annual financial and management reports of Sanlam Kenya for a period of 6 years between 2011 and 2016. The study period was divided into two parts; pre-merger/acquisition period [2011-2013] and the post-merger/acquisition period [2014-2016] for effective analysis. The study data was analyzed using descriptive statistics. In addition, the study applied a two tailed paired sample T-test statistics at a significance level of 5% to test whether there were statistically significant differences of means between the pre-merger/acquisition and post-merger/acquisition study variables. The statistical analysis was done using the Statistical Package for Social Sciences (SPSS, version 23.0). The study established that the changes in the M&A-induced managerial efficiency as denoted by ICR ($p = 0.089$) and ER ($p = 0.268$); M&A-led human capital rationalization as denoted by Revenue per Employee ($p = 0.156$) and organizational performance as denoted by ROA ($p = 0.318$) and ROE ($p = 0.368$) of Sanlam Kenya were statistically insignificant in the post merger/acquisition period. However, the changes in the M&A-based market penetration as denoted by market share ($p = 0.019$) of Sanlam Kenya were statistically significant in the post merger/acquisition period. The study concluded that both managerial efficiency and human capital rationalization had an insignificant effect while market penetration had a significant effect on the organizational performance of Sanlam Kenya in the post merger/acquisition period. To improve on its managerial efficiency, the study recommends that Sanlam Kenya should strive to strike a good balance between its net earned premiums and incurred claims and operating expenses. Sanlam Kenya should also review its human capital rationalization policies in the post merger/acquisition period in order to ensure that they are able to effectively leverage on their workforce to enhance its organizational performance.

Keywords: mergers and acquisitions, managerial efficiency, human capital rationalization, market penetration and organizational performance

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The increased competition arising from the fast changing global market has resulted in a situation where majority of the companies are finding it difficult to go it alone (Akinbuli & Kelilume, 2013). More than ever before, many of the skills, capacities, technologies and resources that are essential to a firm's current and future prosperity are to be found outside the firm's boundaries and outside the management's direct control (Chen, 2013). Accordingly, managers must think outside these boundaries for their firms to remain profitable and competitive. Therefore, relationships that tend to give a firm these competences that are outside its current tangible and intangible assets are important (Mboroto, 2013). Mahesh and Prasad (2012) argued that in order to stay competitive and profitable, even the most capable and knowledge intensive companies have to identify and leverage resources and competencies produced beyond their own borders as part of their organizational strategy. This underscores the importance of business consolidations to the modern-day organizations' survival and growth (Gosh & Das, 2013).

The changing business environment and the new forms of competition have created new opportunities and threats for modern-day firms. This has forced many of the contemporary organizations to adopt various forms of business restructuring. One of the strategies that most companies adopt to gain competitive advantage is through mergers and acquisitions (M&A) (Mishra & Chandra, 2012). The fundamental objective of M&A is to provide strong company capability of meeting customer satisfaction, to reduce fierce market competition, to acquire new technological developments that will enhance organizational

performance and to enhance firm profitability (Nima, 2015). With the recent global financial crises, it is noticeable that M&A have considerably increased and this has led to the significant transformation of the world's business landscape (Rahman, Abdul & Limmack, 2014).

Over the years, various scholars and researchers have identified several key motives as being behind firms engaging in mergers and acquisitions. For instance, Zahid (2014) observed that companies engage in M&A to create a more competitive, cost efficient company and to capture a great market share both locally and globally. On his part, Ugwuanyi (2015) identified the desire to increase the shareholder's wealth as the main reason behind the M&A. According to Sudarsanam (2015), the motives behind mergers and acquisitions are to achieve economies of scale, increase one's market share and revenues, to achieve operational efficiencies and to achieve geographical and product diversification. Other motives identified include capital mobilization, synergy, need to acquire new technological capabilities, cost reductions, better utilization of existing resources, taxation benefits and operation risk reduction (Mulwa, 2015; Onotu & Yahaya, 2016; Yusuf, 2016).

Mergers and acquisitions impose a considerable degree of change on an organization and it is imperative that properly designed procedures and processes are designed and applied in their implementation. The golden rule for M&A is that companies should pursue M&A only if they create value (Jain & Raorane, 2011). Mergers and acquisitions become fruitful if synergies in the forms of operational, financial and managerial efficiencies arise (Ismail, Abdou & Annis, 2014). Some of the benefits attributable to M&A include rapid access to new technology and products, an extended customer base, an enhanced market position, operating risk reduction, better management expertise, improved resource allocation and a stronger financial position (Gwaya, 2015).

However, despite the various benefits associated with mergers and acquisitions, the practice of M&A is not without problems. Mishra and Chandra (2012) identified communication, employee retention and cultural challenges coupled with flawed motivations behind their formation as some of the problems faced in M&A practice. On their part, Bruner (2014) highlighted language barriers between participants of cross-national M&A, disruptions of a firm's ongoing business, complex legal requirements, employee motivation issues, leadership and power struggles and unrealistic targets for the post merger/acquisition firm as some of the challenges faced in the implementation of M&A. other problems associated with implementation of M&A include lack of strategic planning, failure to perform due diligence with respect of the proposed merger/acquisition, integration challenges, regulatory concerns and lack of clear objectives for the merger/acquisition (Akben-Selcuk & Altiok-Yilmaz, 2014;).

1.1.1 Mergers and Acquisitions

Mergers can be defined as a combination of two or more organizations where all their assets and liabilities are combined to form one organization with a single name and legal entity (Akben-Selcuk & Altiok-Yilmaz, 2014). Mergers therefore refer to strategic alliances between two or more companies, where the partners in the alliance seek to add to their competencies by combining their resources with a commitment to reach an agreed goal (Gupta & Banerjee, 2017). Gosh and Das (2013) viewed a merger as any transaction that forms one economic unit from two or more previous ones. Mergers are of three types namely Horizontal, Vertical and Conglomerate. Mergers are defined as horizontal when two companies are in direct competition and share the same product lines and markets. Mergers are considered vertical when two companies operate at different levels in an industry's supply

chain and mergers are considered conglomerate when firms are in different markets and/or do not have common business lines (Bruner, 2014).

Acquisitions also referred to as takeovers occur when one company takes over another in terms of management or ownership (Mailanyi, 2014). Naba and Chen (2014) define an acquisition as a situation where one company known as an acquirer or predator acquires another firm known as the target firm. Acquisitions involve the taking over by one company of the share capital of another in exchange for cash, ordinary shares, loan stock or a combination of this. This results in the identity of the target being absorbed into that of the acquirer. The acquiring firm retains its name and identity, and it acquires all of the assets and liabilities of the acquired firm leading to none existence of the acquired firm (Akinbuli & Kelilume, 2013). Acquisitions can be hostile or friendly. A hostile takeover is when the acquiring company gains control of another without the cooperation of its existing management. However, if there is cooperation of the target company's management, the takeover is considered to be friendly (Coyle, 2010).

1.1.2 Organizational performance

Organizational performance refers to the degree to which a firm's objectives are being or have been accomplished. Organizational performance also refers to a measure of how well a firm uses its resources to meet its goals and objectives (Olagunju & Obademi, 2012). It is the process of measuring the actual results of a firm's policies and operations against its set goals and objectives. Organizational performance is used to measure firm's overall financial and non-financial well-being over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Parmenter, 2015). According to Austin (2013), the success of an organization is gauged from several

indicators both qualitative and quantitative. These include: financial performance, meeting customer needs, building quality products and services, encouraging innovation and creativity and gaining employee commitment. The extent to which an organization succeeds in these areas determines its performance.

The focus of attention in analyzing organizational performance has largely been on financial measures but some scholars have proposed a broader construct of 'business performance' to incorporate non-financial measures such as market share, customer satisfaction and new products among others (Yanan, Hamza & Basit, 2016). Austin (2013) proposed four possible types of measurement for organizational performance namely: outcomes (turnover, absenteeism, job satisfaction); organizational outcomes (productivity, quality, service); financial accounting outcomes (return on assets, profitability) and capital market outcomes (stock price, growth, returns). Bennett, Lance and Woehr (2014) described organizational performance measurement as a process of assessing progress towards achieving pre-determined goals including information on the efficiency with which resources are transformed into goals and services, the quality of those outputs and outcomes, and the effectiveness of the organizational operations in terms of their specific contributions to organizational objectives.

1.1.3 Insurance Industry in Kenya

According to the Insurance Regulatory Authority (IRA) annual report of 2016, the Kenyan Insurance Industry comprises 49 operating insurance companies. Of these, 25 provide non-life insurance business only, 13 offer life insurance business only while 11 are composite (i.e. offer both life and non-life insurance policies). The Kenyan Insurance Industry also includes 198 licensed insurance brokers, 29 medical insurance providers and 5,155 insurance agents.

Other licensed players include 133 insurance investigators, 108 motor assessors, 25 loss adjusters and 24 insurance surveyors (IRA, 2016). The Insurance Industry in Kenya continues to experience various challenges key among them being negative market sentiments following closure of at least five insurance providers over the past five years due to insolvency arising from high claims and low penetration of insurance in Kenya estimated at below 5% (Wangari, 2015). However, the adoption of alternative insurance distribution channels (bancassurance), continued public awareness on the value of insurance, improving regulatory environment and use of technology are helping improve the insurance penetration level in Kenya (IRA, 2016).

In Kenya, there has been increasing number of mergers and acquisitions across the various economy sectors and particularly in the financial sector. Some of the notable mergers and acquisitions in Kenya's Insurance Industry include those of ICEA and Lion Assurance Company to form the ICEA LION group; that of Apollo Insurance Company Limited and Pan Africa Insurance Company to form APA Insurance; Old Mutual acquired UAP Insurance; LeapFrog Investments, a private equity firm, acquired Resolution Insurance; Saham Group of Morocco acquired Mercantile Insurance Company Ltd; Prudential Plc of UK acquired Shield Assurance Company Ltd and that of Britam Investment Group acquiring Real Insurance Company Ltd (IRA, 2016). In Kenya, mergers and acquisitions are used for various reasons including as market entry strategies by companies involved, enhancing market share, to increase product line, to overcome financial difficulties or to meet specific government legislation. More mergers are likely to take place in Kenya if the government through the Central Bank of Kenya implements its proposal to increase the minimum capital requirements for financial institutions in the country in a move aimed at stabilizing the country's financial sector (Inoti, Onyuma & Muiru, 2014).

Sanlam Kenya is a financial and insurance services provider in Kenya that is part of the Sanlam Group which is an international financial services company with operations in Africa, Asia, Europe, Australia and the USA. Sanlam Kenya offers a wide range of insurance, finance and investment services in the Kenyan market with the insurance division offering Sanlam Life Insurance and Sanlam General Insurance. Sanlam Kenya has an estimated market share of 8% in Kenya's Insurance Industry. The firm has about 99,401 policy holders under individual life and more than 236,507 under group life. Sanlam Kenya was formed following a merger between Pan Africa Insurance Holdings and Gateway Insurance and their acquisition by the Sanlam Group in 2013 (IRA, 2016).

1.2 Statement of the Problem

Mergers and acquisitions as evidenced by their increased activity seem to be very popular to the corporate players involved all over the globe. At best, M&A are expected to enable organizations achieve a wide range of organizational goals such as enhanced market size, acquisition of missing capabilities and competencies, firm growth, product diversification, operation risk reduction, operational efficiencies and a better financial standing. However, existing evidence from various empirical studies seems to suggest that M&A appear to provide mixed results with regard to their effect on organizational performance (Olagunju & Obademi, 2012). For instance studies by Yanan *et al*. (2016) in USA, Ismail *et al*. (2014) in Egypt, Onutu and Yahaya (2016) in Nigeria and Mboroto (2013) in Kenya reported a positive relationship between M&A and firm's financial performance. However, studies by Akben-Selcuk and Altiok-Yilmaz (2014) in Turkey, Gupta and Banerjee (2017) in India and Mulwa (2015) in Kenya reported a negative relationship between M&A and firm's financial performance while studies by Musyoki and Murungi (2015) in Kenya, Mahesh and Prasad (2012) in India and Yusuf (2016) in Jordan reported no changes in firm's financial

performance following M&A. In addition, the success rate of M&A has been reported to be very low across the globe at 25% and below (Onotu & Yahaya, 2016; Yusuf, 2016; Rahman *et al*., 2014).

Locally, a number of studies focusing on M&A have been conducted. However, majority of the existing local studies on M&A in the Kenyan financial sector have mainly been on the banking industry with researchers Ndung'u (2011), Kithitu *et al*. (2012), Gwaya (2015), Nima (2015) and Gathuku (2016) – all covering the effects of M&A on the financial performance of commercial banks in Kenya. This clearly shows that there was dearth of empirical studies focusing on the local insurance industry. This study therefore sought to fill the existing research gap by investigating the effects of mergers and acquisitions on organizational performance of the Insurance Industry in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To examine the effects of mergers and acquisitions on organizational performance of Insurance Industry in Kenya using a case of Sanlam Kenya

1.3.2 Specific Objectives

The study was based on the following specific objectives:

i. To determine the effect of M&A-induced managerial efficiency on organizational performance of Sanlam Kenya

ii. To establish the effect of M&A-led human capital rationalization on organizational performance of Sanlam Kenya

iii. To examine the effect of M&A-based market penetration on organizational performance of Sanlam Kenya

1.4 Research Questions

i. What is the effect of M&A-induced managerial efficiency on organizational performance of Sanlam Kenya?

ii. What is the effect of M&A-led human capital rationalization on organizational performance of Sanlam Kenya?

iii. What is the effect of M&A-based market penetration on organizational performance of Sanlam Kenya?

1.5 Significance of the Study

1.5.1 Management of Sanlam Kenya

The study would be of benefit to the management of Sanlam Kenya as it would be able to appreciate the effects of its merger and acquisition on its organizational performance. This may in turn inform the kind of strategic decisions the management may need to make to secure the full benefits of the M&A for the company's growth and performance.

1.5.2 Policy Makers

The findings of this study may also benefit the policy makers (that is, the government) by providing insights as to the role of mergers and acquisitions on the performance of the Insurance Industry in the country. This may inform the formulation of effective industry policies and regulations to govern implementation of M&A in the industry.

1.5.3 Other Corporate Firms

Mergers and acquisitions are not unique to firms in the insurance industry and therefore other corporate firms in other sectors of the economy may benefit from this study as it highlights the significance of M&A on their organizational performance. This may in turn inform their decisions as to whether to engage in M&A or not.

1.5.4 Scholars

This study adds to the existing field of knowledge about the effects of mergers and acquisitions on organizational performance and therefore provides other scholars and academicians with a basis for further research on the study subject.

1.6 Scope of the Study

This study was limited to Sanlam Kenya as the study unit. Mergers and acquisitions were the study's independent variable while organizational performance was the study's dependent variable. The study utilized secondary data and covered a period of 6 years [2011-2016] representing 3 years of pre-merger period (2011-2013) and 3 years of post-merger period (2014-2016).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical framework of the study, empirical review based on the study objectives, conceptual framework of the study and operationalization of study variables.

2.2 Theoretical Review

2.2.1 Resource Dependency Theory

Resource dependency theory (RDT) posits that power is based on the control of resources that are considered strategic within the organization. RDT has its origins in open system theory as such organizations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This therefore poses a problem to an organization facing uncertainty in resource acquisition and raises the issue of firm's dependency on the environment for critical resources (Pfeffer & Salancik, 2010).

Hillman, Withers and Collins (2014) agrees with Pfeffer and Salancik (2010) that the uncertainty in the external control of these resources may reduce managerial prudence and thereby interfere with the achievement of organizational goals and ultimately threaten the existence of the focal organization. Confronted with the costly situation of this nature, management actively directs the organization to manage the external dependence to its advantage (Akben-Selcuk & Altiok-Yilmaz, 2014). Davis and Cobb (2010) observed that RDT assumes that organizations must engage in exchanges with actors in the external environment to obtain needed resources. When there is a scarcity of resources, insufficient

information about needed resources or unstable supplies of needed resources, organizations will form co-operative relationships with external actors to increase supply, increase information about resource quality or reduce volatility of quality or supplies of resources (Davis & Cobb, 2010).

Resource dependency theory states that organizations have specific resources but few organizations are self-sufficient in these resources and therefore must depend on others for important resources. A deficiency in one or more strategic resources (that is, core competencies) is seen as the driving force for collaboration and a means of reducing uncertainty and managing this dependency (Chen, 2013). Resource dependency theory can be summarized into a broader theory of structure and governance which implies that companies adapt or react to their environment (Pfeffer & Salancik, 2010). Given that resource mobilization is one of the motives behind firms seeking to engage in M&A, this theory was relevant to the current study as the study sought to examine the effects of M&A on firms' financial performance.

2.2.2 Stewardship Theory

The stewardship theory was first developed by Davis, Schoorman and Donaldson in 1997 who argued that a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards who are the company executives and managers working for the shareholders, seek to protect and enhance firm profitability for the shareholders (Ahmed & Zahid, 2014). The theory suggests that stewards are satisfied and motivated when organizational success is attained. Stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Afza & Nazir, 2014).

It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Sharma & Jonathan, 2012).

On the other end, Gupta and Banerjee (2017) argue that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders‟ profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Mishra and Chandra (2012) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Sharma and Jonathan (2012) insisted that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance. This theory was relevant to the current study as it tried to explain why company managers were likely to enter into mergers and acquisitions so as to portray an image of good stewards.

2.2.3 Theory of Efficiency

The theory of efficiency argues that business consolidation occur when there is synergies to be realized to both the shareholders of the companies in the merger or acquisition deal. Synergy presents when the resultant company value is higher than the sum of individual separate companies before the merger or acquisition (Inoti *et al*., 2014). In a synergistic merger, the post-merger value of the combined firms is far much higher than the separate worth of the pre-merger firms. When the sum of the value of the separate firms before the merger is less than the total value of the new firm after the merger, then synergy is said to have occurred (Gosh & Das, 2013). The theory of efficiency depicts that mergers are

voluntary and result from the mutual benefit derived by the shareholders of the entities that engage in mergers and acquisitions (Bruner, 2014).

The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a 'friendly' merger being proposed and accepted. If the gain in value to the target is not positive, it is suggested, the target firm's owners will not sell or submit to the acquisition, and if the gains are negative to the bidders' owners, the bidder will not complete the deal (Jain & Raorane, 2011). Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target (Jain & Raorane, 2011). Yanan *et al*. (2016) posit that managerial motivation and preference for mergers and acquisitions is as a result of the benefits related to synergies that are likely to be realized after the M&As. However, this is only possible when overlapping processes in production are eliminated while both financial and human resources are pooled together in an efficient and effective manner. This theory was relevant to the current study given that the study sought to examine the effect of mergers and acquisitions on the efficiency of Sanlam Kenya.

2.3 Empirical Review

2.3.1 M&A-Induced Managerial Efficiency and Organizational Performance

In a study of corporate mergers and acquisitions and the operating performance of Malaysian companies, 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 on managerial efficiency following mergers and acquisitions among Malaysian corporate firms. The study used a descriptive research design and utilized

secondary data collected from the financial and managerial reports of the Malaysian corporate firms. Data on managerial efficiency for a period of five years prior to the merger year and five years after the merger year for each acquiring firm was collected for 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 managerial efficiency of the selected 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 organizational performance of selected acquirer and target firms in India, Gupta and Banerjee (2017) explored the effect of managerial efficiency on the organizational performance of selected companies in India. Using an exploratory research design, the study analyzed 3 years pre- and post-merger human resource composition of the sampled companies. The study sample size consisted of selected 11 firms in different industries that had undergone mergers and acquisitions between 2006 and 2012. The study performed an analysis of both primary and secondary data to ascertain the impact of managerial efficiency on the organizational performance of the sampled companies in India. The findings of the study showed that managerial efficiency of the sampled firms tended to deteriorate in the immediate period following the M&A. This was attributed to increasing 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 study selected twelve corporate Egyptian firms that had engaged in M&A using stratified and

judgmental sample selection methods. The study was based on secondary data obtained from the published annual reports and financial accounts of the selected corporate firms. The study data was analyzed through regression analysis using the Statistical Package for Social Sciences (SPSS). The study results showed that the post merger and acquisition period managerial efficiency was more improved than the pre merger and acquisition period. 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 was analyzed 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 merger/acquisition period compared with the pre merger/acquisition period. This was mainly attributed to operational synergies that resulted from the M&A.

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 study targeted 4 petroleum firms that had engaged in mergers and acquisitions in Kenya's Oil Sector between the years 2002-2012. The study was based on 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. In addition, the study conducted an analysis to compare the sampled firms performance against the industry average. The study results revealed that the sampled petroleum firms performed better in the post-merger/acquisition era compared to the pre-merger/acquisition era with their managerial efficiency level increasing after the merger.

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 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 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 therefore concluded that managerial efficiency attributable to corporate acquisitions did not affect the financial performance of the acquiring firms.

2.3.2 M&A-Led Human Capital Rationalization and Organizational Performance

In a study of the impact of mergers and acquisitions on the organizational performance of selected acquirer and target firms in India, Gupta and Banerjee (2017) sought to explore the effect of M&A on the human resource strategies of Indian companies. Using an exploratory research design, the study analyzed 3 years pre- and post-merger human resource composition of the sampled companies. The study sample size consisted of selected 11 firms

in different industries that had undergone mergers and acquisitions between 2006 and 2012. The study performed an analysis of both primary and secondary data to ascertain the impact of M&A on the sampled firms' human resource composition. The findings of the study showed that there were significant reductions in the workforce size of the target companies after the mergers/acquisitions. This was attributed to the elimination of redundant positions following the merger/acquisition.

Similarly, in a study to analyze 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 behavioral impact. The study sampled 6 companies that had engaged in M&A between 2005 and 2014. Using both primary and secondary data, the study utilized chi-square tests using SPSS to analyze the study variables. The study results found an unsatisfying level of job security and motivation and psychological behavioral 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 main target being financial and legal issues instead of the human factors.

In a study to evaluate the effects of mergers and acquisitions on employees using evidence from matched employer-employee data in USA, 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 analyzed employer-employee data for the entire population of workers in over 19,000 manufacturing plants in USA for the period 1985-1998. The empirical evidence suggested that employee outcomes were more favorable 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 clearly communicated to all employees.

Yusuf (2016) examined the impact of mergers on organizational performance of the Jordanian Industrial Sector. The study attempted to analyze 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 employee 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 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 analyze the impact 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. In addition, recognizing that M&A can be very heterogeneous 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 the probability of employee turnover, and that the increase was fundamentally driven by employees with high human capital.

2.3.3 M&A-Based Market Penetration and Organizational Performance

In a review of the effects of mergers and acquisitions on the performance of selected commercial banks in Nigeria, Onaolapo and Ajala (2012) examined the effect of M&A on the market performance of the selected commercial banks in Nigeria. The study selected seven Nigerian commercial banks using convenience and judgmental sample selection methods as the study units. Data was collected from the published annual report and accounts of the selected banks and were subsequently analyzed through regression analysis using SPSS. The study results showed that the post-merger and acquisition period market share of the sampled banks was larger than during the pre-merger and acquisition period. The study thus recommended that to enhance their market presence, Nigeria banks should be more proactive in mergers and acquisitions processes.

Ugwuanyi (2015) examined the relevance of mergers and acquisitions on the performance of deposit money banks using evidence from the Nigerian Banking Industry. The study used the size of clientele base and sales growth as indicators of the selected banks' market performance. Two Nigerian Deposit Money Banks were selected using convenience and judgmental sample selection methods. Data were collected from the published financial statements of the banks. Data were analyzed using linear regression analysis. The results revealed that the Post Merger market performance of the two banks significantly improved compared to the Pre Merger period of the banks. The study therefore recommended that banks can merge or acquire each other as this had proved to be an effective mechanism for enhancing their market presence and performance.

In a study to investigate the impact of merger and acquisition announcements on firms' performance using evidence from Hong Kong, Chen (2013) sought to establish the

impact of M&A on the market performance of firms in Hong Kong. The study used a descriptive research design and utilized secondary data collected from the market database of the selected firms. Data on revenue market share for a period of five years prior to the merger/acquisition period and five years after the merger/acquisition period for each of the selected firms were collected for the period 2002-2011. Multiple regression and correlation analysis as well as t-test statistics were applied to study the impact of M&A on the market performance of the firms in the pre-and post-merger periods. The study results revealed that M&A had a significant positive effect on the market performance of the acquiring firms in Hong Kong.

Onotu and Yahaya (2016) investigated the impact of mergers and acquisitions on the financial performance of Deposit Money Banks in Nigeria. One of the objectives of the study was to evaluate the impact of M&A on the market share of Deposit Money Banks in Nigeria. The study used various market metrics of the selected banks to analyze the market share of the banks before and after consolidation for the period 2002 to 2008. Four Nigerian banks were selected using purposive sampling technique. The study utilized secondary data retrieved from the annual reports and accounts of the studied banks. Data for the study were analyzed using T-test statistics using SPSS. The findings revealed that the banks witnessed significant growth in their market share performance owing to merger and acquisition. This in turn positively influenced their financial performance. The study thus concluded that M&A had a positive impact on the market share performance of Nigerian banks.

Gwaya (2015) studied the effect of mergers and acquisitions on 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 census technique to include all the 14 banks that had merged or acquired others during the stated period. Data was collected using

questionnaires. The collected data was analyzed using descriptive statistics with the help of SPSS. The study found out that mergers and acquisitions enhanced the market share performance of the merged/acquiring banks 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 merger/acquisition process can be done.

In a study to review the effect of mergers and acquisitions on the financial performance of oil firms in Kenya, Mulwa (2015) conducted an industry-wide analysis of the oil sector in Kenya. The study was limited to a sample of oil companies in the Kenyan market that had merged/acquired others between the years 2000 and 2014. Data were collected from the Annual Statement of Accounts and Financial Reports of the selected firms. Regression analysis was conducted to establish the relationship between mergers and acquisitions and financial performance of the merged/acquired oil companies in Kenya. Comparisons were made between the mean of 5-years pre-merger/acquisition and 5-years post-merger/acquisition financial ratios, while the year of merging/acquisition was exempted. The analysis and results showed that, in general, the petroleum firms performed poorly in the post-merger/acquisition era as compared to the pre-merger/acquisition era. The study results further showed that the mergers/acquisitions had no significant impact on the market share performance of the selected oil companies. The study therefore concluded that mergers and acquisitions did not have a statistically significant relationship with the financial performance of oil firms in Kenya.

2.4 Conceptual Framework

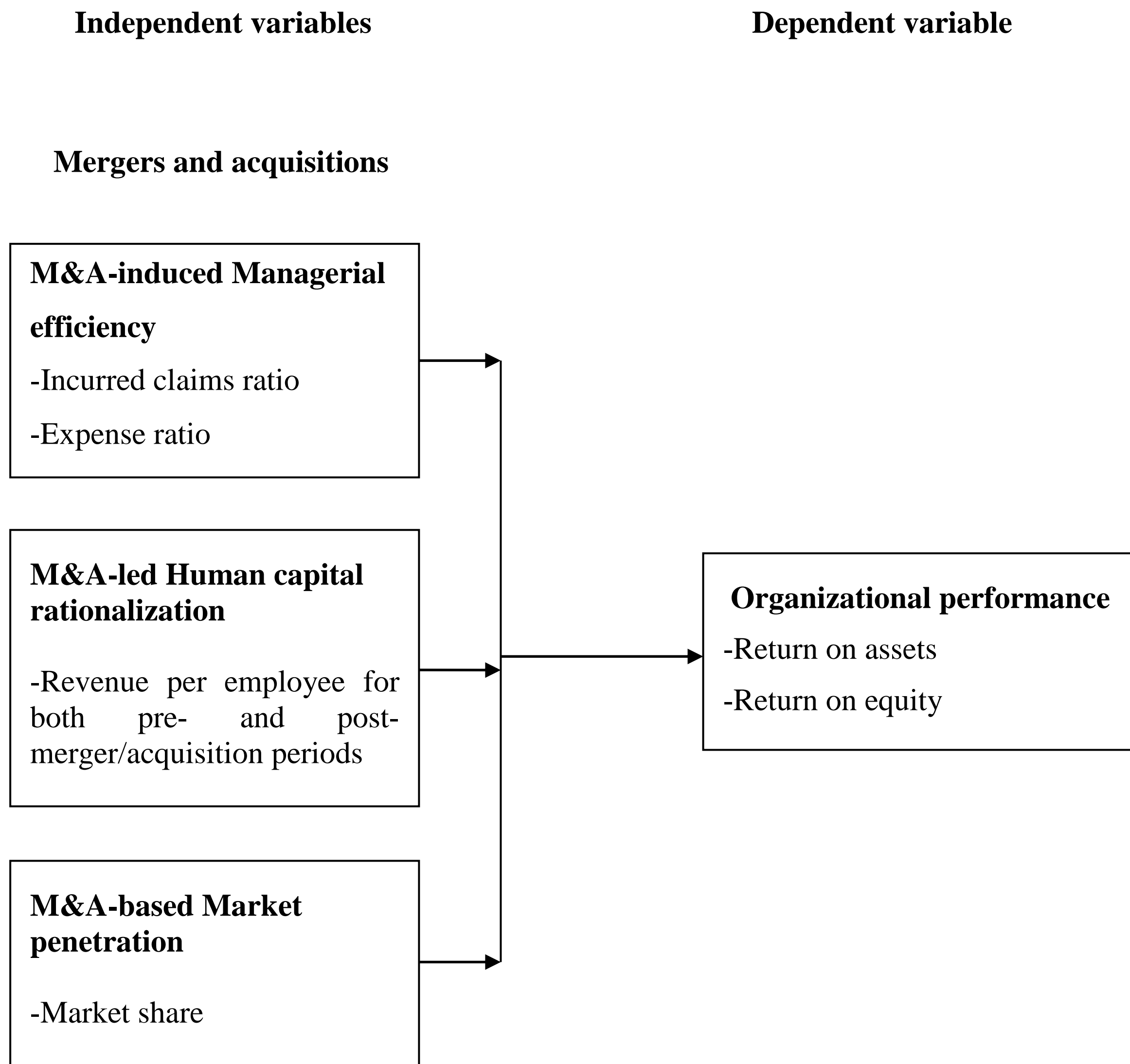

Figure 2.1 Conceptual framework

2.5 Operationalization of Variables

The operationalization of the study variables was as summarized in Table 3.1.

Table 3.1 Operationalization of Variables

Type of Variable	Variables	Measures	Operationalization	Measurement scale	Hypothesized direction
Dependent	Organizational performance	- Return on assets [ROA] - Return on equity [ROE]	ROA = Earnings After Tax / Total assets ROE = Earnings After Tax / Equity	Ratio	Positive
Independent	M&A-induced Managerial efficiency	- Incurred claims ratio [ICR] - Expense ratio [ER]	ICR = Total claims paid / net earned premiums ER = Total operating expenses / Net earned premiums	Ratio	Positive
	M&A-led Human capital rationalization	- Staff productivity [SP]	SP = Total revenue / Number of employees	Ratio	Positive
	M&A-based Market penetration	- Market share [MS]	MS = [total number of Sanlam's clients / Total number of clients in the Industry] * 100	Ratio	Positive

Source: Researcher (2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that the researcher used to conduct the study. The research methodology is presented in the following order: research design, target population, data collection and data processing and analysis.

3.2 Research Design

The study adopted a descriptive research design. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject in an accurate way (Mugenda & Mugenda, 2003). This research design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions (Cooper and Schindler, 2011). The design was also suitable to the study as it helped to describe the state of affairs as it existed without manipulation of variables (Kothari, 2004).

3.3 Target Population

According to Denscombe (2014), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. The target population of this study was Sanlam Kenya. The choice of Sanlam Kenya as the study unit was informed by its mergers with Pan Africa Insurance and Gateway Insurance in the recent past.

3.4 Data Collection

For the purpose of this study, the researcher used secondary data. The secondary data was obtained from the annual financial and management reports of Sanlam Kenya for a period of 6 years between 2011 and 2016. The study period was divided into two parts; pre-merger/acquisition period [2011-2013] and the post-merger/acquisition period [2014-2016]. This enabled the researcher to perform comparisons of the firm's organizational performance between the pre-merger/acquisition period and the post-merger/acquisition period so as to deduce whether M&A had any effect on the firm's organizational performance.

3.5 Data Processing and Analysis

The study data was analyzed through descriptive statistics and presented through percentages, frequencies, mean and standard deviation. In addition, the study applied a two tailed paired sample T-test statistics at a significance level of 5% to test whether there were statistically significant differences of means between the pre-merger/acquisition and post-merger/acquisition event variables. According to Kothari (2004) an independent variable has a significant effect if the T-test statistics is greater than + or – 1.96 or if the p value is less than 0.05. The statistical analysis was performed using the Statistical Package for Social Science (SPSS version 23.0).

For the purpose of this study, the effect of mergers and acquisitions on the organizational performance of Sanlam Kenya was analyzed using various ratios. Specifically, the effect of managerial efficiency on the firm's organizational performance was assessed using Incurred Claims Ratio and Expense Ratio; the effect of human capital rationalization on the firm's organizational performance was assessed using a comparison of the firm's revenue per employee between the pre-merger/acquisition period and the post-merger/acquisition while

the effect of market penetration on the firm's organizational performance was assessed using the firm's market share statistics.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The results were presented on the effects of mergers and acquisitions on organizational performance of Sanlam Kenya. The study data was obtained from the annual financial and management reports of Sanlam Kenya for a period of 6 years between 2011 and 2016 based on the study variables. The study period was divided into two parts; pre-merger/acquisition period [2011-2013] and the post-merger/acquisition period [2014-2016].

4.2 Descriptive Statistics

4.2.1 Organizational Performance of Sanlam Kenya

The study evaluated the organizational performance of Sanlam Kenya over the 6 year period between 2011 and 2016. The results are as illustrated in Table 4.2.

Table 4.2 Pre and Post Merger/Acquisition ROA and ROE Values of Sanlam Kenya

Pre Merger/Acquisition			Post Merger/Acquisition		
Year	**ROA**	**ROE**	**Year**	**ROA**	**ROE**
2011	0.025	0.146	2014	0.035	0.231
2012	0.036	0.253	2015	0.001	0.007
2013	0.059	0.375	2016	0.026	0.180
Mean	**0.040**	**0.258**		**0.021**	**0.139**

Based on Table 4.2 above, in the pre merger/acquisition period, the ROA value of Sanlam Kenya increased from 0.025 in year 2011 to 0.059 in year 2013. This represented a positive

change in the ROA values of 136% over the 3 year period. The post merger/acquisition period posted mixed results with the ROA value decreasing from 0.035 in year 2014 to 0.001 in year 2015 and then increasing to 0.026 in year 2016. This represented an overall negative change in the ROA values of 25.7% over the 3 year period. The company's pre-merger/acquisition period mean ROA value was 0.040 while the post-merger/acquisition period mean ROA value was 0.021.

Further, Table 4.2 above also indicates that, in the pre merger/acquisition period, the ROE value of Sanlam Kenya increased from 0.146 in year 2011 to 0.375 in year 2013. This represented a positive change in the ROE values of 156.8% over the 3 year period. The post merger/acquisition period posted mixed results with the ROE value decreasing from 0.231 in year 2014 to 0.007 in year 2015 and then increasing to 0.180 in year 2016. This represented an overall negative change in the ROE values of 22.1% over the 3 year period. The company's pre-merger/acquisition period mean ROE value was 0.258 while the post-merger/acquisition period mean ROE value was 0.139.

These mean ROA and ROE values indicate that, in general, Sanlam Kenya performed better in the pre merger/acquisition period than in the post merger/acquisition period implying that in the short term mergers and acquisitions negatively influenced the organizational performance of Sanlam Kenya.

4.2.2 M&A-Induced Managerial Efficiency and Organizational Performance

The first study objective sought to determine the effect of M&A-induced managerial efficiency on organizational performance of Sanlam Kenya. The study used the Incurred Claims Ratio (ICR) and Expense Ratio (ER) to evaluate managerial efficiency of Sanlam Kenya. From the insurer's perspective, increasing ICR and ER, imply that the firm is utilizing

a larger portion of its collected premiums to settle claims and operating expenses and hence making lower profits. As such increasing ICR and ER negatively affect the insurer's organizational performance. The findings are as illustrated in Table 4.3.

Table 4.3 Pre and Post Merger/Acquisition Managerial Efficiency Values of Sanlam Kenya

Pre Merger/Acquisition			Post Merger/Acquisition		
Year	**ICR**	**ER**	**Year**	**ICR**	**ER**
2011	0.427	0.222	2014	0.543	0.195
2012	0.328	0.167	2015	0.755	0.306
2013	0.443	0.188	2016	0.752	0.332
Mean	**0.399**	**0.192**		**0.683**	**0.278**

Table 4.3 above indicates that, in the pre merger/acquisition period, the Incurred Claims Ratio (ICR) of Sanlam Kenya posted mixed results with the ICR value decreasing from 0.427 in year 2011 to 0.328 in year 2012 and then increasing to 0.443 in year 2013. This represented an overall positive change in the ICR values of 3.7% over the 3 year period. The post merger/acquisition period saw the Incurred Claims Ratio (ICR) of Sanlam Kenya increase from a value of 0.543 in year 2014 to 0.752 in year 2016. This represented an overall positive change in the ICR values of 38.5% over the 3 year period. The company's pre-merger/acquisition period mean ICR value was 0.399 while the post-merger/acquisition period mean ICR value was 0.683.

Table 4.3 above further indicates that, in the pre merger/acquisition period, the Expense Ratio (ER) of Sanlam Kenya posted mixed results with the ER value decreasing from 0.222 in year 2011 to 0.167 in year 2012 and then increasing to 0.188 in year 2013. This represented an overall negative change in the ER values of 15.3% over the 3 year period. The post

merger/acquisition period saw the Expense Ratio (ER) of Sanlam Kenya increase from a value of 0.195 in year 2014 to 0.332 in year 2016. This represented an overall positive change in the ER values of 70.3% over the 3 year period. The company's pre merger/acquisition period mean ER value was 0.192 while the post merger/acquisition period mean ER value was 0.278.

These mean ICR and ER values indicate that, in general, the managerial efficiency of Sanlam Kenya worsened in the post merger/acquisition period compared to the pre merger/acquisition period implying that in the short term Sanlam Kenya may have not been able to collect enough premiums to pay claims and operating expenses, and still make a reasonable profit.

4.2.3 M&A-Led Human Capital Rationalization and Organizational Performance

The second study objective sought to establish the effect of M&A-led human capital rationalization on organizational performance of Sanlam Kenya. The study used staff productivity assessed through revenue per employee to evaluate Sanlam Kenya's human capital rationalization in both the pre and post merger/acquisition period. The findings are as illustrated in Table 4.4.

Table 4.4 Pre and Post Merger/Acquisition Human Capital Rationalization Values of Sanlam Kenya

Pre Merger/Acquisition		Post Merger/Acquisition	
Year	**Revenue per employee (Kshs. m)**	**Year**	**Revenue per employee (Kshs. m)**
2011	1.484	2014	2.947
2012	2.552	2015	2.870
2013	2.935	2016	3.484
Mean	**2.324**		**3.100**

Table 4.4 above indicates that, in the pre merger/acquisition period, the revenue per employee of Sanlam Kenya increased from 1.484 in year 2011 to 2.935 in year 2013. This represented an overall positive change in the revenue per employee values of 97.8% over the 3 year period. The post merger/acquisition period also saw the revenue per employee of Sanlam Kenya increase from a value of 2.947 in year 2014 to 3.484 in year 2016. This represented an overall positive change in the revenue per employee values of 18.2% over the 3 year period. The company's pre-merger/acquisition period mean revenue per employee value was 2.324 while the post-merger/acquisition period mean revenue per employee value was 3.100.

These mean revenue per employee values indicate that, in general, the revenue per employee of Sanlam Kenya increased over the 3-year period in both the pre and post merger/acquisition periods and that the revenue per employee value was higher in the post merger/acquisition period compared to the pre merger/acquisition period. This implied that the human capital rationalization attributable to mergers and acquisitions had positively impacted on the organizational performance of Sanlam Kenya.

4.2.4 M&A-Based Market Penetration and Organizational Performance

The last study objective sought to examine the effect of M&A-based market penetration on organizational performance of Sanlam Kenya. The study used market share as the indicator to evaluate Sanlam Kenya's market penetration position in both the pre and post merger/acquisition period. The findings are as depicted in Table 4.5.

Table 4.5 Pre and Post Merger/Acquisition Market Share Values of Sanlam Kenya

Pre Merger/Acquisition		**Post Merger/Acquisition**	
Year	**Market Share (%)**	**Year**	**Market Share (%)**
2011	5.3	2014	6.6
2012	5.5	2015	7.1
2013	5.9	2016	8.0
Mean	**5.57**		**7.23**

Table 4.5 above indicates that, in the pre merger/acquisition period, the market share of Sanlam Kenya increased from 5.3% in year 2011 to 5.9% in year 2013. This represented an overall positive change in the company's market share of 11.3% over the 3 year period. Similarly, in the post merger/acquisition period, the market share of Sanlam Kenya increased from 6.6% in year 2014 to 8.0% in year 2016. This represented an overall positive change in the company's market share of 21.2% over the 3 year period. The company's pre-merger/acquisition period mean market share value was 5.57% while the post-merger/acquisition period mean market share value was 7.23%. These mean market share values indicate that, in general, the market share of Sanlam Kenya was in a positive trajectory in both the pre and post merger/acquisition periods. However, the market share values of Sanlam Kenya were higher in the post merger/acquisition period compared to the pre

merger/acquisition period. This implied that mergers and acquisitions had helped Sanlam Kenya enhance its market share in the local insurance industry.

4.2.5 Two-Tailed T-Test Statistics

The study applied a two tailed paired sample T-test statistics at a significance level of 5% to test whether there were statistically significant differences of means between the pre-merger/acquisition and post-merger/acquisition variables with the null hypothesis being that the true mean difference between the paired samples is zero while the alternate hypothesis was that the true mean difference between the paired samples is not equal to zero. The findings are as shown in Table 4.6.

Table 4.6 T-Test Statistics of the Mean Values of Study Variables

	Pre Merger/Acquisition	Post Merger/Acquisition	Difference	T Value	Sig.
ICR	0.399	0.683	0.284	-3.133	0.089
ER	0.192	0.278	0.086	-1.519	0.268
Revenue per Employee	2.324	3.100	0.776	-2.222	0.156
Market Share	5.57	7.23	1.66	-7.143	0.019**
ROA	0.040	0.021	(0.019)	1.317	0.318
ROE	0.258	0.139	(0.119)	1.153	0.368

In the Table 4.6 above;

(**) Denotes significance at 0.05 significance level

Table 4.6 above indicates that, the changes in the managerial efficiency as denoted by ICR ($p = 0.089$) and ER ($p = 0.268$); human capital rationalization as denoted by Revenue per Employee ($p = 0.156$) and organizational performance as denoted by ROA ($p = 0.318$) and

ROE ($p = 0.368$) of Sanlam Kenya were statistically insignificant in the post merger/acquisition period. However, the changes in the market penetration as denoted by market share ($p = 0.019$) of Sanlam Kenya were statistically significant in the post merger/acquisition period. This implied both managerial efficiency and human capital rationalization did not have significant effects on Sanlam's organizational performance in the post merger/acquisition period while market penetration did have significant effects on Sanlam's organizational performance in the post merger/acquisition period. However, in general, the results indicate that mergers and acquisitions did not have significant effects on the organizational performance of Sanlam Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, conclusions and recommendations of the study based on the study objectives. The chapter also highlights suggested areas for further research. The study sought to establish the effects of mergers and acquisitions on organizational performance of Sanlam Kenya.

5.2 Summary

5.2.1 Organizational Performance of Sanlam Kenya

The study established that there was an overall positive change in the ROA values of 136% in the pre merger/acquisition period as reflected by the increase in ROA values from 0.025 in year 2011 to 0.059 in year 2013. However, there was an overall negative change in the ROA values of 25.7% in the post merger/acquisition period as reflected by the decrease in ROA values from 0.035 in year 2014 to 0.026 in year 2016.

The study also established that there was an overall positive change in the ROE values of 156.8% in the pre merger/acquisition period as reflected by the increase in ROE values from 0.146 in year 2011 to 0.375 in year 2013. However, there was an overall negative change in the ROE values of 22.1% in the post merger/acquisition period as reflected by the decrease in ROE values from 0.231 in year 2014 to 0.180 in year 2016.

These mean ROA and ROE values indicate that, in general, Sanlam Kenya performed better in the pre merger/acquisition period than in the post merger/acquisition period implying that

in the short term mergers and acquisitions negatively influenced the organizational performance of Sanlam Kenya. This agreed with Mulwa (2015) and Akben-Selcuk and Altiok-Yilmaz (2014) who also found that mergers and acquisitions had a negative effect on the resulting firm's financial performance. However, this contrasted with Ramachandran and Thangavelu (2015); Onaolapo and Ajala (2012) and Ndung'u (2011) who established that mergers and acquisitions had a positive effect on the financial performance of the resulting firm while Inoti *et al*. (2014) concluded that corporate mergers and acquisitions did not have any significant effect on the financial performance of the acquiring companies.

The two tailed paired sample T-test statistics at a significance level of 5% showed that changes in the organizational performance of Sanlam Kenya as denoted by ROA ($p = 0.318$) and ROE ($p = 0.368$) were statistically insignificant in the post merger/acquisition period. This was in contrast with the findings of Mboroto (2013), Onutu and Yahaya (2016) and Yanan *et al*. (2016) who reported a positive relationship between M&A and firm's financial performance. However, it agreed with the findings of Gupta and Banerjee (2017) in India and Mulwa (2015) who reported a negative relationship between M&A and firm's financial performance.

5.2.2 M&A-Induced Managerial Efficiency and Organizational Performance

The study found that there was an overall positive change in the ICR values of 3.7% in the pre merger/acquisition period as reflected by the increase in ICR values from 0.427 in year 2011 to 0.443 in year 2013. Similarly, there was an overall positive change in the ICR values of 38.5% in the post merger/acquisition period as reflected by the increase in ICR values from 0.543 in year 2014 to 0.752 in year 2016.

The study also found that there was an overall negative change in the ER values of 15.3% in the pre merger/acquisition period as reflected by the decrease in ER values from 0.222 in year 2011 to 0.188 in year 2013. However, there was an overall positive change in the ER values of 70.3% in the post merger/acquisition period as reflected by the increase in ER values from 0.195 in year 2014 to 0.332 in year 2016. The two tailed paired sample T-test statistics at a significance level of 5% showed that changes in the managerial efficiency of Sanlam Kenya as denoted by ICR ($p = 0.089$) and ER ($p = 0.268$) were statistically insignificant in the post merger/acquisition period.

These mean ICR and ER values indicate that, in general, the managerial efficiency of Sanlam Kenya worsened in the post merger/acquisition period compared to the pre merger/acquisition period implying that in the short term Sanlam Kenya may have not been able to collect enough premiums to pay claims and operating expenses, and still make a reasonable profit. This was consistent with the findings of Sharma and Jonathan (2012) who found that the managerial efficiency of the acquiring firm declined following a merger or acquisition and particularly in the short term. The findings also agreed with Rahman *et al*. (2014) and Gupta and Banerjee (2017) who argued that the managerial efficiency of firms engaged in mergers and acquisitions tended to deteriorate in the immediate period following the M/A but improved in the medium and longer terms. However, on the contrary, Ismail *et al*. (2014) was of the view that mergers and acquisitions helped the acquiring firms enhance their operational efficiency.

5.2.3 M&A-Led Human Capital Rationalization and Organizational Performance

The study found that there was an overall positive change in the revenue per employee values of 97.8% in the pre merger/acquisition period as reflected by the increase in revenue per

employee values from 1.484 in year 2011 to 2.935 in year 2013. The study also established that there was an overall positive change in the revenue per employee values of 18.2% in the post merger/acquisition period as reflected by the increase in revenue per employee values from 2.947 in year 2014 to 3.484 in year 2016. The two tailed paired sample T-test statistics at a significance level of 5% showed that changes in the human capital rationalization of Sanlam Kenya as denoted by Revenue per Employee ($p = 0.156$) were statistically insignificant in the post merger/acquisition period.

These mean revenue per employee values indicate that, in general, the revenue per employee of Sanlam Kenya increased over the 3-year period in both the pre and post merger/acquisition periods and that the revenue per employee value was higher in the post merger/acquisition period compared to the pre merger/acquisition period. This implied that the human capital rationalization attributable to mergers and acquisitions had positively impacted on the organizational performance of Sanlam Kenya. This was in line with the findings of Jain and Raorane (2011) who argued that the human capital rationalization efforts resulting from mergers and acquisitions helped the acquiring firm to better manage its human resources in a manner that enhanced organizational performance. The findings also agreed with Ugwuanyi (2015) found a positive association between human capital rationalization and organizational performance following mergers and acquisitions.

5.2.4 M&A-Based Market Penetration and Organizational Performance

The study found that there was an overall positive change in the market share of Sanlam Kenya of 11.3% in the pre merger/acquisition period as reflected by the increase in the company's market share values from 5.3% in year 2011 to 5.9% in year 2013. The study also established that there was an overall positive change in the market share of Sanlam Kenya of

21.2% in the post merger/acquisition period as reflected by the increase in in the company's market share values from 6.6% in year 2014 to 8.0% in year 2016. The two tailed paired sample T-test statistics at a significance level of 5% showed that changes in the market penetration of Sanlam Kenya as denoted by market share ($p = 0.019$) were statistically significant in the post merger/acquisition period. These mean market share values indicate that, in general, the market share of Sanlam Kenya was in a positive trajectory in both the pre and post merger/acquisition periods. However, the market share values of Sanlam Kenya were higher in the post merger/acquisition period compared to the pre merger/acquisition period. This implied that mergers and acquisitions had helped Sanlam Kenya enhance its market share in the local insurance industry.

This agreed with Gwaya (2015) who in a study of the effect of mergers and acquisitions on financial performance of commercial banks in Kenya established that mergers and acquisitions enhanced the market share performance of the merged/acquiring banks 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. This also agreed with Onotu and Yahaya (2016) who in a study of the impact of mergers and acquisitions on the financial performance of Deposit Money Banks in Nigeria found that the banks witnessed significant growth in their market share performance owing to merger and acquisition. Similarly, Chen (2013) observed that mergers and acquisitions had a significant positive effect on the market share performance of the acquiring firms in Hong Kong.

5.3 Conclusions

The study concludes that M&A-induced managerial efficiency as depicted by Incurred Claims Ratio and Expense Ratio did not have any significant effect on the organizational performance of Sanlam Kenya in the post merger/acquisition period.

The study concludes that M&A-led human capital rationalization as depicted by revenue per employee did not have any significant effect on the organizational performance of Sanlam Kenya in the post merger/acquisition period.

The study concludes that M&A-based market penetration as depicted by market share had a significant effect on the organizational performance of Sanlam Kenya in the post merger/acquisition period.

5.4 Recommendations

To improve on its post M&A managerial efficiency, the study recommends that Sanlam Kenya should strive to strike a good balance between its net earned premiums and incurred claims and operating expenses.

Sanlam Kenya should review its human capital rationalization policies in the post merger/acquisition period in order to ensure that they are able to effectively leverage on their workforce to enhance its organizational performance.

To further enhance its market penetration in the post M&A period, the study recommends that Sanlam Kenya should utilize a wide array of marketing strategies and tools to entrench its brand recognition and expand its insurance products offering so as reach out to the vast uninsured market.

5.5 Suggested Areas for Further Research

Since this study explored the effects of mergers and acquisitions on the organizational performance of Sanlam Kenya, the study recommends that similar studies should be done in other insurance corporate firms in Kenya for comparison purposes and to allow for generalization of findings on the effects of mergers and acquisitions on the organizational performance of insurance firms in Kenya.

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APPENDICES

Appendix I: Secondary Data on Study Variables

	2011	2012	2013	2014	2015	2016
Profit after tax (Kshs. m)	286	600	1,253	871	27	904
Total assets (Kshs. m)	11,514	16,474	21,158	24,599	27,109	34,628
Total equity (Kshs. m)	1,965	2,373	3,338	3,778	3,802	5,011
Total claims paid (Kshs. m)	1,408	1,675	2,258	2,711	3,620	4,088
Total operating expenses (Kshs. m)	733	857	960	973	1,467	1,805
Net earned premiums (Kshs. m)	3,300	5,126	5,102	4,991	4,797	5,439
Total revenue (Kshs. m)	4,242	7,921	8,542	7,975	7237	8,314
Number of staff	2,859	3,104	2,910	2,706	2,522	2,386
Market share	5.2	5.5	5.9	6.4	6.9	8.0

Source: Financial and Management Annual Reports of Sanlam Kenya, 2011-2016