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Effect of Mergers on Performance of Insurance Companies in Kenya, a Case of ICEA Lion Insurance Company

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Abstract:*Mergers in Kenya are being increasingly used for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk and capitalizing on economies of scale for strategic positioning. Specific objectives of the study was to; examining the effect of capital base on performance of merged insurance company, the relationship between competitiveness of mergers and performance, to establish the effect of expertise on performance of merging of insurance companies and to establish effect of synergy created on performance of insurance firms. This study adopted a descriptive survey design. The target population of the study was 400 with sample of 200 that was selected randomly from five departments of ICEA LION that deem to be more linked with the immediate operations of the merged company. The sampling frame of this study was derived from the database of the insurance regulatory authority which regulates and licenses insurance firms in Kenya. Stratified sampling and simple random sampling was used. Within each study unit (department) five strata was created, while simple random sampling was used to identify respondents from the department. A Likert scale questionnaire was used to gather primary information while a secondary data collection sheet was used for collecting secondary information. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 23.0 for production of graphs, tables, descriptive statistics and inferential statistics. Findings revealed that post-merger period of ICEA LION group recorded higher premiums and a larger market share leading to improved performance. The study concluded that capital base, competitionlevel, expertise acquired and synergy created are statistically significant in improving performance of ICEA LION group. The study recommends that the firm should put in place measures to improve on its focus on the customer satisfaction through marketing and coming up with customer oriented products so that they can improve their market share hence improved performance.*

Key Words*: Merger, capitalbase, competition, expertise, synergy, insurance*

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I. Introduction

1.1Background of the Study

The global restructuring of the economy and dramatic change in the way the businesses operate and compete in today's economy have resulted in a shift to mergers strategy and execution. Increasingly, corporations and investors seek to capitalise on newly established synergies and strive to reach the cost savings targets set in merger plans for the benefit of their shareholders, (Saboo&Gopi, 2009).The rationale behind mergers is that two companies together are more economically viable than two separate entities are, (Pandey, 2001). According to Pike and Neale (2006), merger strategies are associated with the pooling of the interests of two companies into a new enterprise requiring the agreement by both sets of shareholders. Firms will thus seek that strategic positioning that will provide them with the maximum impact on their operating environment.Mergers are used in improving company's competitiveness and gaining competitive advantage over other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, and capitalizing on economies of scale, (Saboo&Gopi, 2009). Mergers agreement is taken not necessarily because of lack of corporate strength but an avenue to create synergy. Many corporations find the best way to get ahead is to expand ownership boundaries through mergers, (Ismail, Abdou&Annis, 2011).

The fundamental aim of mergers is the generation of synergies that can, in turn, foster corporate growth, increase market power, improve production efficiencies, boost profitability, and improve shareholders' wealth.Global Merger activity continues to increase at a phenomenal rate climbing from \$1.9 trillion in 2004, (Cartwright & Schoenberg, 2006) to a record-breaking \$4.35 trillion in 2012, (IRA, 2013). Only the 2008 global financial crisis could slow down Mergers activity with 2008 activity topping out at \$2.89 trillion, ending 5 years of spectacular growth, (Vranceanu, 2009).

1.1.2 Insurance Industry in Kenya

The Kenyan insurance industry is governed by the Insurance Act and regulated by the Insurance Regulatory Authority, (IRA). The market is relatively mature in comparison with its regional counterparts, and dominates insurance activities across the East African Community (EAC) and COMESA region. Specifically, the Kenyan insurance market is more than five times the size of the Tanzanian market and around ten times that of Uganda. In 2010, a total of 46 companies were licensed to transact insurance operations in Kenya. During 2010, consolidated gross written premiums, (GWP) continued to register double digit premium growth, evidencing a 23% increase to KShs79.1bn. Accordingly, market penetration is estimated to have increased only marginally, from 2.4% of GDP in 2003 to 3.1% in 2012, (GOK 2011)

According to "AKI annual Industry Report 2010", The Kenyan Industry recorded a gross premium of KES 52.35 billion, (2009 – 43.11 billion), an increase of 21.4%, (2009 – an increase of 16.8%). The Kenyan insurance industry continues to embrace information technology, research and innovation, thereby expanding its capacity to exploit the existing untapped insurance market. While this is likely to see sustained cost pressures, together with an improvement in the regulatory environment this is expected to enhance insurance penetration. (IRA report, 2013)

1.1.3 ICEA Lion Group Company

Mergers have been on the increase in the Kenyan corporate scene including banking, insurance, engineering and construction among others. A number of insurance companies have successfully completed merger procedures, a case in point being ICEA Lion. Insurance Company of East Africa Limited, (ICEA) and Lion of Kenya Insurance Company Limited merged in December, 2011. The purpose was to increase their capital base and eliminate competition among them. The merger brought in two of the leading insurance companies in East Africa. They both deal in insurance and financial services in Kenya and the wider East Africa region. The merger resulted in the creation of one of the largest insurance groups in the region called ICEA Lion Group, with insurance operations in Kenya, Uganda and Tanzania as well as leading subsidiaries in fund management and corporate trusteeship, (IRA,2013).

A key element of this consolidation was to establish separate life and non-life insurance companies. ICEA Lion Life Assurance Company that is dedicated to life assurer while ICEA Lion General Insurance Company that is general insurance company, both operating as subsidiaries of ICEA Lion Group. The separation enabled the two African Assurance rated companies to have complete focus on their core business, for enhanced customer service, specialization, internal efficiency and competitiveness. The specialization is consistent with the Government's declared intention to encourage movement in this direction, (GoK, 2011).

1.2 Statement of the Problem

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a result firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like mergers, strategic alliances, joint ventures etc. The Mergers are arguably the most popular strategy among firms who seek to establish a competitive advantage over their rivals. (Straub2007)

The main corporate objectives for merging is to gain greater market power, gain access to innovative capabilities, thus reducing the risks associated with the development of a new product or service and scope and finally in some cases, reshape a firm's competitive scope, (Kumar 2009). Odeck (2008), argues that mergers are performed in the hopes of realizing and economic gain. Some of the potential advantages of mergers include achieving economies of scale, combining complementary resources, garnering tax advantages, and eliminating inefficiencies. Although all these reasons are meant to increase firm's performance, yet, as Afande (2015) put it, confirmatory research linking mergers to firm's performance has been little developed. Hence, how mergers influence firm's performance lacks empirical backing as the few studies that have been conducted on the same provide mixed results.

Locally, the relationship between Mergers and firm's performance has been the subject of abundant research in several fields and it has produced mixed results. Gachanja 2013 conducted a survey of factors considered important in merger decisions by selected Kenyan based firms. Njenga (2006), also conducted a survey on investigation into whether the demerger of coffee marketing societies have created or eroded owners' wealth in parts of Central Kenya. Njenga found mixed results on whether demergers lead to wealth creation or erosion of coffee firms as depicted by both positive and negative returns on post-merger firms. Muya (2006), carried out a survey of experiences of mergers and found that mergers do not add significant value to the merging firms. Maranga (2008), conducted a survey on effects of mergers on financial performance of oil companies in Kenya and from the researcher's finding on respondent opinion on Mergers, financial performance was positively correlated with financial performance after the merger. Thus, according to the researcher's context, the oil firms performed better financially after the resulting mergers.The above evidences, fail to show that there is a relationship between capital base, efficiency, competition and expertise and the performance of financial sector players as a result of mergers. Therefore, since the importance of mergers cannot be over-emphasized, this prompted the researcher's interest to establish the relationship of insurance mergers with performance on the insurance companies in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The study was set out to determine the effect of mergers on performance of insurance companies in Kenya: A case study of ICEA Lion insurance.

1.3.2 Specific Objectives

1. To establish the influence of capital base of insurance companies' on their performance.
2. To determine the influence of competition created by insurance companies' merger on their performance.
3. To assess the effect of expertise acquired on performance of insurance companies in Kenya
4. To assess the effect of synergy acquired on performance of insurance companies in Kenya

1.4 Significance of the Study

The findings of this study will be useful to the regulator, Insurance Regulatory Authority, (IRA), to understand how better to mitigate the risks that engrosses the insurance industry in Kenya. Since investment decisions are made upon sufficient information about the companies concerned, this study will provide useful information to the investors on when to buy or sell stocks of companies that are in a merger relationship. Furthermore, the Kenya Insurance Regulatory Authority, (IRA) and Association of Kenya Insurers, (AKI) will also significantly benefit from this research in terms of developing appropriate regulatory frameworks which will enhance sustainable growth and performance of mergers companies in the Insurance sector.

The management of Insurance companies will benefit from this research as it will enhance understanding of mergers and how it can be managed so as to deliver competitive advantage as well as increase organizational performance of their merged companies. Last but not least, Scholars who are interested in further research in this field will be able to investigate any research gap in the study not covered by the researcher in the course of providing the evidences supporting the research topic and research problems.

1.6 Scope of the Study

This research project was on the effect of mergers on the performance of ICEA Lion insurance company in Kenya. The study focused on ICEA Lion insurance company that was merged in the period 2011 to 2012 a period, this is because it's the latest major merger in insurance industry in Kenya. The period for conducting the research was from January 2013 to December 2016. The scope was limited to the stated objectives of the study which were spelled out the variables to be studied**.**

1.7 limitations

This study only concentrated with four variables while there could be other variables under merger that could influence performance of ICEA LION group. The study also to a big extent relied on secondary data which are prepared with some other objectives in mind apart from what the researcher is investigating. Primary data were collected to mitigate this problem. Since the study is a case study, generalization would not be possible without the risk of fallacious conclusion. However, other researches can be done in other industries in Kenya

II. Literature Review

2.1 Theoretical Framework

2.1.1 Oligopolistic or Market Power Theory

The theory was defined by William in 1958. The theory of oligopolistic typically seeks to maximize sales subject to a minimum profit constraint, He explains that the determination of the minimum just acceptable profit level is a major aim that mergers seek to achieve. More often the profit constraint probably specifies a minimum rate of return on sales or on investment rather than a minimum total profit level. However, it is easily shown that these alternative forms of the profit constraint make no difference but it is determined by long-rung considerations, (Gowrisankaran, & Holmes, 2004). Profits must be high enough to provide the retained earnings needed to finance current expansion plans and dividends sufficient to make future issues of stocks attractive to potential purchasers. In other words, the firm will aim for that stream of profits. In markets characterized by oligopolistic competition a merger imposes two externalities on non-merging, rival firms: a positive externality due to the reduction of the number of competitors, (the market power effect) and a negative externality due to the optimal reallocation of the merging firms' productive assets, (Malmendier 2012). There is ample evidence on the effect of oligopoly on mergers. He asserts that mergers occur in waves driven by industry wide shocks and are strongly clustered by industry within a wave. This is why this study tries to understand whether if at the long-run the two merged companies will be able to maximize profits after eliminating the competition among themselves through applying the concept of this theory.

2.1.2 The Value-Increasing Theories

The theory was advocated by Malatesta,in 1983 ;the value increasing school, also called synergies theory, proposes that mergers take place when the value of the combined firm is greater than the sum of the values of the individual firms. The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realisable 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. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the firms.

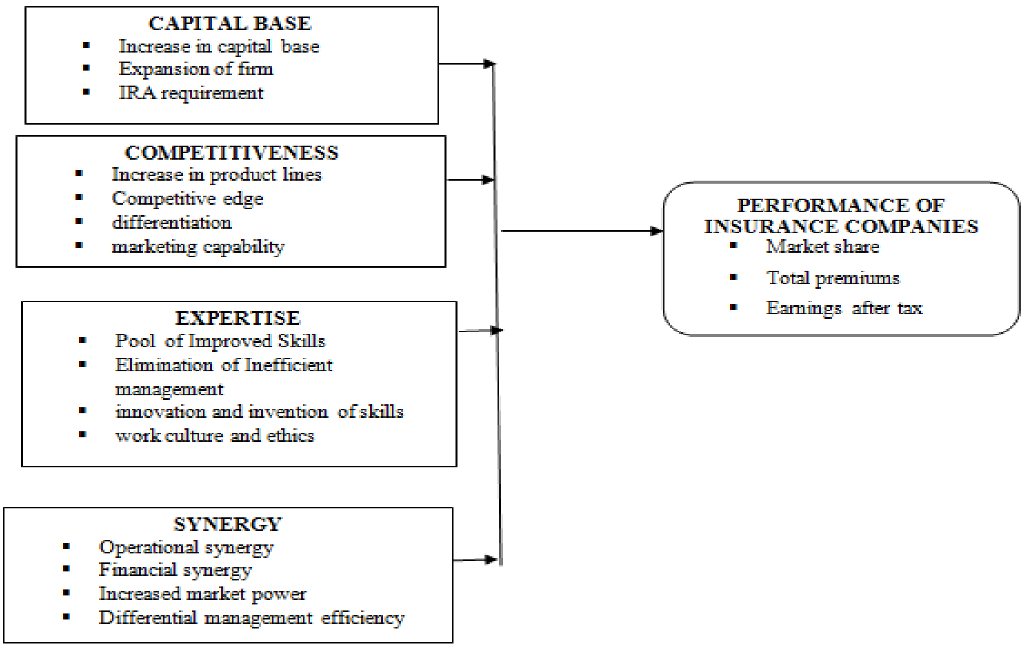
Certainly, a number of studies find increased profits and sales after many mergers, Ismail et al., (2011) - a finding which has been interpreted by many as evidence of increasing market power and allocative synergy gains, (Gugler et al., 2003). From a dynamic point of view, market power is said to allow for the deterrence of potential future entrants, (Besanko, 2006), which can again afford the firm a significant premium, and so offer another long-term source of gain, that is, increased value creation which is the aim of the study to finding out if firms have managed to gain value increase through their merger.

2.1.3The Theory of Corporate Control

The theory of the market for corporate control was first put forward by Manne 1965. The hypothesis states that a firm is undervalued due to inefficient management and that any firm can detect this, merge with that firm and replace the managers. Thus, such a market operates efficiently in eliminating managers who either pursue goals that do not go into the shareholders' interests, or are simply incompetent. If the two firms replace the pre-merger manager with a better one, the new formed firm will increase its value, (if the manager is worse though it will decrease its value). Some authors have argued that the mere threat of a market for corporate control may serve as a disciplining mechanism to the managers, (Li Xiangjun, 2002) and it can also optimize the allocation of resources. If management deviates from this single aim, causing the enterprise to be badly run, with reduced profits, the share price is bound to fall. It is likely then that enterprise will become the target mergers and after the parties involved have obtained controlling shares, there are frequently changes to the board of directors and managers to improve performance

The theory is applicable to the study since it is looking at the importance of managers and how they can improve the performance of a company, which the aim of mergers in undervalued company. Since if the merger is successful, then the two firms that merged can be able to maximize the profit and improve the performance of the companies involved through effective management.

2.2 Conceptual framework



Independent Variables Dependent Variable

Figure 2.1: Conceptual framework

2.3 Empirical Review

This section reviews studies previously done on effects of merger on performance.The impact of Merger on subsequent performance has been widely studied, and many studies have identified adverse effects of Merger, (Saboo et al,2009). Nonetheless, the key result emerging from the majority of empirical studies, mainly concentrated in the western countries, is that merging firm's shareholders experience either normal returns or significant losses around the announcement of mergers involving publicly listed targets, (Cooper et al, 2000). Studies by Zander and Kogut, (2006) that was conducted in Pennsylvania, USA, where qualitative analysis of manager's attitude towards mergers established that the fundamental aim of mergers is the generation of synergies that can, in turn, foster corporate growth, increase market power, boost profitability, and improve shareholders' wealth. Accordingly, Merger should constitute positive net present value projects. This study's findings concur with both Production and Market Power Theories of mergers as tools for modern corporate control.

Wu and Ray, (2005) analyzed mergers in the US manufacturing industry and found significant relationships between abnormal returns from mergers and technical efficiency. This study tested the Market Imperfections Theory in Merger for example, for both firms there is a negative relationship between efficiency and abnormal returns, which the authors explain by saying the market interprets mergers as attempts to improve efficiency, such that less efficient firms have the most to gain. A study by Angela and Muya, (2006) examined the effects of merger restructuring on the financial performance of twenty, (20) Kenyan banks that had merged between 1993 and 2005. This study investigated the effects of merger restructuring on the financial performance of commercial banks in Kenya that is how Market Power Theory would be explained in Kenyan banking industry in analysis of mergers. The research compared the pre-merger and post-merger financial performance of twenty Kenyan banks that had merged between 1993 and 2005. The results indicate that the financial performance ratios that have legal implications, (capital adequacy and solvency ratios) improved after the merger. However, profitability ratios indicate that the majority of the merged banks reported a decline in financial performance.

A study by Obaid, (2010) supports the production theory, that is, potential gains in across company efficiency provide another production-based rationale for Mergers. This study investigates the effects of mergers on the financial performance of financial institutions in Pakistan. The operating performance, capital adequacy and solvency measures were compared for 4-years pre and post-merger from the financial statements of the sample companies. The financial performance of Faysal bank limited improves insignificantly in terms of profitability and decreases insignificantly in terms of capital adequacy measures, while its solvency measure reports significant deterioration during the post-merger years Study by Kaplan and Weisbach, (2002) supports the market imperfections theory, based on the premise that an important market imperfection is the existence of costs of financial distress.

In Africa, few studies have been conducted to test whether mergers result in successful improvement of insurance company's profitability and efficiency. A wide range of performance indicators have been applied in these studies, ranging from simple Balance Sheet and Profit and Loss ratios to more advanced statistical efficiency measures. In West Africa, mostof the researches in the field have been conducted in Nigeria and Ghana. Available statistics show that the consolidation of the Nigerian insurance sector through merger and organic growth resulted in a remarkable improvement on the sector as a whole (Ekundayo, 2008; Afande, 2015; Soludo, 2008). The Balance Sheet size and Profit and Loss profile of most insurance companies in Nigerian have more than doubled since December 2005 to date.

Selcuk and Yilmaz (2011) conducted a study on the impact of mergers on performance in Turkey using the stock market approach and the accounting method. Under the stock market approach, they concluded that stock returns for Turkish companies during the event window period were higher than the industry average. Under the accounting approach they used three profitability ratios; Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS) to measure performance. According to their results, post-merger ROA and ROS were significantly lower than the pre merger's. However, the results revealed that ROE does not decline significantly as a result of merger. Cabanda and Pascual (2007), in a study entitled "Merger in the Philippines: analyzed the financial of Philippine shipping firms resulting from the mergers event, based on the economic-finance perspective. The study showed that pre-and post-merger values obtained show mixed results. Some measures of firm performance, such as, acid test ratio, total asset turnover, and net revenues suggest statistically significant gains in the long-run. Other performance indicators, such as, net income, return on assets, return on sales, return on equity, net profit margin, capital expenditure, capital expenditure / sales, and capital expenditure / total assets did not show significant gains after M&As in the short-run. The study finally concluded that mergers in the Philippine shipping industry do not lead to improved performance in both the short-run as well as in the long-run.

Azhagaiah and Kumar (2011) did a study on the short-term post-merger performance of corporate firms in India. According to their conclusions, acquiring firms in India tend to perform better after merger in the short run as compared to the pre-merger period. They attributed this to enhance deficiency in utilization of their assets which lead to generation of higher operating cash flows. PazarskisCollins et al. (2006), in a study entitled "Exploring the Improvement of Corporate Performance after Mergers – The Case of Greece" examined, empirically, the impact of mergers **on** performance–involved firmsin Greece. The mainfinding of the study was that there was strong evidence that the profitability of afirm that performed a merger decreased due to the merger event.

Githinji (2007) carried out a study on the effects of merger on financial performance of non- listed banks in Kenya. He used a sample derived from the period between 1998 and 2005.Comparative analysis of the bank's performance for 5 years pre and post-merger was carried out using profitability, return on assets, shareholder equity and total assets ratios. The findings of the study indicated that there was a significant improvement in the performance of non-listed banks which merged as compared with the non-listed ones that didn't merge.

Similarly, Korir (2006) examined the effects of mergers on the performance of companies listed at the NSE. A sample of 10 listed companies that were involved in mergers during the period and another of 10 listed companies that were not involved in mergers over the same period were used. He used share turnover, volume of shares traded, market capitalization and profits to measure financial performance. The results of the study indicated that there was a positive improvement in the performance of the companies involved in merger.

2.4 Research Gap

Many studies have been done on mergers. Most of these studies have examined the effects of the mergers in several companies in a single study. For instance, studies done by Gachanja(2013),muya,(2006),korir (2006),Maranga 2006),Gituku's study examined the role of mergers on various commercial banks in Kenya, Studies of this kind have produced mixed results; some have found that merging companies benefited from the merger whereas others found that the mergers had no positive impact on the companies' performance. Previous studies have similarly failed to examine the characteristics of particular insurance firms before and after they merged. Consequently, all the literature available on this subject is conflicting and too general. It is difficult to make concrete conclusions on the basis of the existing literature. Therefore, there is a need for studies to be done on particular insurance firms and the findings could be generalized to other insurance firms with comparable characteristics.furthermore, many of the researches done in the area of merger have been done in western countries. There is very little documentation or research in Africa in general and Kenya in particular on merger. Even amongst those ones that exist, few research authors have attempted to provide conceptual sets on merger among insurance companies. Moreover, researches have mainly focused on financial results ignoring the role of people, knowledge gain and other intangible goals in improving the performance of the insurance companies that have merged in Kenya. Therefore, the research attempts to fill this gap by looking at the contribution of competition, expertise and capital base have in improving the performance of the merged insurance companies in Kenya.

III. Research Methodology

a. Research Design

This study adopted a descriptive survey design to answer the research questions. Descriptive research is a description of the state of affairs as it exists (Sekaran and Bougie (2011), Descriptive research design will be appropriate for this study as it will help in understanding the effects of mergers performance of insurance companies in Kenya and therefore answer the "what" question of the study.

3.2 Target Population

The target total population of interest was 400 employees from the five departments of ICEA LION insurance company as their records that were provided to the researcher show. The company merged under the Associations of Kenya Insurers and the Insurance Regulatory Authority of Kenya in December 2011.

Table 3.1 Target Population

Department	Population	% of population
Finance	90	22.5
Human Resource	80	20
Marketing	100	25
Procurement	60	15
Strategy and Operations	70	17.5
Total	**400**	**100**

Source ;(**ICEA Lion Group Report,2015**)

3.4 Sample size and Sampling Technique

3.4.1 Sampling Frame

The sampling frame of this study was derived from the database of the Kenya Insurance Regulatory Authority (IRA) and Association of Kenya Insurers (AKI) which regulates and licences insurance companies in Kenya.A sampling frame enables the researcher define the population of interest. According to Mugenda and Mugenda (2010) it is a list, directory or index from which a sample is normally selected.

Table 3.2: The Sampling Frame

Department	Population	Sample
Finance	90	45
Human Resource	80	40
Marketing	100	50
Procurement	60	30
Strategy and Operations	70	35
Total	**400**	**200**

3.4.2 Sample Size

A sample is a subset of the population; it comprises some members selected from it. Muganda (2010).The sample of this research was calculated by using Taro Yamane (Yamane, 1973) formula with 95% confidence level. The calculation formula of Taro Yamane is presented as follows:

$$n=\frac{N}{1+N(e)^2}$$

n=Sample Size required
N=Number of people in the population
e=Allowable Error

$$\mathbf{n=\frac{400}{1+400(0.05)^2}}$$

= 200 Respondents

3.4.3 Sampling Techniques

Stratified sampling technique was used to obtain a sample for the study. Stratified sampling is a probability sampling design that first divides the population into meaningful non overlapping subsets, and then randomly chooses the subjects from each subset Sekaran and Bougie (2011) The study adopted a stratified random sampling technique to come up with the required sample since the population of the population is homogeneous. The goal of stratified random sampling is to achieve the desired representation from various sub groups in the population (Kothari, 2004). Mugenda and Mugenda (2010) advices that to use stratified random sampling, one must first decide on the size of each stratum in the sample.

3.5 Data Collection Instruments

Primary information was gathered by use of questionnaires coupled with informal interviews that will be guided by the questionnaires. Secondary data was gathered from annual reports of the ICEA LION Group. According to Carr and Griffin, (2010) a questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives.

3.6. Data Collection Procedure

The study used both primary and secondary data sources since the nature of the data is quantitative and qualitative. The respondents were picked randomly from their respective departments. Stratified sampling was used in selecting the respondents from their respective departments. The rationale of using stratified sampling is because the method is cost effective and convenient in case of a wide geographical area (Mugenda&Mugenda, 2010). The researcher also collected primary data by use of a semi structured questionnaire. The questionnaire were structured into two sections; the first section sought demographic data, the second section sought data on mergers. The questionnaire was administered through a drop and pick later method at an agreed time with the researcher. Secondary data was sourced from the IRA, the annual report of the company which was available from the AKI through the use of research assistance. The questionnaires was issued to the respondents through self-introduction and where need be internal informant was used to give a lead on how to get to the respondent

3.7. Pilot Testing

According to Griffin (2010) a pilot test is an evaluation of the specific questions, format, question sequence and instructions prior to the main survey.the purpose of pilot testing is to establish the accuracy and appropriateness of the research design and instruments. (Bryman2012), According to Mugenda and Mugenda (2010), once the questionnaires have been finalized it should be tried out on the field. The questionnaire should be pre-tested to a selected sample which is similar to the actual sample which the researcher plans to use in the study. Procedures used in pre testing the questionnaires should be identical to those which will be used in the actual data collection. The practice of pre-testing the questionnaires is very important due to the following reasons: Comments and suggestions made by the respondents during pretesting should be seriously considered and pretested. Such comments help to improve the questionnaire. Questions which were vague were revealed in the sense that the respondent interpreted them differently. The researcher rephrased the questions until they conveyed the same meaning to the subjects

According to Cooper and Schilder (2011), as the rule of the thumb, one percent of the sample should constitute the pilot test taking into consideration the time, the cost and practicability of the exercise. In this study, one percent of the sample questionnaire’s designed as the main data collection instrument was used to pre-test effectiveness and relevance of the instrument. The reliability of the questionnaires was tested with the aid of SPSS software. . In this case, two questionnaires were used in the pilot test. The questionnaire pre-testing was done using randomly selected managers and employees of ICEA lion group who were not include in the final data collection.

3.7.1 Validity of the Research Instruments

According to Creswell, (2014).Validity in a study can be determined based on face validity and content validity. The face validity of this study was determined by subjecting the developed instruments to two experts who were sought from the supervisors. The experts were cordially requested to read all the instruments and point out if the research questions captured as well establish if the instruments were participant-friendly in terms of their readability, longevity, chronological arrangement and grammatical errors to mention a few. The experts were also asked to provide suggestions on what should be added or deleted. Recalling on idea that a sample is an accurate representation of a population, the face validity is said to be achieved when the results of a particular study can be generalized or replicated to its population (Bryman, 2012)

3.7.2 Reliability of the Research Instruments

The reliability of the instruments was determined through piloting process to assess if developed items gave the consistent results at different times after they would be administered. The internal consistency of the instruments was determined by applying the Cronbach’s alpha technique on Likert rating items. This technique is preferred because of its strength in determining internal consistency of both dichotomous and Likert scale based choices, an advantage that is hardly achieved by other methods of determining internal consistency reliability of instrument in the quantitative based studies. Normally the Cronbach’s alpha reliability coefficient ranges between 0 and 1. However, the closer the Cronbach’s alpha coefficient is to 1.0 the greater the internal consistency of the items in the Likert scale. George &Mallery (2003) and Tavakol&Dennick (2011) provide the following rules of thumb: “_ > .9 – Excellent, _ > .8 – Good, _ > .7 – Acceptable, _ > .6 – Questionable, _ > .5 – Poor, and _ < .5 – Unacceptable”.therefore in our study a cronbach value of 7 will be acceptable.

3.8. Data Analysis and Presentation

Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 23.0 for production of graphs, tables, descriptive statistics and inferential statistics. Descriptive statistics was used to determine the effects of mergers on performance of ICEA lion group. A regression model was used for establishing the relationship between mergers and performance. The model adopted consisted of four variables: The independent variables were components of mergers while the dependent variable was the organisation performance.

$\mathbf{Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + €}$

Y=Performance of Insurance companies

$\mathbf{X_1}$=Capital base

$\mathbf{X_2}$=Competition

$\mathbf{X_3}$=Expertise

X_4=Synergie

$\boldsymbol{\beta_0}$ = Constant (Y-intercept)

€= Error term.

The study used a regression model to show the relationship between components of mergers and organisation performance. Analysis of data using regression model has been used previously by Aduda (2011) in a study which investigated the relationship between executive compensation and firm performance in the Kenyan banking sector. Information was sorted and coded using the statistical package for social sciences (SPSS) version 23.0 which was presented using graphs, tables, descriptive statistics because that helped summarize the findings and conclusion in a more understandable language.

IV. Results And Discussion

4.1 Response rate

A total of 200 questionnaires were given out to the managers of ICEA lion group only 144 were returned giving a response rate of 72%. According to Mugenda&Mugenda (2010), a response rate of 50%-60% is adequate and good respectively for a research, and above 70% is very good. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

4.2 The Effect of mergers on Performance of ICEA lion group

The study examined the extent to which the mergers affected performance of ICEA lion group in Kenya in terms of total premiums , market share and profit after tax . Below are the results of the findings.

4.2.1 Earnings After Tax

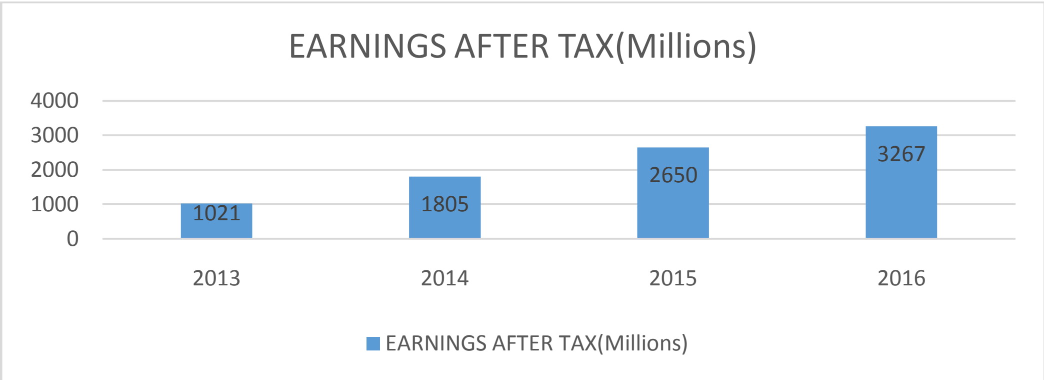


Figure 4.1; Earnings after tax

4.2.2 Total Premiums

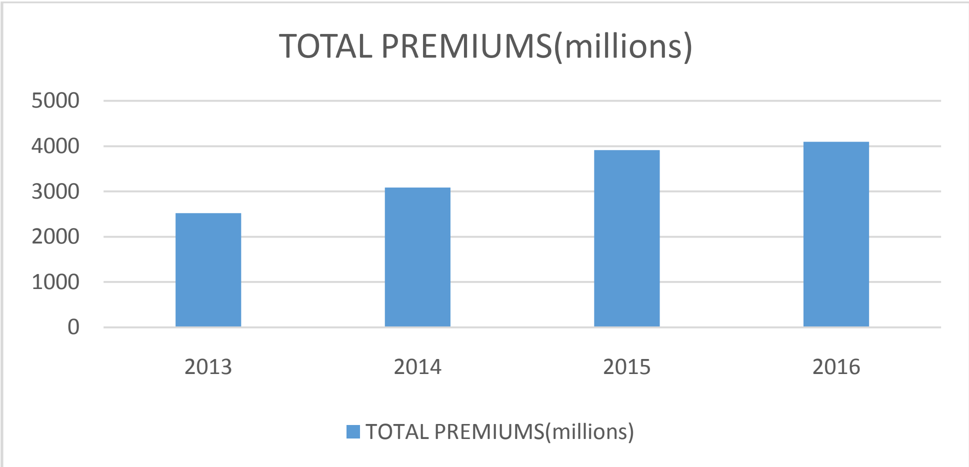


Figure 4.2; Total premiums

4.2.3 Market share in the industry

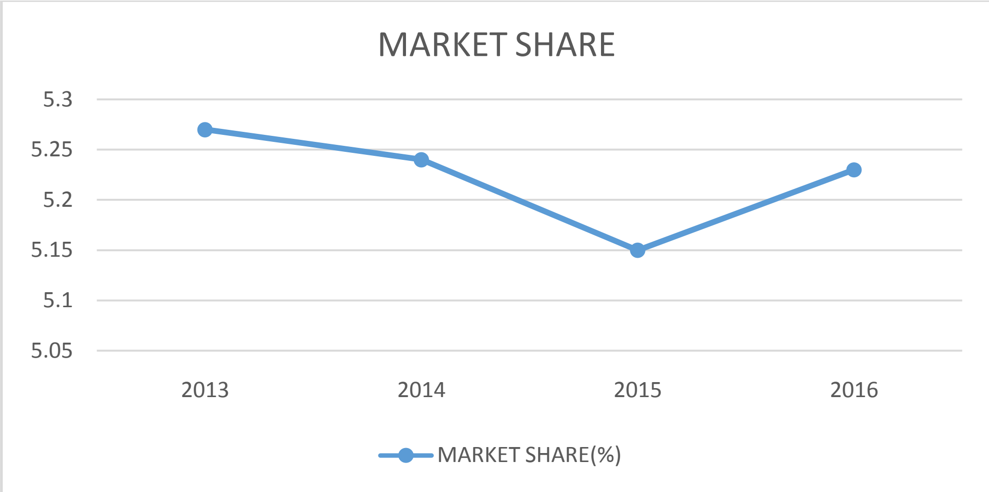


Figure 4.3; Market share

4.3 Merger aspects and performance

This section attempts to analyze the findings of the various effects of merger aspects on performance of ICEA Lion group as were stated by the researcher.

4.3.1 Capital base

4.3.1.1 Reliability Test for Capital base

The reliability results for capital base attracted a coefficient of 0.71 hence the statements were good for analysis as shown in table 4.5.

Table 4.1: Reliability Test for Capital base

Variable	No. of Items	Cronbach's Alpha
Capital base	4	0.71

4.3.1.3 Descriptive Analysis for Capital base

Results showed that 81% of the respondents agreed that through merger the capital base had greatly increased, due to the increased capital 85% of the respondents agreed that there had been development and implementations of expansion strategies, in addition to that 86% of the respondents agreed that the merger had enabled the company meet the core capital requirement by IRA,furthermore 73% of the respondents agreed that due to the increased capital base the liquidity level had also increased these findings are well supported by Pasiouras and Kosmidou, (2007) who indicate that the best performing firms are those who maintain a high level of equity relative to their assets.

4.3.1.4 Correlation Analysis – Capital base and Performance

The results show that performance was positively correlated with capital base with a weak correlation coefficient of 0.151. This reveals that any positive change in capital base led to improved performance.

Table 4.2: Pearson Correlation - Competition and Financial Performance

Variable		Performance	Capital base
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Capital base	Pearson Correlation	0.151	1
	Sig. (2-tailed)	0.013	

4.3.2 Competition level

4.3.2.1 Reliability Test for competition level

Table 4.11 shows the reliability results for competition level which attracted a coefficient of 0.71 hence the statements were good for analysis.

Table 4.3: Reliability Test for competition level

Variable	No. of Items	Cronbach's Alpha
competition level	6	0.833

4.5.2.3 Descriptive Analysis for Competition level

Results indicated that 78%of the respondents agreed that Merging had enhanced the competitive edge of their company also 73% of the respondents agreed that The insurance company had gained market power after the merger in addition to that 77% of the respondents agreed that through merging the Marketing capability of the company had increased. Furthermore 75% of the respondents agreed that merger activities had led to change in the structure of our organization. 61% of the respondents agreed that The Company had increased the number of products in the market after the merger in conclusion 55% of the respondents disagreed that The firm had improved on its focus on the customer satisfaction,this findings concur with Villalonga and McGahan, (2005) who affirms that when firms combine operations they become more competitive than an individual firm does.

4.5.2.4 Correlation Analysis - Competition level and Performance

The results indicated that performance was positively correlated with competition level. This reveals that any positive change in management of competition level led to improved performance.

Table 4.4: Pearson Correlation - Competition level and Performance

Variable		Performance	Competition level
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Competition level	Pearson Correlation	0.518	1
	Sig. (2-tailed)	0.000	

4.3.3 Expertise level

4.3.3.1 Reliability Test for Expertise level

Table 4.18 shows the reliability results for expertise level which attracted a coefficient of 0.783 hence the statements were good for analysis.

Table 4.5: Reliability Test for Expertise level

Variable	No. of Items	Cronbach's Alpha
Expertise level	4	0.783

4.3.3.3 Descriptive Analysis for Expertise level

The results showed that 68% of the respondents agreed that the insurance company had attracted a rich pool of skilled and efficient professionals, in addition to that 57% of the respondents agreed that Inefficient management had been eliminated through reviewing of job descriptions and specifications and selecting the best performers from the different insurance company merging.65% of the respondents agreed that The insurance company had embraced specialisation hence innovation and invention of skills and means to meet customers emerging demands.in conclusion 54% of the respondents disagreed that The insurance company had improved work culture and ethics through frequent trainings, workshops and seminars. This findings are in line with (Gachanja,2013) who asserted that productivity and profitability improvements and innovation can be achieved only if firms employ high-skilled workers.

4.3.3.4 Pearson's Correlation - Expertise level and Performance

Table 4.21 displays the results of correlation test analysis between the dependent variable (performance) and Expertise level. The results show that the performance was positively correlated with Expertise level with a high correlation coefficient of 0.608. This reveals that any positive change in management of Expertise level led to improved performance.

Table 4.6: Pearson's Correlation -Expertise level and Performance

Variable		Performance	Expertise level
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Expertise level	Pearson Correlation	0.608	1
	Sig. (2-tailed)	0.000	

4.3.4 Synergy

4.3.4.1 Reliability test for Synergy

Table 4.25 shows the reliability results for Synergywhich attracted a coefficient of 0.701 hence the statements were good for analysis.

Table 4.7: Reliability Test for synergy

Variable	No. of Items	Cronbach's Alpha
Synergy		0.701

4.3.4.2 Descriptive Analysis for the synergy

Resultsshowed that 77% of the respondents agreed that there was an increased gain of economies of scale in the firm furthermore 73% of the respondents agreed that there was a reduction of Cost of capital in the firm. Also 44% of the respondents agreed that there was an increased level of market share in the insurance industry and lastly 75% of the respondents disagreed that there was a reduction of operating expenses after the merger this findings concurred with the findings of Eliasson (2011) who analyzed synergies in relating to mergers in technical trading companies The findings pointed at three success factors namely; the entrepreneurship and human capital, the corporate head's knowledge, the experience and selection capability.

4.3.4.3 Pearson's Correlation - Synergy and Performance

Correlation analysis was conducted to establish whether a relationship existed between the synergy and the performance of ICEA lion group. Table 4.28 shows that performance was positively correlated with synergy with a correlation coefficient of 0.333. This reveals that any positive change in synergy led to improved performance.

Table 4.8 Pearson Correlation -Synergy and Performance

Variable		Performance	Synergy
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Synergy	Pearson Correlation	0.333	1
	Sig. (2-tailed)	0.000	

4.4 Correlation Analysis for the Overall Model

The results of the correlation analysis for the overall model are as shown in table 4.39. A correlation coefficient of 0.834 indicated that there was a strong correlation between performance and all the predictor variables (capital base, expertise level, competition level and synergy) taken jointly. An R- square value of 0.695 indicated that 69.5% 0f the variations in the performance of ICEA lion group could be explained by variations in the predictor variables. The results also indicated that the predictors were significant with a F-value of 0.000.

Table 4.9: Model Fit for Performance

Model	R	R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.734a	0.538	0.36017	0.538	61.374	5	139	0.000
2	.834b	0.695	0.29567	0.156	26.453	5	144	0.000

a Predictors: (Constant), capital base, competition level, expertise level and synergy

b Predictors: (Constant), capital base, competition level, expertise level and synergy, capital base squared, competition level squared, expertise level squared and synergy squared

4.5 ANOVA for the Overall Model

ANOVA results were presented in Table 4.40. The results indicated that the overall model was significant, that is, the independent variables were good joint explanatory variables for performance (F=58.763, P value =0.000).

Table 4.10: ANOVA for Financial Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	39.808	5	7.962	61.374	.000b
	Residual	34.117	139	0.13		
	Total	73.925	144			
2	Regression	51.371	10	5.137	58.763	.000c
	Residual	22.555	258	0.087		
	Total	73.925	268			

a. Dependent Variable: Performance

b. Predictors: (Constant), capital base, competition level, expertise level and synergy

c. Predictors: (Constant), capital base, competition level, expertise level and synergy, capital base squared, competition level squared, expertise level squared and synergy squared

4.6 Model Summary

Regression results in Table 4.41 indicated that the relationship between performance and capital base was positive and significant (b1= 0.188, p value, 0.019). This implies that an increase in capital base by 1 unit leads to improved performance of ICEA lion group by 0.188 units.

The results further indicated that the relationship between performance and expertise level was positive and significant (b1= 0.465, p value, 0.000). This implies that an increase in the expertise level by 1 unit leads to an increase or improved performance by 0.465 units.

The results further indicated that the relationship between performance and synergy acquired was positive and significant (b1= 0.193, p value, 0.000). This implies that an increase in synergy by 1 unit leads to an increase or improved performance by 0.193 units. However the results indicated that competition level had a negative and significant relationship with performance.

Table 4.11: Model Summary and Parameter Estimates

Model		B	Std. Error	t	Sig.
1	(Constant)	6.522	0.147	44.255	0.000
	Capital base	0.188	0.08	2.359	0.019
	Competition	-0.499	0.056	-8.904	0.000
	Expertise level	0.465	0.066	7.046	0.000
	Synergy	0.193	0.053	3.66	0.000

a Dependent Variable: Performance

V. Summary, Conclusions And Recommendations

5.1 Summary of the Findings

5.1.1Capital base and Performance

The findings indicated that there was an increased level of capital base, since most respondents agreedthat through merger the capital base had greatly increased additionally due to the increased capital the managers agreed that there had been development and implementations of expansion strategies. The results reveal that capital base is statistically significant in explaining performance of ICEA LION group.

5.1.2Competition level and Performance

The study showed that the insurance company had gained market power after the merger in additionally through merging the Marketing capability of the company had greatly increased. The results reveal that competition level is statistically significant in explaining performance of ICEA LION group.

5.1.3Expertise level and Performance

Results indicated thatthe insurance company had attracted a rich pool of skilled and efficient professionals, in addition to that inefficient management had been eliminated through reviewing of job descriptions and specifications and selecting the best performers from the different insurance company merging. Also the insurance company had embraced specialisation hence innovation and invention of skills and means to meek customers emerging demands.The results reveal that expertise acquired statistically significant in explaining performance of ICEA LION group.

5.1.4Synergy and Performance

Results indicated that there was an increased gain of economies of scale in the firm furthermore there was a reduction of Cost of capital in the firm. And in conclusion there was an increased level of market share of the firm in the insurance industry. The results reveal that synergy created wasstatistically significant in explaining of ICEA LION

5.1.5 Performance

Results indicated that there was increased premiums, earnings after tax and increased market share of the company in the industry.

5.2 Conclusion

5.2.1Capital base and Performance

The study concludes that capital base of the firm had increased. This increased level of capital base had led to development and implementations of expansion strategies in the firmwhich may have led to improved performance ICEA LION group. This implies that managing the increased capital base in the firm was statistically significant in explaining performance of ICEA LION group.

5.2.2Competition level and Performance

From the study findings, it can be deduced that the insurance company had gained market power after the merger thereby greatly increasing the Marketing capability of the .It can also be concluded from this study that there exists a positive significant relationship between competition level and performance of ICEA LION group. The results reveal that competition level created is statistically significant in explaining performance of the ICEA LION group.

5.2.3Expertise acquired and Performance

The study concluded that the insurance company had attracted a rich pool of skilled and efficient professionals. This is because the firm was working towards eliminating inefficient managers through reviewing of job descriptions and specifications and selecting the best performers from the different insurance company merging. In addition to that it can also be concluded that the insurance company had embraced specialisation hence innovation and invention of skills and means to meek customers emerging demands.It was possible to infer that the relationship between expertise and performance is positive and significant. The study shows that managing expertise acquired was statistically significant in explaining performance of ICEA LION group.

5.2.4Synergy created and Performance

The study concludes that there was a high level of synergy created after the merger. This is because There was an increased gain of economies of scale in the firm furthermore there was a reduction of Cost of capital in the firm. This implies that managing synergy created in ICEA LION was statistically significant in explaining performance of ICEA LION group.

5.2.6Performance

It is possible to conclude from the study findings that there was improved and increased level of performance of ICEA LION group across the years. The performance indicators had all increased in number and growth. This implies that the management of the ICEA LION group had embraced the idea of managing the merger process.

5.3 Recommendations

5.3.1 Performance and Capital base

The study recommends that ICEA LION group should emphasize and enhance that the increased capital base is managed well. They should also ensure that they manage the increased liquidity level .They should also ensure that the expansion strategies adopted are in line with the vision of the company and are well managed to avoid losses.

5.3.2Performance and competition level

The study recommends that the firm should put in place measures to improved on its focus on the customer satisfaction through promotions, marketing and coming up with customer oriented products so that the can improve their market share hence improved performance

5.3.3 Performance and Expertise acquired

The study recommends that the ICEA LION group management should ensure that They improved work culture and ethics through frequent trainings, workshops and seminars Will help in specialisation hence innovation and invention of skills and that means to meet customers emerging demands. The study also recommends that the firm to continue with job reviews of job descriptions in order to ensure they get the best of their employees.

5.3.4 Performance and synergy created

The study recommends that the firm should emphasize on proper management of operating costs to help improve the performance of the firm. The study also recommends that the firm to take advantage of the improved market power by introducing more products and venturing more markets.In conclusion, ICEA LION group should continue with their road to take advantage of the merger to improve their profitability and also specifically they need to improve their internal customer satisfaction. They need to view their employees as internal customers who need to be treated with the same importance as the other external clients. Given the benefits so far achieved by ICEA LION group out of their merger management endeavors the company should continue with the ends road to perfection and continue realizing these benefits associated with the merger process.

5.4 Suggestion for Further Research

A study should be carried out to find out how Mergers affect other aspects of businesses especially making management easier and internal customer satisfaction. It is also necessary to investigate the effect of mergers on performance in other sectors of the economy in Kenya.A replica study is recommended for companies in other sectors in order to test whether the conclusions of this study will hold true. Another study could be carried out using other aspects of merger that may influence performance of insurance companies. Future studies could also focus on a comparative study among various sectors

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