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EFFECT OF MERGERS AND ACQUSITIONS ON FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

[1] Kyalo Faith Ndunge, [2] Dr. Matanda Joshua

[1] MBA Finance Student, Jomo Kenyatta University of Agriculture and Technology

[2] Lecturer, Jomo Kenyatta University of Agriculture and Technology

ABSTRACT

This study endeavored to explore how financial performance of insurers in Kenya is influenced by M&A. To attain this, the study proposed to determine how financial performance of insurers is influenced by asset growth in acquisitions and mergers, synergy in acquisitions and mergers. This study took the descriptive research design. The target population consisted of middle management staff from the 13 insurance firms that have undergone mergers and acquisition in Kenya over the last 5 years. The determined sample size was 61, which was reached through stratified random sampling in which the 13 insurance firms will form the strata. This study utilized a questionnaire to collect primary data. Whereas the closed ended questions generated quantitative data. Both inferential and descriptive statistics were used in data analysis. Findings reveal that asset growth ($\beta = 2.065$, $p = .000<.05$); and synergy ($\beta = 2.027$, $p = .000<.05$) significantly influence financial performance at 95% confidence level. It is thus concluded that that there exists a statistically significant relationship between asset growth, and synergy and financial performance of insurance firms in Kenya. The study recommends that insurance firms can enhance the financial performance of their entities through mergers and acquisitions. By identifying strategic targets, firms can benefit from synergies arising from economies of scale.

Key Words: Financial Performance, Insurers in Kenya, Asset Growth, Synergy, Acquisitions and Mergers

Background of Study

Insurers' financial performance is of pertinence economic development in both developed and developing contexts (Saboo & Gopi, 2018). Insurance firms offer special financial services as part of the general financial system, important in economic development and growth. These services range from investment portfolios that are long term through mobilization of huge amount of finances to guaranteeing business entities' characteristic risks (Agiobenebo & Ezirim, 2018). Insurers' risk absorption function encourages financial steadiness in financial markets, providing a sense of stability. Without a well performing insurance industry, the business world is unsustainably risky in view of the uncertain and ever-changing global economy (Ahmed, Ahmed, and Ahmed, 2019).

Financial performance is conceptualized by Su and Vo (2019) as the degree of excellence with which a company generate revenues by leveraging its assets from in primary business activities. A company's financial performance denotes the firm's efficiency in utilizing its assets to undertake various business activities so as to generate revenues. Financial performance also shows the firm's general well-being with regards to financial stability (Mwangi & Angima, 2016). The competitiveness of a firm could also be gauged by comparing its financial performance with those of others across the same industry. Financial performanceis, in summary, is a crucial objective that firms especially the profit-oriented firms desire or aim at to achieve (Kajirwa, 2015). Financial performance affects the health of the organization and its overall survival in the long run. High performance is an indicator of the management's efficiency and effectiveness in using the company's resources which is detrimental to the economy in the long run (Su & Vo, 2019). Financial performance provides financial information to the various administrative levels of unity for the purposes of economic planning, control and decision-making (Xu & Wanrapee, 2018).

Financial performance can be measured using different techniques which must all be consolidated. Girma, Thompson and Wright (2020) identified micro measures of finance performance as including Return on Asset (ROA), return on sales, asset age, Return on Equity (ROE) and firm size. Tobin's Q and ROA were used by Fatima and Shehzad (2017) as metrics of financial performance whereas Saboo and Gopi (2018) used ROA and ROE. The two most well-known measures of productivity are ROA and ROE; hence, this study will compute the financial performance of publicly listed companies using the two measures. ROE denotes a firm's attained net income as a proportion of shareholders' equity while ROA shows the company's profitability regards its total assets (Fatima & Shehzad, 2017). ROE measures the company's profitability, the amount of profit generated through utilization of company resources. ROE is useful for comparison of the firm's profitability with those of others in the same sector. High ROE implies that the firm is efficient the firm is making use of those funds (Mwangi & Angima, 2016).

In an effort to guarantee superior performance, international markets have over the last decade continued to experience increased mergers and acquisition (Selvam, Babu, Indhumathi & Ebenezer, 2017). A number of reasons have driven business entities to undertake mergers and acquisition, including improving economic conditions, consumer demand and growing business confidence (Jin, Dehuan & Zhigang, 2014). In order to expand market share, mergers and acquisition continue to be adopted for competitiveness of progressive companies. As a strategy of managing risk, the company's portfolio are spread by utilizing acquisitions and mergers (Rahman, Abdul & Limmack, 2014). Additionally, mergers and acquisition are adopted to enable firms get into new geographical markets with a view to enhance growth through increasing customer base and capitalizing on economies of scale (Saboo & Gopi, 2018). The reasoning behind any merger is to increase synergy, as companies hold that by either acquiring or merging with another company, performance thereof would be better compared to a single entity. This is ascribed by the potential maximization of shareholder value (Mantravadi & Reddy, 2018).

In order to improve financial performance, various strategies are being undertaken by corporations (Rahman et al., 2014). Financial performance is crucial for any organization's success since it is indicative of both firms' performance and financial health in the market in comparison with other industry players (Pazarskis, Vogiatzogloy, Christodoulou & Drogalas, 2016). Mergers and acquisition have been adopted in order to enhance performance of organization owing to the perceived benefits thereof. Financial performance improvement through mergers and acquisition is largely regarded as a management strategy, as it also found to maximize shareholder value and reduce expenses and costs (Nima, 2015).

The golden rule for mergers and acquisition is that companies should pursue mergers and acquisition only if they create value (Jain & Raorane, 2011). Acquisitions and mergers become fruitful if synergies in the forms of operational, financial and managerial efficiencies arise (Gwaya, 2015). Among the benefits to which acquisition and mergers can be ascribed include speedy access to new products and technology, a growing customer base, a strengthened market position, reduction of operating risk, better expertise in management, and improved allocation of resources (Ismail, Abdou & Annis, 2014).

A merger may be perceived as the practice of combining more than one commercial process to form one organizational establishment but maintaining the same management and ownership (Cartwright & Schoenberg, 2006). A merger can legally be regarded as, a consolidation of more than one entity to create one (Mwanza, 2016). Acquisition is the attainment of a majority share by a firm in the stakes of another firm (Freidheim, 1998).

A merger is defined by Boateng and Bjortuft (2008) as the outcome of combining businesses taking place where two business establishment in different or similar lines of business resolve to boost operations by joining forces. Acquisitions can on the other hand be perceived as business amalgamations whereby one takes the operations and control of another extant firm. For the success of a merger deal, knowledge and capabilities ought to be transferred for efficiency, synergy and cost effectiveness (Krug and William, 2009). In the contemporary corporate world, there exists a number of motivations behind acquisitions and mergers (Rani, Yadav and Jain, 2013). These include enhancing innovativeness, attaining market dominance lessening risks in synergy, maximizing efficiency through remodeling the competitive scope of large-scale production parsimonies and a business (Hitt, Harrison & Ireland, 2009).

Problem Statement

Apart from protecting individuals and businesses from many kinds of potential risks, Insurance sector contributes significantly to the growth of the Kenyan economy by providing stability to the functioning of businesses and generating long-term financial resources for the industrial projects. Among other things, insurance sector also encourages the virtue of savings among individuals and generates employments for thousands of Kenyans (). Performance of the insurance sector is therefore important to economic growth and progression in Kenya. Its optimal financial performance means economic success and its r failure implies economic failure (Ansah-Adu et al., 2019). The notion of financial performance continues to attract a significant focus from researchers in various areas of strategic and business management (Mantravadi & Reddy, 2018). Since financial performance is a key component of organizational health and eventually its survival, it is of primary importance that such crucial entities in financial systems and in a country's economic development as insurance firms perform at optimum (Ansah-Adu, Andoh & Abor, 2019). Optimal performance indicates management efficiency and effectiveness in utilizing a company's resources, positively contributing to the economy at large (Gwaya, 2015). For purposes of this study, financial performance was measured by net profits.

Generally, a declining performance was observed in the insurance industry over the period of the study. In the year 2019 and 2020 for instance, performance growth in the insurance industry in Kenya declined from 7.03% to 4.2% with gross written premiums recording the highest performance at Kshs216.11Billion in 2020, which was decline from Kshs231.3Billion in 2019. Life Insurance Premium also dropped over the same period from Kshs97.85B to 87.26B. Insurance Penetration also dropped albeit marginally to 2.37% from 2.43%, while non-Life Insurance Premium dropped to Kshs133.45B in 2020 from Kshs128.85B in 2019. Non-Life insurance made an underwriting loss of KES 3.27B in 2020 compared to KES 2.86B in 2019 and KES 1.01B in 2018. The highest loss was recorded in motor private of Kshs4.67B in 2020 compared to Kshs2.70B in 2019 and Kshs2.74B in 2018. Motor Commercial made a loss of KES 2.68B in 2020 compared to a loss of Kshs1.12B in 2019. An underwriting loss of KES 7.30B was recorded in motor combined over the period. Medical insurance however made underwriting profit of Kshs204M from a loss of KES 1.08B in 2019 and KES 514M in 2018 (AKI, 2021).

As a strategy to enhance performance, over ten insurance firms have undergone notable mergers and acquisitions in Kenya, where foreign and big local companies have either acquired or merged with small companies (Insurance Regulatory Authority, 2018). Over the last 5 years, a record 13 mergers and acquisitions have been completed in the country. These include 10 acquisitions and 3 mergers. The acquisitions include German Allianz acquiring Jubilee General Insurance, Kenya; Mauritius Insurance Company acquiring Morocco-based Saham Insurance; Barclays Africa Group acquiring Kenya First Assurance and Africa Merchant Assurance; Saham Group of Morocco acquiring Mercantile Insurance Company Ltd; Prudential Plc, UK acquiring Shield Assurance Company Ltd; Private equity firm Leap Frog Investments acquiring Resolution Insurance Company Ltd; Britam Investment Group acquiring Real Insurance Company Ltd and; Old Mutual Plc of South Africa acquiring UAP Holdings Ltd; Gateway Insurance Company Ltd and Pan Africa Insurance Holdings acquiring; and acquisition of First Assurance Company Ltd by Barclay Plc, Africa. Mergers comprise of Phoenix of East Africa Company Ltd and Union Insurance of Mauritius; Swiss Re and Britam; and Metropolitan Insurance Group of South Africa and Cannon Assurance Ltd (Insurance Regulatory Authority, 2021).

Acquisitions and mergers in today's economy are being used by firms worldwide to enhance their competitiveness by increased market share, economies of scale and resource mobilization among others. In spite of their prominence, the rate of failure of acquisitions and mergers remains high while their influence on financial performance remains queried. Locally studies of M&A have presented mixed results with regard to the contribution of M&A to organizational outcomes. Omondi (2016) carried out a survey and established that competitive advantage was created by M&A for ICEA Group Company. Ndonga (2013) in their research on M&A as a strategy for growth concluded that M&A is a strategic instrument which ought to be implemented and cautiously applied. Avulala (2015) conducted a study on how M&A affects the growth of Kenyan Insurance firms and reports that growth and profitability are significantly influenced by M&A. Muya (2006) found that M&A does not add any significant effect to the merging firms. Various extant studies have reported inconclusive and conflicting findings concerning the acquisitions and mergers' effect on the country's insurers' financial performance. The present study endeavors on this basis, to investigate how financial performance of insurers in the country is influenced by M&A.

Research Objectives

The objective of this study is to establish how the financial performance of insurance firms in Kenya is influenced by mergers and acquisitions.

Specific Objectives of the Study

i. To establish the effect of asset growth on the financial performance of insurance firms in Kenya
ii. To determine the effect of synergy on the financial performance of insurance firms in Kenya

LITERATURE REVIEW

Theoretical Framework

Market Power Theory

Proposed by Feinberg (1985), market power theory postulates that allocative collaborations that are enhanced enable the firm significant and positive private profits since by all other factors being held constant, companies with greater market power earn greater margins and quote higher prices through consumer surplus' appropriation. Eckbo and Wier (1985) argue that mergers that are horizontal are a central feature when in view of the association between increased market power and takeovers.

According to Choi and Weiss (2005), with increased firm market power, M&As may also create value by enabling the post-merger organization to earn economic rents that are higher. This market-value gains rationale is however questionable in such industries as the personal lines insurance sector of the US. Choi and Weiss (2005) do not in the study support the performance-conduct-structure hypothesis that larger firm size and concentration result in anti-competitive conditions and market power.

All firms are under laws which forbid certain practices from being carried out in the course of a merger that is horizontal in nature (in which in the same industry, a firm is acquired by another, whereby the firms compete with each other). In the case of a merger that is horizontal, the elimination of a rival from the market results in benefits for the merging firms and higher prices for the customers. In such instances, the consumer is protected by the law. There also exist consolidation motives that are non-value-maximizing. There exists evidence pointing to real world managers not always acting in the shareholders' best interests but on the contrary tend to serve their own interests to variable extents. In place of taking actions for firm value to maximization, managers may merge for maximization of their own incomes and net worth, conduct perquisite consumption that is excessive, and take decisions inconsistent with maximization of value. Of special significance for M&As, managers may further engage in questionable projects in terms of value which increase the firm's scale to increase their prestige and compensation (Jensen, 1986).

If value-maximization is the goal of M&As, of importance is if these transactions benefit inefficient or efficient companies. According to Mergerstat (2007), the answer is possibly different for divesting firms, targets and acquirers. For acquiring firms, a positive relationship exists between stock price and efficiency. Firms that are efficient have proved their capacity to more effectively perform in cost minimization and revenue maximization in that that they opt for technologies that are superior, have been successful in operating near the efficient limit, and are more efficacious in opting for outputs' revenue maximization combinations and inputs' cost minimization combinations. As such, such it is more likely for such companies to be able to capitalize on scope and scale economies and to accomplish other possible gains from mergers and acquisitions.

The theory has been critiqued that in actual world situations market power has shown to be vulnerable to price fixing monopolies, which has resulted in intervention by government. According to *Hunt (2004)*, the joining together of firms into giant establishments or the national assets and government-run industry privatization often led to oligopolies or monopolies necessitating intervention by government to force reasonable prices and competition.

Against this backdrop, this theory will be relevant in the determination of how Kenya's insurers' financial performance is influenced by mergers and acquisitions. The theory anchors synergy in acquisitions and mergers in this research. The theory will particularly guide the study in determining whether increasing allocative synergies, results in significant and positive private benefits to post-M&A, since holding all other factors constant, as postulated by the market power theory, greater margins are earned and higher prices are charged by firms with greater market power through consumer surplus' appropriation.

Conceptual Framework

Independent Variables **Dependent Variable**

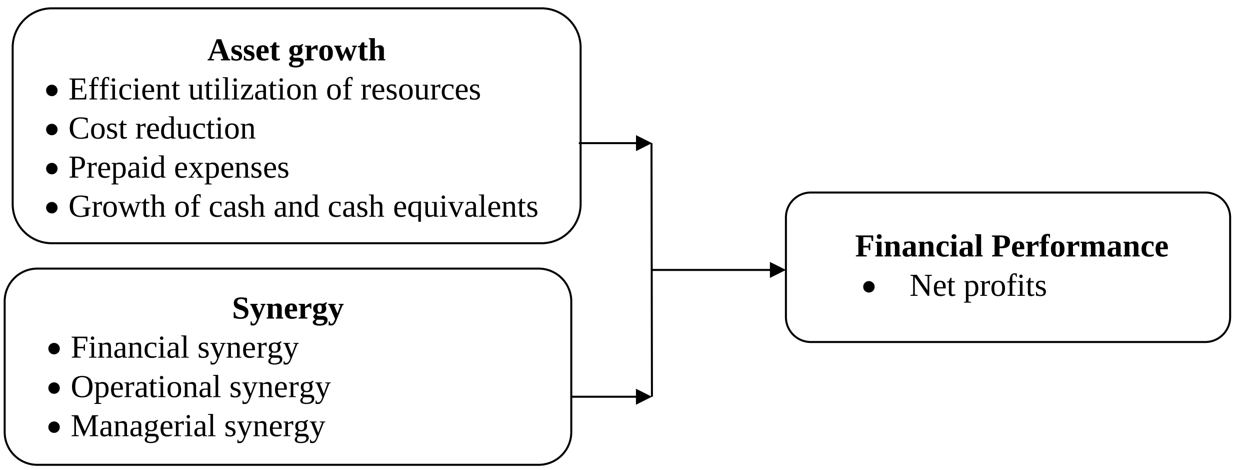

Figure 1 Conceptual Framework

Asset Growth

There are three ways a firm can raise capital to invest: equity issuance, debt issuance, and growth in retained earnings. Asset growth aggregates financing from all three methods. Equity issuance and growth in retained earnings both result in an increase in a firm's book equity and in return, to a growth in total assets (Mantravadi & Reddy, 2018). Issuance of debt results in an increase in a firm's liabilities and subsequently also to a growth in its total assets. The **asset growth rate** shows how quickly a company has been growing its Assets. It is calculated as a percentage change in assets over a given period (Misigah, 2019).

The higher the growth the rate the better, though the figure should not be viewed in isolation. An increasing asset value due to, say, excessive borrowing would not be considered beneficial for Shareholders. As this equation only considers the asset side of the Balance Sheet, it does not take into account any corresponding change in Liabilities (Ghosh & Dutta, 2019). Asset growth is a prime requirement for a healthy, profitable investment portfolio. A firm's growth rate in assets is at least as powerful in explaining returns as other well-known effects such as size, book-to-market, return momentum, and reversals (Kajirwa, 2015).

A variety of papers suggest that the return premium achieved by low asset growth stocks is consistent with compensation for risk (for example, Gomes, Kogan, and Zhang, 2003; and Li, Livdan, Zhang, 2008). Firms maintain a mix of growth options and assets in place, but growth options are inherently riskier than assets in place. As firms exercise growth options, the asset mix of the firm becomes less risky as assets in place displace growth options. The systematic reduction in risk following the exercise of growth options induces a negative correlation between investment and subsequent returns. However, empirical findings are all also consistent with systematic mispricing across asset growth as a firm characteristic.

Ghosh and Dutta (2019) observe that the asset growth effect is not fully explained by variations in risk. However, there is a possibility that the effect is at least partially due to the systematic market mispricing of growing businesses. That source of mispricing could be caused by the extrapolation of past gains to growth for high asset growth companies. Stock returns on low asset-growth firms with low subsequent asset growth are not higher than those on high asset-growth firms with subsequent high growth; and that high asset-growth firms that have subsequent high growth do not underperform, and the return spreads between low and high asset-growth firms are lower when high growth firms have higher subsequent asset growth.

Avulala (2015) argues that the ultimate goal of acquisitions and mergers is the creation of synergies which may result in growth, boost profitability, improve efficiencies and increase market power (Pandey, 2008). The acquisition or merger of firms may lead to an above average profitability owing to efficient resource utilization and cost reduction. This may be occasioned by operating economies or economies of scale which arise when production volume increases lead to per unit cost reduction in production.

Mergers may result in the expansion of production volume without increasing in a corresponding manner the fixed costs. As such, fixed costs are spread over large production volumes resulting in the decline of unit production cost. Such indivisibilities as; management systems and resources, management functions and production facilities may give rise to economies of scale. This occurs since a particular function; resource or facility is used for a larger operation scale (Fatima & Shehzad, 2017). A merger may equally lead to cost reduction owing to economies of operation. A merged firm may reduce or avoid overlapping facilities and functions. It can combine its functions in management such as R&D and marketing and reduce costs of operation. For instance, a merged firm may create a centralized training centre, eliminate replica distribution channels or introduce an integrated control and planning system (Pandey, 2008).

Synergy

According to Agiobenebo and Ezirim (2018), synergy is conceptualized as a compatibility or concurrence of such distinct business elements, participants, services or resources, which is mutually beneficial. In relation to M&A, synergy denotes the notion that the joint performance and value of two independently working firms will be superior compared to the summation of the distinct individual portions. From a deal's very beginning, the meaning and purpose of M&A is to establish long term collaborations through a broader customer base, a growing market share, and a corporate finance business strength that is enhanced. Generally, synergy comprises the probable financial reward attained when two firms come together (Mantravadi & Reddy, 2018).

Mboroto (2013) observes that if two firms can combine efforts to realize greater scale or efficiency, the outcome is a synergy merge. The anticipated synergy attained through merging may be ascribed to a number of attributes, including cost reduction, increased revenues, technology and combined talent (Nima, 2015). Aside from merging between firms, a firm may also form synergy by a combination of markets or products, for instance when one firm cross-sells another firm's products in order to grow income. Firms may further realize synergy among various departments through establishing cross-disciplinary workgroups whereby teams work in cooperation to grow innovation and productivity (Ombaka & Jagongo, 2018).

Synergy sources in acquisitions and mergers tend to rotate around financials, cost, and revenue (Saboo & Gopi, 2018). Synergy in terms of revenue is grounded on the foundation that the two firms in combination may produce greater sales compared to the summation of their separate sales. The merger between two firms can result in cost synergies through cost-savings owing to raised **marketing channels and strategies; enhanced** access to new development and research may allow for progressions that result in **streamlined processes, lower salaries and** cost savings, **which may** save money and time as they possess the possibility of realizing greater efficiency in the new firm. Often, in the context of acquisitions and mergers, financial synergies are the most appraised. This form of synergy comprises the development of such financial measures as profitability, revenue, cost of capital, debt capacity, among others (Su & Vo, 2019).

According to Pampalona and Rotela (2013), synergy can be described as the situation where two organizations that combine their resulting institution obtain a higher value compared to the total of the previous firms, an argument which has so far been advanced with the aim of justifying mergers. For synergy to be achieved the costs from the combined firms have to be less than the total of each firm accrediting the reduction in economies of scale and scope (Chesang, 2002). Synergy has three main benefits which include the operating, financial and managerial synergies. Operating synergy is successfully employed by enhancing revenue while financial synergy is regarded as the impact to which a corporate merger has on the overall cost of capital to the acquiring organization thus the firms carry the possibility of having access to cheaper capital (Akenga & Olang, 2017).

Synergy may also result from a merger, where the merged firm is more valued compared to the sum of the separate merging firms. Synergy is described by Pandey (2008) as ‘two adding two results in five’ (2+2=5) analogy. Benefits of synergy denote the ability of a corporate merger to record more profitability compared to individual combining units. Three synergy benefits types can typically be distinguished as managerial, financial and operating synergies. Financial synergy according to Lev (1993) may be realized in long-term and short-term goals. Financial synergies of a short-term nature for example, results in tax effects, improved liquidity, and price-earning effects. Financial synergies of a long-term nature include stabilized earnings, improved capital redeployment, and increased debt capacity.

Lev (1993) also notes that merger motives are not only for financial purposes, but also for risk shareholders’ value, human capital and power growth, power needs, executive compensation, among other managerial motives. According to Bradley, Desai and Kim (1983), mergers have the ability to generate an operating synergy as a result of economies of scale, efficient management, improved production techniques, increased market power, complementary resource combination and asset redeployment to more profitable utilities. Revenue sharing synergy is among the three, harder to realize. It is however easier to find areas of overlapping business and implement cost-cutting measures to reduce costs.

Financial Performance

According to Ngahu (2016) there is a concept of financial performance as an outstanding business entity. It details how the firm makes good use of the few funds available in order to arrive at profits. A document of ample revenue statement is used to determine the performance over a given time in a particular year. (Pandey 2010) in the context of accounting, income is got when you less expenses from revenue. In many instances, the preceding part if income given details but as a different entry in the case of taxes that are charged on the profits. The backbone of this income statement is net income. It is always shown as per share of common equity that gets the total earning per share. (EPS) (Pazarskis et al, 2006). financial ratio analysis can be used to make comparison of firms but firms that are in the same industry Ngahu (2016). Here, the income statement is put in different sections. The total firm's revenues and the expenses from the original operations are worked on the operations section. The importance factor is here getting total earning before getting interests and taxes (EBIT). All the workings are done under the non-operating section at the profit and loss.

Soboo et al, (2009) evaluated how the operating performance of acquiring firms is influenced by acquisitions and mergers, with reference to financial ratios before and after merging and their difference that comes with such ratios of the said companies. According to the study, there were few modifications in terms of the effects on the general performance after all the mergers are done. Therefore, mergers have extensively helped firms to get financial ratios in the primary context but widely among the international context. Farah (2015) examined how financial firms' financial performance in the country is influenced by mergers, and established that mergers and acquisition events resulted into an enhancement in the companies' financial performance. Insurance ratios and Profitability ratios are used in assessing how an insurer's financial performance is influenced by M&A. Such Insurance ratios are; Loss Ratio, Expense Ratio, Combined Ratio, Ratio of Net Written Premiums to Policyholders Surplus. Profitability ratios that are calculated and analyzed in measuring financial performance are; Return on Revenues, return on Assets, Return on Equity and Investment Yield.

Researchers have indicated that approximately 70-80% of mergers and acquisitions do not create significant value above the annual cost of capital (Bruner, 2002). Even conservative estimates place M&A failure rates at approximately 50% or higher for nearly four decades (Coffey, Garrow, & Holbeche, 2003). Despite this, global M&A activity continues to increase at a phenomenal rate climbing from $1.9 trillion in 2004 (Susan Cartwright & Schoenberg, 2006) to a record-breaking $4.35 trillion in 2009 (Reuters, 2010). Only the 2008 global financial crisis could slow down M&A activity with 2008 activity topping out at $2.89 trillion, ending 5 years of spectacular growth (Vranceanu, 2009). With trillions of dollars in transactions at risk each year, it is imperative for researchers and practitioners to find ways to curb M&A failures.

Empirical Review of Related Literature

Asset growth in Mergers and Acquisitions and Financial Performance

Akenga and Olang (2017) studied how acquisitions and mergers influenced the financial performance of Kenya's commercial banks. Findings showed that assets were positively impacted by asset management, shareholder's equity and financial stability of merged banks in Kenya. Similarly, Kiplagat (2016) conducted his research to determine how the financial performances of companies listed at the NSE were affected by Mergers and Acquisitions. Forty-eight firms listed on the NSE served as the population while twenty were used as the sample. Half of the firms in the sample had merged while the other had not and were still in operation during the duration counterparts were emerged. It was deduced in the study, performance of firms listed at the NSE improved as a result of asset growth occasioned by mergers.

A study conducted by Nyagah (2017) focused its attention on Kenya's pharmaceutical industries concerning how doctor's perceived mergers and acquisition. Study findings showed that many respondents agreed to the fact that merged pharmaceuticals firms were profit driven. Moreover, many respondents agreed that there was notable asset growth. Ashfaq *et al.* (2018) conducted research to determine what impact merger and acquisition activity had towards post-merger financial performance of firms in Pakistan's' non-financial sector. The study sample comprised of sixteen firms that had engaged in merger and acquisition from 2004 to 2013 and moreover appeared in the Karachi stock exchange list. The impact of merger and acquisition was analyzed through absolute and relative financial performance. The post-merger financial performance was measured using ratios such as the return on equity, return on assets and earnings per share. The findings indicated that the superior growth in financial performance was attributable to asset growth.

A study by Ghosha and Dutta (2019) in India aimed at degree of change on performance levels of the firms in the telecom sector. Comparison between the post and pre-merger phase was done through HR and different financial parameters such as the human capital return on investments. The outcomes of the study were that improved in financial was significantly accounted for by asset growth. Ndora (2010) assessed the effects of M&A on financial performance among insurance firms in Kenya. From a population of forty-two registered firms the study used a sample of six that had already merged from 1995 to 2005. The firms' information about the five years prior and after the merger was analyzed after which the outcome was tabulated. It was concluded that M&A resulted in an increase in asset growth and financial performance.

Ombaka and Jagongo (2018) conducted a study on Mergers and Acquisitions effect on financial performance among selected commercial banks. The population of a study consisted of 9 banks that had merged or acquired in the period 2010 to May 2017 in Kenya. This included 3 mergers and 6 acquisitions. The study used both primary and secondary data and established that operational synergy and asset growth significantly influence Kenyan commercial banks financial performance when they are considered as indicators of Mergers and Acquisitions.

Synergy in Mergers and Acquisitions and Financial Performance

In the Philippines, Maranan, *et al.* (2019) studied financial synergy on acquisition and mergers of commercial banks. Particularly, the study sought to determine how synergy in tangible and non-tangible assets, access to financial markets, financial competitiveness and debt coinsurance influenced the performance of commercial banks after mergers and acquisition. Utilizing questionnaires, the study employed the descriptive approach including weighted mean, percentage and frequency, Pearson's r correlation and t – test. Findings indicated that liquidity, leverage, and profitability were synergized financially to a moderate degree by synergy in tangible and non-tangible assets, access to financial markets, financial competitiveness and debt coinsurance. It was also revealed that a characteristic of commercial banks is not different significantly to the elements of financial synergy. The study thus recommended maximization of shareholders' return, lessen risk, increase dynamic buyouts, maintain and invest advances in technology, emphasize on analysis of inflation and affiliate companies and foreign exchange were proposed strategies on financial synergy.

Eliasson (2018) analyzed synergies in respect to acquisitions and mergers in technical trading firms' companies with a view to study its success factors. More specifically, the study sought to find out the extent to which selection capability and acquisitions, the corporate head's knowledge, the entrepreneurship, the experience and human capital influenced the success of acquisitions and mergers. Owing to synergies' complexity, the study used a qualitative technique. The empirical results were compiled with company representatives by semi-conducted interviews from the organizations targeted in the study. Findings showed several success factors with respect to synergies and acquisitions and mergers. The most important were however found to be selection capability and acquisitions inclusion in their business models, the corporate head's knowledge, the entrepreneurship, the experience and human capital.

Research on the effects of Mergers and Acquisitions when attaining synergy for commercial banks in Kenya was conducted by Misigah (2019). The study's population consisted of 15 banks which from the year 2008-2017 had successfully completed their merger and acquisition transactions. The ratios were analysed so as to provide a comparison of the effects mergers have on growth in assets, profitability and shareholders' value at both pre- and post-merger periods. The outcomes implied that the banks undertook mergers due to the rise in stakeholders' value and profitability growth. Therefore, mergers were significantly contributed to rise in profitability and synergy.

Fatima and Shehzad (2017) further conducted research to determine the effects of M&As of insurance firms' financial performance within Pakistan from which analysis was conducted on only six financial ratios. The study sample consisted of ten firms which from 2013 to 2016 were already into mergers. A three-year pre- and post-merger data points obtained from the firms after which their averages were compared. The findings found no relationship between synergy and financial performance. Junge (2019) studied the changes in operating performance brought by the synergy types after the merger. The sample consisted of 420 mergers which occurred from 1998 to 2017. The results indicated an improvement in overall operating performance. Mergers which aimed at achieving efficiency synergy portrayed a steady performance improvement compared to those that aimed at synergy from complementary resources.

Akenga and Olang (2017) carried out research to establish the effects of Mergers and Acquisitions Kenya's commercial banks' financial performance. Influences of asset growth, shareholders value and synergy on financial performance were the aspects that were being measured. The study adopted a causal research design. It adopted a census method which involved studying all the 6 merged banks from the year 2010 to 2017. Secondary data such as audited annual reports of commercial banks that had been published were used in the study. Descriptive and inferential statistics were used to analyse data at 5 % significance level. The results revealed that Mergers and Acquisitions portrayed a significant impact on shareholders' value and assets of the Kenyan banks that had already merged.

RESEARCH METHODOLOGY

Descriptive design was regarded as the best approach to address the objectives of the study. The population was all insurance firms in the country, while the target population consisted of 156 middle management staff from the 13 insurance firms that had completed mergers or acquisitions over the last 5 years in the country. In this study, stratified random sampling was employed in which the 13 insurance firms formed the strata. Yamane formula (Yamane, 1967) was employed in this study; A sample size of 61 was obtained from the formula which was distributed across the 13 insurance firms. This study utilized a questionnaire to collect primary data. A pilot sample consisting of 10% of the insurance firms was reached in order to perform the test, in line with Connelly (2008) who argued that a pilot study sample should be 10% of the sample projected for the larger parent study. Given the target population of 13, this gave 1 insurance firm which was targeted in the pilot study.

After data collection, data was entered into SPSS version 26 after being edited for completeness and coding. Further, both inferential and descriptive statistics were conducted. Descriptive statistics entailed the use of absolute frequencies and percentage. Standard deviations and means were also utilized as measures of dispersion and central tendencies respectively. Inferential statistics was carried out to show the magnitude and nature of relationships established between the dependent and independent variables to make deductions from the collected data to more generalized circumstances.

RESULTS AND DISCUSSIONS

The study establishes that out of 61 respondents, a total of 57 were able to complete and forward their duly completed questionnaires for processing and analysis. This constituted 93.4% response rate which the researcher considered adequate to proceed with data processing.

Descriptive Analysis

Asset Growth

The study sought to establish how insurers' financial performance in Kenya is influenced by asset growth in acquisitions and mergers. The descriptive analysis on the variables was then computed on a five-point Likert scale. To this end, the respondents were required to assess the presented statements using a scale of 1 to 5, given: 1= strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; 5 = strongly agree. Mean scores of 2.4 or less are taken to indicate low affirmation, while mean scores of between 2.5 and 3.4 imply moderate affirmation and mean scores of between 3.5 and 5.0 imply high affirmation. The descriptive analysis on the variables entailed the use of means and standard deviations, results of which are presented in Table 1.

Table 1: Descriptive Statistics for Asset growth

	Mean	**Std. Dev**
Efficient resource utilization has by attained occasioned by acquisitions and mergers	4.0351	.98134
Reduction of cost has by attained occasioned by acquisitions and mergers	3.7544	1.00500
There has been asset size growth occasioned by acquisitions and mergers	3.9825	.93525
There has been prepaid expense growth occasioned by acquisitions and mergers	3.8421	.95971
There has been growth in account receivable occasioned by acquisitions and mergers	4.0702	.92311
There has been growth in cash and cash equivalents occasioned by acquisitions and mergers	4.1053	.83846
There has been growth in marketable securities occasioned by acquisitions and mergers	3.8772	.92717
There has been growth in physical assets occasioned by acquisitions and mergers	3.9298	.72849
Composite	**3.950**	**0.912**

The results presented in Table 1 indicate an overall mean of 3.950 (SD=0.912), suggesting that a majority of respondents reached highly affirm to statements pertinent to the influence of asset growth in acquisitions and mergers on their respective firms' financial performance. A majority of respondents particularly highly affirmed that in their respective firms, there has been growth in cash and cash equivalents occasioned by acquisitions and mergers (4.105); there has been growth in account receivable occasioned by acquisitions and mergers (4.070); efficient resource utilization has by attained occasioned by acquisitions and mergers (4.035); there has been asset size growth occasioned by acquisitions and mergers (3.983); there has been growth in physical assets occasioned by acquisitions and mergers (3.930); there has been growth in marketable securities occasioned by acquisitions and mergers (3.877); there has been prepaid expense growth occasioned by acquisitions and mergers (3.842); and that reduction of cost has by attained occasioned by acquisitions and mergers (3.754).

Synergy

The study sought to determine how insurers' financial performance in Kenya is influenced by synergy in acquisitions and mergers. The descriptive analysis on the variables was then computed on a five-point Likert scale. To this end, the respondents were required to assess the presented statements using a scale of 1 to 5, given: 1= Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree. Mean scores of 2.4 or less are taken to indicate low affirmation, while mean scores of between 2.5 and 3.4 imply moderate affirmation and mean scores of between 3.5 and 5.0 imply high affirmation. The descriptive analysis on the variables entailed the use of means and standard deviations, results of which are presented in Table 2.

Table 2: Descriptive Statistics for Synergy

	Mean	Std. Dev
There has been growth in the firm's liquidity occasioned by acquisitions and mergers	4.0702	.77597
There has been stabilization of earnings occasioned by acquisitions and mergers	4.1579	.79708
There has been growth in debt capacity occasioned by acquisitions and mergers	4.0702	.96102
There has been improvement in production techniques occasioned by acquisitions and mergers	4.2281	.90667
Economies of scale have been attained occasioned by acquisitions and mergers	3.8070	1.14078
There has been growth in power growth occasioned by acquisitions and mergers	4.0000	1.01770
There has been attainment of executive compensation occasioned by acquisitions and mergers	4.0877	.82982
There has been growth in human capital occasioned by acquisitions and mergers	3.9298	.84218
Composite	**4.044**	**0.909**

The results presented in Table 2 indicate an overall mean of 4.044 (SD=0.909), suggesting that a majority of respondents reached highly affirm to statements pertinent to the influence of synergy in acquisitions and mergers on their respective firms' financial performance. A majority of respondents particularly highly affirmed that in their respective firms, there has been improvement in production techniques occasioned by acquisitions and mergers (4.228); there has been stabilization of earnings occasioned by acquisitions and mergers (4.158); there has been attainment of executive compensation occasioned by acquisitions and mergers (4.088); there has been growth in the firm's liquidity occasioned by acquisitions and mergers (4.070); there has been growth in debt capacity occasioned by acquisitions and mergers (4.070); there has been growth in power growth occasioned by acquisitions and mergers (4.000); there has been growth in human capital occasioned by acquisitions and mergers (3.930); and that economies of scale have been attained occasioned by acquisitions and mergers (3.807).

Financial Performance

The study sought to assess insurers' financial performance in Kenya occasioned by acquisitions and mergers. The descriptive analysis on the variables was then computed on a five-point Likert scale. To this end, the respondents were required to assess the presented statements using a scale of 1 to 5, given: 1= strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; 5 = strongly agree. Mean scores of 2.4 or less are taken to indicate low affirmation, while mean scores of between 2.5 and 3.4 imply moderate affirmation and mean scores of between 3.5 and 5.0 imply high affirmation. The descriptive analysis on the variables entailed the use of means and standard deviations, results of which are presented in Table 3

Table 3 Descriptive Statistics for General Firm Performance

	Mean	Std. Dev
There has been an increase in the market share occasioned by acquisitions and mergers	3.7895	.99529
There has been an increase in the net profit occasioned by acquisitions and mergers	4.2456	.82982
There has been an increase in the gross profit occasioned by acquisitions and mergers	3.8070	1.10903
There has been an increase in the number of customers occasioned by acquisitions and mergers	4.1930	.85437
There has been an increase in revenue streams occasioned by acquisitions and mergers	3.8596	.91493
Composite	**3.979**	**0.941**

The results presented in Table 3 indicate an overall mean of 3.979 (SD=0.941), suggesting that a majority of respondents reached highly affirm to statements pertinent to their respective firms' financial performance. A majority of respondents particularly highly affirmed that in their respective firms, there has been an increase in the net profit occasioned by acquisitions and mergers (4.246); there has been an increase in the number of customers occasioned by acquisitions and mergers (4.193); there has been an increase in revenue streams occasioned by acquisitions and mergers (3.860); there has been an increase in the gross profit occasioned by acquisitions and mergers (3.807); and that there has been an increase in the market share occasioned by acquisitions and mergers (3.790). It can thus be deduced that the respective financial performance for a majority of the insurance firms surveyed has increased over time, which can be attributed to acquisitions and mergers.

Correlation Analysis

Pearson correlation analysis was conducted to assess the nature, strength and significance of the association between the independent and dependent variable. The findings are portrayed in Table 4.

Table 4 Correlation Analysis

		Financial Performance	Asset Growth	Synergy
Financial Performance	r	1		
	Sig. (2-tailed)			
Asset Growth	r	.598**	1	
	Sig. (2-tailed)	.000		
Synergy	r	.794**	.959**	1
	Sig. (2-tailed)	.000	.000	

The study recorded moderate, positive and significant correlations between Synergy and performance (r =.794; Sig. = .000<.05); between asset growth and financial performance (r = .598; Sig. = .000<.05). It is concluded that there is linearity in the dataset, and therefore data was amenable to regression analysis.

Regression Analysis

Both the Analysis of Variance (ANOVA) and coefficients of determination were produced by regression analyses. ANOVA was done to indicate whether there exists a significant mean difference between independent and dependent variables, at 95% confidence level. It was on the basis of the statistical significance of the regression coefficients that the hypothesis test results were interpreted. Tables 5,6 and 7 below present the findings.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.987[a]	.975	.973	.42681

a. Predictors: (Constant), Asset growth, Synergy,

The results in Table 5 show a coefficient of determination (R) of .987 which depicts that there is a strong, linear dependence between the variables, asset growth, synergy and performance. An R^2 value of .975 was further established indicating that asset growth, and synerg collectively account for 97.5% of the variations in financial performance, while the remaining 2.5% is accounted for by other factors not included in the present regression model.

ANOVA test results were further produced as depicted in Table 6.

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	369.896	4	92.474	507.642	.000[b]
	Residual	9.473	52	.182		
	Total	379.368	56			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Synergy, Asset Growth, The ANOVA test results in Table 6 demonstrate that the model predicting the relationship between the market-product strategies and Performance was significant (F = 507.642, p-value < 0.05). Performed at 95% confidence level, the results further show that relative to the total sum of squares (379.36), the regression sum of squares is 369.896. This implies that the regression model explains about 97.5% of the variability in the data set while the residual sum of squares is 9.473 implying that 2.5% of the variability in the dataset is left unexplained.

Table 7: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.063	.508		.125	.901
	Asset Growth	.957	.037	2.065	25.985	.000
	Synergy	1.424	.132	2.027	10.804	.000

a. Dependent Variable: Financial Performance

The results in Table 7 reveal that asset growth (β = 2.065, p = .000<.05); and synergy (β = 2.027, p = .000<.05) significantly influence financial performance at 95% confidence level.

The regression model can therefore be rewritten as $Y= \alpha +2.065X_1 +2.027X_2+\varepsilon$

Where:

Y = Financial Performance; α =Constant term; X_1 = Asset growth; X_2= Synergy

It can be inferred from the findings, that there exists a statistically significant relationship between asset growth in acquisitions and mergers and financial performance of insurance firms in Kenya. Asset growth in acquisitions and mergers has resulted in a number of beneficial attributes with a bearing on financial performance across a majority of the insurance firms in the country. Notable among these include efficient resource utilization, reduction of cost, asset size growth, prepaid expense growth, growth in account receivable, growth in cash and cash equivalents, growth in marketable securities occasioned as well as growth in physical assets.

This is consistent with Avulala (2015) who found that asset growth had a significance on insurance firms' profitability. Similarly, Akenga and Olang (2017) showed that assets resulting from acquisitions and mergers positively impacted financial stability of merged banks in Kenya. Kiplagat (2016) also found that performance of firms listed at the NSE improved as a result of asset growth occasioned by mergers. The finding is further supported by Ashfaq *et al.* (2018) who attributed superior growth in financial performance among firms in Pakistan's non-financial sector to asset growth

It can be deduced from the findings, that there also exists a statistically significant relationship between synergy in acquisitions and mergers was significantly associated with financial performance of insurance firms in Kenya. Synergy in acquisitions and mergers has resulted in a number of beneficial attributes with a bearing on financial performance across a majority of the insurance firms in the country. Notable among these include growth in the firm's liquidity, stabilization of earnings, growth in debt capacity, improvement in production techniques, economies of scale, growth in power growth, attainment of executive compensation and growth in human capital.

This is in agreement with Maranan, *et al.* (2019) whose findings indicated that liquidity, leverage, and profitability among commercial banks in the Philippines were synergized financially to a moderate degree by synergy in tangible and non-tangible after mergers and acquisition. Similarly, Ogada *et al.* (2016) findings showed that there existed a firm correlation between performance, operating synergy and financial synergy as well as a performance post-merger improvement among merged banks in Kenya. The finding is also in agreement with Misigah (2019) who found that mergers among commercial banks in Kenya significantly contributed to rise in profitability and synergy.

Conclusion

The study concludes that asset growth in acquisitions and mergers has a significant influence on the financial performance of insurance firms in Kenya. Asset growth in acquisitions and mergers has particularly resulted in a number of beneficial attributes with a bearing on financial performance across a majority of the insurance firms in the country. Notable among these include efficient resource utilization, reduction of cost, asset size growth, prepaid expense growth, growth in account receivable, growth in cash and cash equivalents, growth in marketable securities occasioned as well as growth in physical assets.

It is also concluded that synergy in acquisitions and mergers has a significant influence on the financial performance of insurance firms in Kenya. Synergy in acquisitions and mergers has occasioned a number of beneficial attributes with a bearing on financial performance across a majority of the insurance firms in the country. Notable among these include growth in the firm's liquidity, stabilization of earnings, growth in debt capacity, improvement in production techniques, economies of scale, growth in power growth, attainment of executive compensation and growth in human capital.

Recommendations

It is recommended that the merged firms should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term operation synergies. They should increase their scope to create high performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders. The study also recommends that the management of the merged firms should critically evaluate the overall business and financial compatibility of the merging bank and focus on capturing long-term financial synergies. Comparative analysis of the merged firms' performance for the pre-merger and post-merger periods should be conducted to establish whether mergers lead to improved financial performance before and after merging.

Suggestions for Future Studies

The present study established how the financial performance of insurance firms in Kenya is influenced by mergers and acquisitions. Among the key limitations was generalization of findings to all firms undergoing mergers and acquisitions in the country, outside the scope of insurance. This is in realization that organizations could be subject to factors unique to their respective sectors and sub-sectors. It is therefore recommended that future studies explore the same in other sectors in order to establish any similarities or differences with the present study findings. Further, the present study was mainly quantitative employing quantitative techniques in sampling, data collection as well as in data analysis where the analysis tools employed were quantitative. Whereas these tools are robust and helped in achieving the study objectives, various qualitative concepts and associations pertinent to a deeper understanding of the conceptualized linkages in the study were not captured and analyzed. Future studies may therefore consider employing mixed methodologies by using both quantitative and qualitative methodologies and methods for richer analyses and insights and to validate and further strengthen the existing research findings.

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