

Effect of Managerial Expertise on Organizational Performance of Investment Banks in Kenya: A case Study of Old Mutual Acquisition of Faulu Kenya Micro-Enterprise.

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ABSTRACT: *The objective of this project was to investigate the effect of managerial expertise on performance of investment Banks in Kenya and compare it with pre-acquisition performance. Empirical studies done in this area have majorly been done in the west and have not been conclusive on the nature of relationship between pre and post-acquisition performance. It is agreeable that Acquisitions continue to enjoy significance as strategies for achieving organizational growth although their impact in creating shareholders value remains debatable, moreover, most of the researches done have aggregated data on the combined areas of mergers and acquisitions. Despite the presence of fluctuating market conditions, companies and shareholders continue to invest in acquisitions even though acquisitions have mixed returns. In the model, the acquiring firm makes decisions on the level of integration and degree of replacement of the targets top management and development capability to manage the post-acquisition integration process by building business measures that increase the value of the combined business entity more than the sum of its separate units. The research study incorporated the use of descriptive research design and the population of study comprised 287 staff and bank management of Old Mutual and top management of the 80 outlets of Faulu Kenya micro-finance. The study adopted stratified random sampling approach to select a sample of 286 and a researcher administered questionnaire was used to facilitate the acquisition of primary data. The study also adopted multiple correlation and chi-square in data analysis concerning relationships between the variables. Statistical package for social sciences (SPSS) software was used to analyze the data. Findings revealed statistically significant positive relationship between managerial expertise and performance of investment banks in Kenya($r=0.702$; $p=0.05$)*

I. INTRODUCTION

1.1 Background of the study

In today's global competition, critical source of competitive advantage are often firm specific these include such factors as the quality of management and leadership, ability to innovate and commercialize new products, ability to pinpoint and respond to emerging opportunities, and ability to organize monetary and human resources, (Pearce & Robinson, 2011). In light of this, the challenges a company faces have become larger and more complex. A consequence of this has been the increase in the number of acquisitions both within and across borders (Singla et al, 2012). For firms to stay at pace with competitors growth through acquisitions has become increasingly important and has at least partly replaced organic growth. . As a result considerable studies have focused on the role of managerial expertise on firm performance. Findings indicate that expertise play an important role in governance process particularly in large transactions such as bank acquisitions. More innovative banks are managed by more educated teams who are diverse with respect to their functional areas of expertise

The ultimate motive for the acquirer is value creation and in light of increasing acquisition activity, it is relevant to investigate whether or not value is created. No overall consensus exists that unanimously documents whether or not value is created for the acquiring firm. Moeller et al (2005) concluded that value is actually destroyed when engaging in acquisitions. The reason for this is based on the fact that the largest acquisitions are the ones experiencing massive losses. Firms participating in acquisitions can be motivated by different reasons. Some of these reasons include: Synergies, increased growth, cost savings and increased efficiency (Sufian & Habibullar, 2014). Moreover, firms reengage in acquisitions to increase capitalization on core competencies to increase speed to market, to increase diversification and bypass cost of new product development. The type of the industry in which the company operates also affects the type of acquisition. The case for the acquisition in a mature industry could be very different from the motive in an immature industry.

It is widely acknowledged that it is decisive for a company to set up a strategy in order to meet the challenges it faces due to a fierce competition and quickly changing business environment. The strategy a company chooses to adopt should be in line with an overall goal of value creation. A decision to expand through acquisitions has to correspond to the underlying strategy of the company. In line with this, the strategy or the motivation behind an acquisition is according to (Bower, 2001) an important factor if it becomes a success: that is, whether or not value is created. It is commonplace that despite the presence of fluctuating market conditions, if the opportunity is right companies and shareholders will continue to invest in acquisitions. Organizational performance may vary, but any activity that fails to enhance shareholders interest and value cannot be termed as a success (Hildebrandt, 2005).

A longer –term decline in shareholder wealth after an acquisition can be indicative that the combination process is a failure (Joshua, 2011). The success of any acquisition is defined by the core competencies generated to create value or enhance value; it is measured using the parameters such as market attractiveness and competitive positioning because of cost leadership and product differentiation. This results in the long-term profit sustainability and the creation of shareholders wealth (Hildebrandt, 2005). Olusola & Olusola, 2012 stated that the classic expressed rationale for acquisitions has been to increase profits and shareholder value. In the series of studies that have been carried out elsewhere, researchers have been unable to demonstrate that acquisition active firms were more profitable, or had higher stock prices, following the acquisition activity (Silk & Key, 2009) indicated that the performance of the company can be expressed in terms of income generated from its operations after offsetting expenses when the profitability of the firm is arrived at. Olusola & Olusola, 2012, concluded that profitability of some banks in Kenya improved, while that of others deteriorated. Another conclusion made in the study was that small and medium sized banking system institutions were forced to merge or be acquired for survival since they are prone to liquidity problems due to their weak capital base, imprudent lending policies, and inefficient management (CBK, 2011). The study also cited some strategies used by the bigger banks, such as Barclay’s Bank merging with Barclays Merchant Finance Limited, due to dwindling business and its increase in capital base. Habib A. G. Zurich and Habib Africa Bank Limited merged resulting in an increase to capital base. Acquisitions in Kenya have been vibrant, mirroring the vibrancy at the stock market.

Emerging economies like Kenya as Amos Kimunya then finance minister observed present a decent return for many investors value. Since 2013 there has been many acquisitions in Kenya following an earlier directive which proposed to raise the minimum core capital for banks to 1 billion shillings from 250 million shillings, giving 2012 as the deadline for all banks to comply (Wangui& Were, 2014). Subsequently, the following acquisitions took place in Kenya, old mutual acquired Faulu. Two lenders, Equatorial commercial Bank and Southern Credit Bank immediately completed a merger citing the need to enlarge their branch network and balance sheet. The local implications on banks of enhanced capital rules abroad following the 2008 global financial crisis also encouraged acquisitions in the sector.

Economic Acquisitions in Kenya have been on the increase by multinational companies either acquiring local firms or two local firms merging across industries. A report by Botchway(2010) indicated that acquisition is a critical vehicle in facilitating corporate growth and productivity. Life insurer, Old Mutual, completed the deal to acquire a majority stake in Kenya’s financial service firm, Faulu Microfinance Bank in 2013. Julian Roberts, the then CEO at Old Mutual Group , said the deal had been unconditional and said it signaled the official start of the firm’s relationship with Faulu to meet increased levels of market share, expand distribution network and market share and to benefit from best global practices (Daily Nation 2013 July 14th).

Ralph Mupita, the then CEO of Old Mutual Emerging Markets, agreed that acquisition of Faulu would give Old Mutual access and exposure to over 400 Faulu clients at the time the deal was announced, (Daily Nation, 2013 July).He argued that the acquisition permitted Old Mutual a smooth entry into the East African mass market. Faulu was the first deposit – taking microfinance firm to be given the go ahead to operate in Kenya by the Central Bank of Kenya (CBK)

The microfinance bank had a distribution network that spread across Kenya with over 100 branches. Its market was equal to the one that is served by Old Mutual’s Foundation business in South Africa. Old Mutual provides life assurance, asset management, banking and property & casualty insurance to more than 16 million customers in Africa, the Americas, Asia and Europe. Originating in South Africa in 1845, Old Mutual has been listed on the London and Johannesburg Stock Exchanges since 1999. Old Mutual bought a 67 percent controlling stake in Faulu Kenya, paving its quest to join Kenya’s lending space and intensify financial competition. The deal involved immediate injection of Ks. 2.8 billion of the Sh. 3.6 billion agreed price, after successful fulfillment of all required regulatory approvals at the closure of the transaction. The Faulu deal formed part of the Sh. 43.2 billion set aside by the South -African Financier for its African expansion. Central Bank of Kenya, the banking regulator, ranks Faulu the second largest Deposit- Taking Microfinance (DTM) after Kenya Women Finance Trust.

1.2 Statement of the Problem

Most Empirical studies done in the area of acquisitions regarding their effect on organizational performance have been done in the west without being conclusive on the nature of the relationship. Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to engage in acquisitions; combine their operations in mutually agreed terms (Wangui & Were, 2014). Some of the reasons put forward for acquisitions are to meet the increasing market demand and competition, diversify to international markets, employ the emerging new and expansive modern technologies, or to meet the new threshold capital required by the regulators such as in the banking sector (Kithinji & Waweru, 2007). However, some studies have shown that not all acquisitions are profitable due to poor management of the post-acquisition challenges and hence the question; Do acquisitions improve organizational performance in Kenya, and can this be validated? Pasiouras & Kosmidou (2007) found a positive relationship between the size and the profitability of a bank. Other researchers, such as Sufian(2010) found no correlation between the relative bank size and the Return on assets for banks, the coefficient is always positive but never statistically significant. The above evidences fail to show that there is a relationship between managerial expertise, Synergy, integration and knowledge management on the performance of commercial banks as a result of acquisitions. Therefore, since the importance of acquisitions cannot be overemphasized, this prompted the researcher's interest to establish the relationship of bank acquisitions with performance among Kenyan investment Banks.

1.3. Objective of the study

The objective of the study was to determine the effect of managerial expertise on performance of investment banks in Kenya.

1.4 Research hypothesis

There is significant association between managerial expertise and organizational performance.

1.5 Justification of the study

Why it is important to look at acquisitions in a specific sector is to discover some understanding of the sources of motives and reasons for firms to grow by acquiring other firms. Most empirical researches have looked at aggregated data and combined sectors of mergers and acquisitions. The resulting information is intended to benefit; corporate managers who in the networked business environment of today need to understand, anticipate and manage the business dynamics inherent in various alliances. Secondly, in predicting and ensuring sustained business performance. The Government will also benefit in drafting fair competition laws to ensure a level playing field for both small and large business. Investors: 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 an alliance. Individual Kenyan business firms which intend to consolidate operations or aligning their strategies through alliances in future will be able to learn from experiences of firms under study. Academicians who are interested in further research in this field will be able to investigate and research gaps in the study not researched or be under researched by the researcher in the course of providing the evidences supporting the research topic and research problem.

1.6 Scope of the study

This project was on the effect of acquisitions on the performance of investment banks in Kenya. The researcher based the work on the licensed investment banks acquisition approved by the central bank of Kenya (CBK). A case study of Old Mutual acquisition of Faulu micro-finance is presented. The study took place at Old Mutual and Faulu in Kenya between the periods of January 2015 to May 2015.

1.7 Limitation of the study

The basic limitation in this study was collecting information that is recently relevant for the Kenyan context as very few researches on acquisitions have been done in Kenya. Also collection of Bank data deemed confidential posed a challenge.

II. LITERATURE REVIEW

2.1 Introduction

In this chapter we discuss the cumulative evidence on the general economic impact of acquisitions on stockholders of the target firms compared to that of the acquirers. The chapter deals with the theoretical review, conceptual framework, empirical critique and research gap.

2.2 Conceptual framework

A conceptual framework is a concise description of the phenomenon under study accompanied by a graphical or visual description of the major variable of the study (Mugenda, 2008). According to Bogdan & Biklen(2003) a conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical or synthetically aspects of a process or system being conceived. The independent variables in this study are expertise, integration capability, synergy and knowledge management while the dependent variable is organizational performance as shown below;

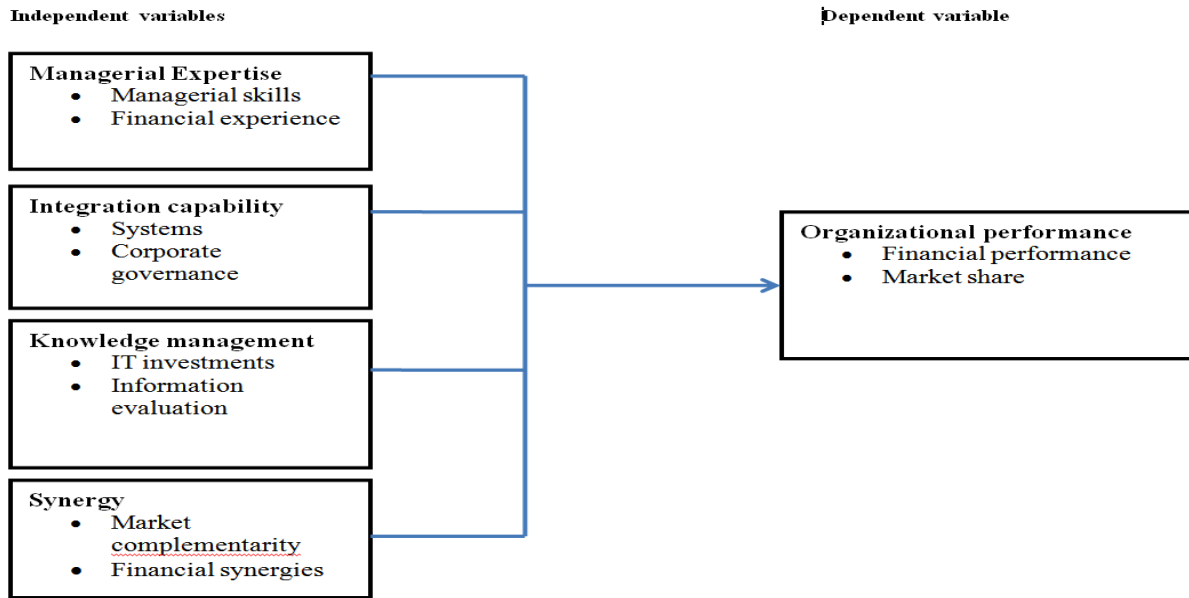


Figure.2.1: Conceptual framework showing Independent variables and Dependent variable Managerial expertise and performance of investment banks in Kenya

Expertise is the ability to execute a function or activity effectively by employing productive skills, experiences and competencies. When banks come together there is increased pool of expertise as different employees with great experiences, skills and competencies come together and share ideas. The pool of professionals bring about creativity and innovation which is converted to better products and services for customers at reduced costs hence profitability(Panagiotakopoulos,2012).He adds that productivity and profitability improvements and innovation can be achieved only if firms employ high skilled workers. Researchers often attribute good bank performance to quality management. Management quality is assessed in terms of senior officers awareness and control of the banks policies and performance.in essence, acquisitions lead to a complete blend of skills and competencies hence ability to provide competitive services. Furthermore,the ultimate motive for the acquirer is value creation and in light of increasing acquisition activity, it is relevant to investigate whether or not value is created. No overall consensus exists that unanimously documents whether or not value is created for the acquiring firm. Moeller et al(2005) concluded that value is actually destroyed when engaging in acquisitions. The reason for this is based on the fact that the largest acquisitions are the ones experiencing massive losses. Firms participating in acquisitions can be motivated by different reasons. Some of these reasons include: Synergies, increased growth, cost savings and increased efficiency (Sufian & Habibullar, 2014). Moreover, firms reengage in acquisitions to increase capitalization on core competencies to increase speed to market, to increase diversification and bypass cost of new product development. The type of the industry in which the company operates also affects the type of acquisition. The case for the acquisition in a mature industry could be very different from the motive in an immature industry. It is widely acknowledged that it is decisive for a company to set up a strategy in order to meet the challenges it faces due to a fierce competition and quickly changing business environment. The strategy a company chooses to adopt should be in line with an overall goal of value creation. A decision to expand through acquisitions has to correspond to the underlying strategy of the company. In line with this, the strategy or the motivation behind an acquisition is according to Bower(2001) an important factor if it becomes a success: that is, whether or not value is created. It is commonplace that despite the presence of fluctuating market conditions, if the opportunity is right companies and shareholders will continue to invest in acquisitions. Organizational performance may vary, but any activity that fails to enhance shareholders interest and value cannot be termed as a success (Hildebrandt, 2005).

A longer –term decline in shareholder wealth after an acquisition can be indicative that the combination process is a failure (Joshua, 2011). The success of any acquisition is defined by the core competencies generated to create value or enhance value; it is measured using the parameters such as market attractiveness and competitive positioning because of cost leadership and product differentiation. This results in the long-term profit sustainability and the creation of shareholders wealth (Hildebrandt, 2005). Olusola & Olusola(2012) stated that the classic expressed rationale for acquisitions has been to increase profits and shareholder value. In the series of studies that have been carried out elsewhere, researchers have been unable to demonstrate that acquisition active firms were more profitable, or had higher stock prices, following the acquisition activity Silk & Key(2009) indicated that the performance of the company can be expressed in terms of income generated from its operations after offsetting expenses when the profitability of the firm is arrived at. Olusola & Olusola,(2012) concluded that profitability of some banks in Kenya improved, while that of others deteriorated. The processes by which acquiring firms manage their acquisitions are substantially more complex to study empirically, because of the lack of process level data typically available in sufficiently large number of observations. As a result, research on the process of managing acquisitions is still in the exploratory stage.

One of the earlier pieces of research on the management of acquisitions by Jemison & Sitkin(1986) indicates that it is useful to think about acquisitions in terms of both their strategic fit and organizational fit. Organizational fit tends not to correspond neatly to strategic fit. Thus, the complexity of an acquisition from an organizational standpoint can be quite different from what may be implied by the strategic considerations driving the transaction. Building on this insight, Wangui & Were(2014) suggests taxonomy of approaches for managing the integration process based on the combination of two types of assessments: the degree of strategic interdependence among the two firms, and the need for organizational autonomy necessary to protect and enhance the set of competencies in the two firms.

The three views which we, hereby call; preservation, absorption and symbiosis, provide a set of suggestions on how the acquiring firm would structure the integration phase. Haspeslag & Jemison (1991)'s work has the advantage to reveal the relevance of the process through which firms select their acquisition targets, negotiate the agreement to purchase or to merge, decide about the approach to take in managing the post- acquisition transition phase, and finally interact with the acquired firm to implement the selected integration strategy. It also indicates some of the critical dimensions of the post –acquisition decision-making process, such as the extent of functional integration and the timing for its implementation. It stops short, however, of offering a theoretical argument for the type of performance implications to be expected from each of the relevant decisions, and for the conditions under which those effects might or might not be expected to hold.

The choice of the level of integration between the acquired and the acquiring organization has been the subject of empirical inquiry. Pablo(1994) studied the antecedents of these decisions by surveying managers engaged in hypothetical decisional scenarios. In addition, Capron (1999) found that the extent of resource redeployment and knowledge transfer among the two organizations is significantly related with increased performance, thereby providing additional evidence on the benefits of achieving at least a partial degree of integration among the two organizations. Another important dimension of the post –acquisition integration process consists in the degree to which pre-existing resources within the acquired firm are replaced with the equivalent resources of the acquirer, or simply dismissed. Chief among the various types of firm resources is the human and social capital embedded in the employees and, particularly, in the top management team. The degree to which post-acquisition turnover of human resources is actively pursued by acquirers eager to speedily implement the desired changes and obtain the expected performance improvements, have been researched in a small number of empirical studies. Contrary to the predictions of the “Market for corporate control” approach which advocates the benefits of replacing underperforming management teams. Cannella & Hambrick (1993) find that managerial turnover was harmful to acquisition performance, and that the impact increased in magnitude the higher the degree of seniority of the replaced managers.

Similarly, to Pablo(1994) work on the choice of the integration level, a limited number of empirical studies have researched the antecedents of the decision to replace the target's top management team. Walsh(1988) examines top management turnover rates, comparing post-acquisition turnover in a sample of firms with respect to a control group. He finds that turnover rates cannot be explained by the product market relationship between the acquirer and the target firm. In subsequent work Walsh & Ellwood(1991) find that post -acquisition turnover can be explained by characteristics of the negotiation process and by the pre-acquisition profitability of the acquirer (as opposed to the target, as one would expect). Acquiring firms with higher levels of acquisition experience and with more sophisticated acquisition tools tend to integrate the acquired organization to larger extent and to replace its top management with higher probability.

In sum, research on the process of acquisition management has emphasized the potential benefits as well as the complexities involved in extracting payments from acquisition process. Striking the right balance between the achievement of the necessary level of organizational integration and the minimization of disruptions in the resources and competencies existing in the acquired firm seems to be a fundamental challenge not just for the success of the integration process, but for the performance of the entire acquisitive venture (Zaheer. A. et al, 2013).

This observation alone has been useful, in that it has pointed to the difficulty in conceptualizing acquisitions purely in terms of a stylized combination of resources of the firms involved in the transaction. The other contribution of this stream of research consists in the identification of two of the key dimensions of the post-acquisition problem: the determination of the degree of integration between the firms and in the assessment of the degree of replacement of key strategic resources within the acquired organization, mainly the managerial personnel.

These two decisions are not exhaustive of the list of possibly relevant dimensions of the integration process. We look at them, however, as an important initial step towards the construction of a theory of the economic performance of acquisition processes. Finally, the observations made above about the complex trade-offs to manage in the planning and execution of the integration process suggest the need for a better understanding of the mechanism specific to the management of the integration process (Robert & Iryna, 2008). Given the degree of causal ambiguity and heterogeneity of the acquisition process, acquirers might apply lessons learned in past experiences to contexts that seem superficially similar but are inherently different, thereby reducing the probability of success. There is clearly a need to understand in more depth the mechanism responsible for the development (or lack thereof) of organizational capabilities specific to the management of complex, infrequent and heterogeneous events such as acquisitions.

Research in financial economics examined returns to the targets in large samples of acquisitions. The dominant view in the financial economics literature is that acquisitions are transactions reflecting the workings of the market for corporate control. Management teams vie for the control of productive assets of firms. If a particular management team underperforms, then a more competent team takes its place (Jensen & Ruback, 1983). Empirically, research finds that while there are positive gains from the combination of the acquiring firm and the target's assets much of the gains accrue to shareholders of the target firm. More recent empirical work shows evidence that average abnormal returns to the acquiring firm are either statistically equivalent to (Sufian & Habibullar, 2014) or lower than zero.

Performance synergy gained by the combined firm is a result of a number of benefits which flow to the entity as a consequence of acquisition. This may include: Cash slack when a firm having a number of cash extensive projects acquires a firm which is cash rich thus enabling the new combined firm to enjoy the profits from investing the cash of one firm in the projects of another; Cost of combined entity can reduce or eliminate expenses associated with running business through elimination of duplication and economies of scale.

Research in financial economics has historically revolved around the question of the location of the mean of the distribution of abnormal returns. The strategic management field, on the other hand, has the merit of having advanced a major body of theoretical and empirical literature focused on factors which might provide a systematic discrimination between high and low performance. Relying on relatedness as the key antecedent of performance might be seriously mis-specified, as it does not include a crucial set of mediating factors between relatedness and performance, having to do with the activities necessary for the extraction of the available rents from economies of scale and scope.

Relatedness, in fact, provides the potential for the exploitation of shared resources and competencies, but this potential has to be realized through the careful design and execution of a process aimed at the achievement of a certain degree and type of combination among the two organizations. In a correctly specified model, then, payments might be sown to accrue to the actual rent extraction activities, as opposed to the existence of the potential conditions for rent creation inherent in the degree of resource relatedness. This does not mean, however, that relatedness does not play a role in the explanation of the variance of acquisition performance.

It is worth to note that, consequent to the argument offered above with respect to the different logic operating behind the two capability- building mechanisms analyzed, the impact of tacit experience accumulation on acquisition performance should not depend upon the level of the complexity of the post- acquisition integration process. Expertise, accumulated in a tacit semi-automatic fashion, should be equally relevant in the case of more or less complex tasks.

Also, the performance implications of the two capability –building mechanisms should be unaffected by the degree of resource replacement selected. That decision might actually be made in order to simplify and speed up the integration process and would in any case not represent a particularly strong cognitive challenge. Manuals and decision support tools might be of little use for the laying off of the target's top management!

A similar theoretical conundrum exists when we consider the relationship between resource replacement and acquisition performance. Of particular interest, given the attention received both in the theoretical and empirical literature, is the replacement of the top management team of the target firm. However, this variable might be also considered as a proxy for a more general construct of firm-wide replacement of resources, such as brand name, distribution channels and physical asset that acquiring firms opting for an aggressive and fast integration process will apply a similar approach to all the existing resources which are considered non vital. According to the arguments made by proponents of the “market for corporate control” hypothesis, the better team gains control of the productive assets of the acquired firm (Jansen and Ruback, 1983) and therefore the performance of the combined entity should improve. As reviewed earlier, however, scholars working in the human resources management and organizational behavior traditions suggest that the replacement of top management in the acquired firm will result in reduced economic performance because of the loss of human and social capital caused by the departure of top executives. Krishnan, Miller & Judge (1997) finds that managerial turnover reduces acquisition performance. View of their skill and talent leading. Another observation is that managers have unrealistic view of their skill and talent leading them to believe that they are capable of obtaining gains from the acquisition of another firm. In truth however, they are no more capable than others. Thus acquisition results do not necessarily lead to superior performance.

This “Managerial hubris” argument is a bit incredulous it is based upon a blind view that managers are systematically blind to the reality of the solution and that they do not observe the actual outcomes of their past actions or the actions of their peers (quote). Further, it contends that shareholders and boards are oblivious to the reality of the solution and allow management to engage in activity that systematically has no shareholder value. This thinking might apply to particular events but not always. In such circumstances the truth of the solution is not apparent until after the action and there is no way to develop reasonable expectation of the post acquired earning effects (growth) these conditions are not consistent with the Kenya leading investment banks. It is hard to believe that shareholders are unaware of the convergences of managerial action in this area or the likely outcome of the next acquisition. Moreover it is not clear why managerial hubris in acquisition area should be any greater than if other areas of bank activity. Perhaps managers have over inflated egos and unrealistic views of their own talents but this is solved by market forces and performance activities.

Agency problems

It is well known that there is a general lack of alignment between the interests of shareholders and managers. Accordingly, acquisition is in the best interest of managers but not necessarily shareholders. The managers engage in the activity to increase their own power and remuneration which are both assumed to be related to institutional scale. However, this behavior comes at the expense of shareholders of the acquiring institutions who in general overpay for such acquisitions and suffer dilution if not decline in firm value itself (Mate et al, 2014). Managers in the acquired institution seem oblivious to the issue of Agency problems. They seem able to exploit the interests of the acquiring manager by obtaining systematic gains of shareholders of acquired firms even while they are displaced in the process. Some may object to this extension of acquired firm managers. They seem more than capable of obtaining golden parachutes and lucrative buyout agreement however, the evidence is that on average they negotiate a price which increases shareholders value, even while the acquiring management is following another agenda of self-interest (Kivindu, 2013). This contrast between the managerial behavior of acquired and acquiring firms is problematic it seems that if manager behavior is driven by self-interest rather than purely increasing market value, then the behavior of managers on both sides of the negotiation should be explainable using the same paradigm. This is indeed possible. Perhaps the gains from acquisitions are a reality. However, the side payments to the two groups of managers completely exhaust them, resulting in a neutral effect on value and reported performance measures. This seems consistent with data and allegations of an agency problem (growth). Continuing management according to this view obtains the gains associated with running a larger organization, greater power and remuneration while departing management receives the present value of their gain in terms of a buyout compensation package. The mystery is why the costs of such transaction are born by the acquiring organization rather than split by the two groups of shareholders. Perhaps there is “a winners curse”, where acquiring firm bid up the price of other firms who are willing to sell out. However, we argue that this theory remains a puzzle.

2.2.4 Management of Integration processes

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Research in financial economics examined returns to the targets in large samples of acquisitions. The dominant view in the financial economics literature is that acquisitions are transactions reflecting the workings of the market for corporate control. Management teams vie for the control of productive assets of firms. If a particular management team underperforms, then a more competent team takes its place (Jensen & Ruback, 1983). Empirically, research finds that while there are positive gains from the combination of the acquiring firm and the target's assets much of the gains accrue to shareholders of the target firm. More recent empirical work shows evidence that average abnormal returns to the acquiring firm are either statistically equivalent to (Sufian & Habibullar, 2014) or lower than zero.

2.3 Critique of existing literature

Most empirical studies done in the area of acquisitions have majorly been done in western countries and have not been conclusive on the nature of the relationship between pre and post-acquisition performance. As acquisitions continue to enjoy significance as strategies for achieving organizational growth, their impact in creating shareholders value remains debatable. Empirical evidence indicates that on the average, there is no statistical significant gain in value or performance (Moctar, 2014). Yet the question that arises is; why are acquisitions on the increase? Moreover most of the available literature has aggregated data on the combined areas of mergers and acquisitions and mostly focusing on financial returns (Wangui & Were, 2014). Very few studies have explored the human element in acquisitions. In spite of fluctuating Market conditions, literature suggests that companies and shareholders will continue engaging in acquisition activity primarily for economic and finance interests with emphasis on market for corporate control. But it is discernable that acquisition activity is decided by market characteristics.

2.4 Summary

Acquisition activity is a complex process for both the target firm and the acquirer. From the two theories examined; the resource based view argues that the strategic acquisition combination of complimentary resources which provide superior performance. Narrowly focused financial analyses of acquisitions frequently fail to recognize that acquisitions have an important human aspect as well. In focusing only on financial results such as income statement ratios and balance sheet issues, the role of people, knowledge gained or other intangible goals are often overlooked. This literature has argued that without the combination of expertise, integration competence, synergies and information management, post-acquisition performance could be insignificant. The conceptual framework shows expertise, integration, knowledge management and synergy as independent variables and organizational performance as the dependent variable.

2.5 Research gap

Many of the researches done in the area of acquisitions have been done in western countries and have often combined the two areas of mergers and acquisitions. There is therefore very little documentation or research in Africa in general and Kenya in particular on acquisitions. Even amongst those ones that exist, few research authors have attempted to provide conceptual sets on acquisitions among investment funds. Moreover, researches have mainly focused on financial results ignoring the role of people, knowledge gain and other intangible goals.

III. RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedure used to conduct the empirical research. This includes how the data was collected, population of study, the determination of the sample size and how the data was analyzed, interpreted and presented.

3.2 Research Design

Research design is the ultimate blue print for the collection, measurement and analysis of data (Kothari, Ramanna & Skinner, 2010). The study used descriptive research design. Cooper & Schindler (2006) describes this method to be a detailed description of events, situations and interactions between people and things. This is because the population from which the sample was drawn was not homogeneous. Secondary historical unbiased data available to the public was retrieved from the financial statements of the investment banks and the central bank while primary data was collected through administering of questionnaires to bank management and staff of both Faulu and Old Mutual.

3.3 Target population

According to (Mbwesa, 2006) population is an entire group of individuals, events or objects having common observable characteristics. The population of interest in this research comprised the bank management and staff of the target bank and the acquirer. This therefore included all the 287 employees of Old Mutual and employees of the 80 outlets of Faulu who are in senior management positions.

3.4 Sample size and sampling technique

Stratified sampling technique was used in this study. The sample size of each stratum in stratified random technique was proportionate to the target population size of the stratum when viewed against the entire population. The simple random sampling or probability sampling was used so that each and every one in the target population had an equal chance of inclusion. In social science research the following formula can be used to determine sample size (Mugenda & Mugenda, 2003).

$$n = \frac{Z^2 pq}{d^2}$$

Where:

n = the desired sample size (if the target population is greater than 10000)

z = the standard normal deviate at the required confidence level

p = the proportion in the target population estimated to have characteristics being measured

q = 1 - p

d = the level of significance being set

Normally, $n = \frac{(1.96)^2(0.50)(0.50)}{(0.50)^2} = 384$

Since our target population was less than 10,000, the required sample size was smaller.

Thus, we found the final estimate (n_f) using the following formula:

$$n_f = \frac{n}{(1+n)/N}$$

Where;

n_f = desired sample size where the population is less than 10,000

n = desired sample size when the population is more than 10,000

N = the estimate of the population

Hence:

$$n_f = \frac{384}{(1+384)/287} = 286$$

But because of the different strata of management, we distributed as follows;

%	Strata	Distribution
10%	Top management	30
30%	Middle level management	77
60%	Lower management	179
100%	Totals	286

3.5 Data collection

Questionnaires were used to collect both primary and secondary data. Both open and closed ended questionnaires were used. This is because a questionnaire can gather lots of information quickly and easily from respondents and it is inexpensive (Mertens, 2010). The study also employed secondary sources of data from published audited annual reports of accounts for the population of interest, C .B.K., N.S.E., C.M.A and the target banks.

3.6 Pilot study

A pilot test using 30 questionnaires was carried out to ascertain the validity and reliability of the research instruments.

3.6.1 Validity of instrument

Validity of instrument is the extent to which it does measure what it is supposed to measure. Mugenda & Mugenda(2003) further affirm that validity is the accuracy and meaningfulness of inferences which are based on the research results.it is the degree to which results obtained from the analysis of data actually represent variables of the study.The research instrument was validated for content and face validity. To ascertain content validity, the researcher consulted a supervisor in business research methods field to review the instruments content. The supervisor also gave his subjective evaluation as to whether the instrument was apt.

3.6.2 Reliability of instrument.

Reliability can be explained as the ability of research instrument to yield consistent results or data after repeated trials (Mugenda & Mugenda, 2003). In this study internal consistency method was used for likert items. The rationale for internal consistency was that the individual items should all be measuring the same constructs and thus correlates positively. Since the questionnaire was testing items of the variables we considered it reliable. Mugenda & Mugenda, (2003) further have provided an alpha score of 0.70 to be satisfactory for reliability tests. The test of reliability was calculated using SPSS.

3.7 Data analysis

The study was both qualitative and quantitative. Raw data was coded on SPSS for analysis. The study analyzed data in form of descriptive and inferential statistics. Descriptive analysis involved charts, graphs and tables while inferential statistics involved the use of multiple correlation and chi-square.

IV. PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter contains a summary of the study findings and their interpretation presented in the form of descriptive and inferential statistics. The study sought to determine the effect of corporate acquisitions on performance of investment banks in Kenya. The chapter is presented in line with the four objectives in the study. Descriptive statistics were calculated to describe the demographic characteristics of the respondents under study and presented in form of distribution tables, figures, frequencies and percentages. Inferential statistics used include Pearson Product Moment Correlation Coefficient, Partial correlation and multinomial regression analysis. Pearson Product Moment Correlation Coefficient was used to determine the relationship and magnitude of influence among the study variables. Partial Correlation was used to determine inter-variable associations and influences. This is in line with the suggestion by Malhotra (2007) that whereas direct correlation assists in establishing relationships or their absence between two variables, Partial correlation and regression are robust in the establishment of statistical relationships and influence among three or more variables at the same time. Statistical analysis was performed using the Statistical package for the Social Sciences (SPSS) version 20.0 for windows. Findings from the objective are presented using inferential statistical tables, followed by interpretation of findings, discussions and comparison with empirical findings from related studies. This made it possible to make conclusions about the effect of corporate acquisitions on performance of investment banks in Kenya. The collected data was tested using Kolmogorov – Smirnov (K-S) statistics as well as the Shapiro Wilk procedure to ascertain normality and uniformity in data distribution. These are non-parametric tests that compare the cumulative distribution function for variables within a specified distribution range (Malhotra, 2007). The overall outcome of the two tests using normalized Z –statistics for all the study variables obtained at the level of significance of (.000) (2-tailed) indicated that the collected data was normally and uniformly distributed (see Appendix 4). Such normal and uniform distribution made it safe for the researcher to use statistical analysis models and procedures that rely on normality of the distribution of data such as correlation coefficients and multiple regression.

4.1.1 Response Rate

The study targeted 286 respondents comprising 30 top management officials, 77 middle level managers and 179 lower level management teams from Old Mutual and Faulu Kenya. Out of the targeted sample, the study received back all the 30 questionnaires from top management of Old Mutual and Faulu, 74 questionnaires from middle level management and 169 questionnaires from lower level managers. This questionnaire return rate gave the study a response rate of 95.45%. According to Mugenda & Gitau (2009), a response rate of 30% is adequate for generalization, a response rate of 50% is good for generalization while a response rate of 70% and above is excellent for generalization of findings from a sample onto the entire population from which the sample was drawn.

4.2 Demographic Characteristics of Respondents

In this section respondents' background information of respondents was sought. Focus was placed on gender of respondents, their age bracket, education level, age of the company they work for and length of service in the company. These factors were considered important because they were thought of as having the potency to influence the relationship between corporate acquisitions and performance of investment banks in Kenya. The relationship between these factors and how they influenced study variables was established using descriptive statistics and presented in the section below.

4.2.1 Gender of Respondents

Study respondents were asked to indicate their gender and their responses analysed and presented in figure 4.1.

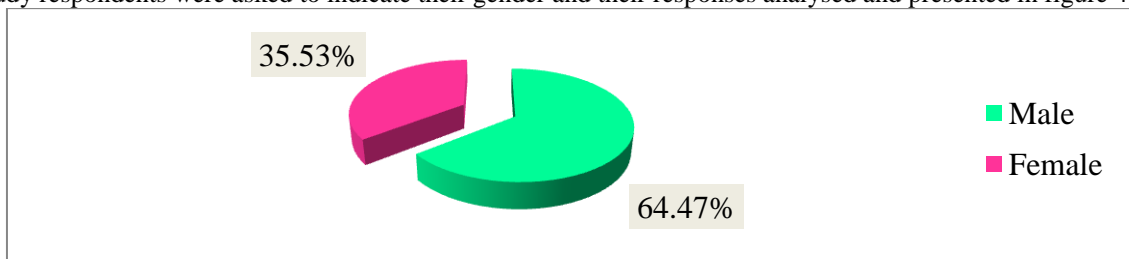


Figure 4.1: Gender of Respondents

Results reveal that 64.47% of the study respondents were male while 35.53% were female. Findings show that there are more male employees in the studied financial institutions than their female counterparts. The disparity in the gender differences however does not contravene the Kenyan constitution requirement that not more than two thirds of the same gender should occupy appointive positions. Efforts should however be made to bring about gender parity given that workforce diversity with regard to gender has been demonstrated to bring about cohesion and teamwork amongst employees (Desler, 2014).

4.2.2 Age of Respondents

Respondents were asked to indicate their age bracket and findings presented in table 4.1.

Table 4.1: Age Bracket of Respondents

Age	Frequency	Percentage (%)
Below 30 years	39	14.28
31 – 40 years	85	31.14
41 – 50 years	81	29.67
Over 50 years	68	24.91
Total	273	100.0

Study findings in table 4.1 show that 31.14% of the study respondents were aged between 31 and 40 years while 29.67% were aged between 41 and 50 years. It was also established based on the study findings that 24.91% of the study respondents were over 50 years of age while 14.29% were aged below 30 years. This is an indication of a mature workforce in the financial sector that would steer financial institutions to good performance. It however worries to note that 54.82% of the respondents are 41 years of age and above, meaning that they have less than 19 years to retire. Given the small number of younger employees (14.29%), the financial sector may face succession challenges if efforts are not done early enough to hire younger officers to learn from the many older officers set to retire.

4.2.3 Academic Level of Respondents

Respondents were asked to provide their highest academic level. Findings are presented in figure 4.2.

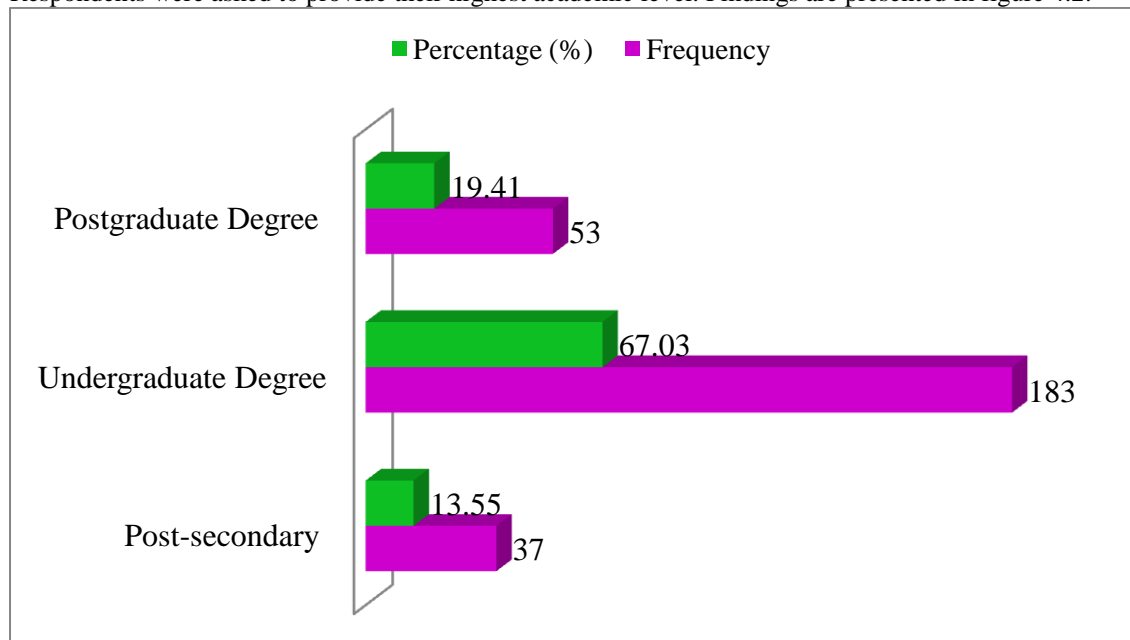


Figure 4.2: Academic Level of Respondents

Findings in figure 4.2 indicate that 67.03% of the respondents had university undergraduate degree qualifications while 19.41% had postgraduate qualifications. It was further found that 13.55% of the respondents had post-secondary qualifications, mainly in accounting and financial management from tertiary institutions. None of the respondents had secondary education as their highest education level completed. This is an indication that financial institutions employ officers with a sound academic background and this is key in making strategic decisions that impact on financial performance of the institutions.

4.2.4 Duration of existence of financial institution

The study also sought to establish how long the two companies had existed. Respondents provided their answers and findings summarized in table 4.2.

Table 4.2: Duration of operations of the Organization

Age	Frequency	Percentage (%)
Less than 3 years	-	-
3 – 5 years	-	-
6 – 10 years	-	-
More than 10 years	273	100.0
Total	273	100.0

Findings in table 4.2 reveal that all the organizations from which respondents were drawn had been in existence for more than 10 years. Their long existence indicates that they have gone through the growth phases and have witnessed strategic alignments crafted to reengineer these firms, especially during financial recession.

4.2.5 Length of Service of Respondents

Respondents were also asked to state how long they had worked for their organizations and results presented in figure 4.3.

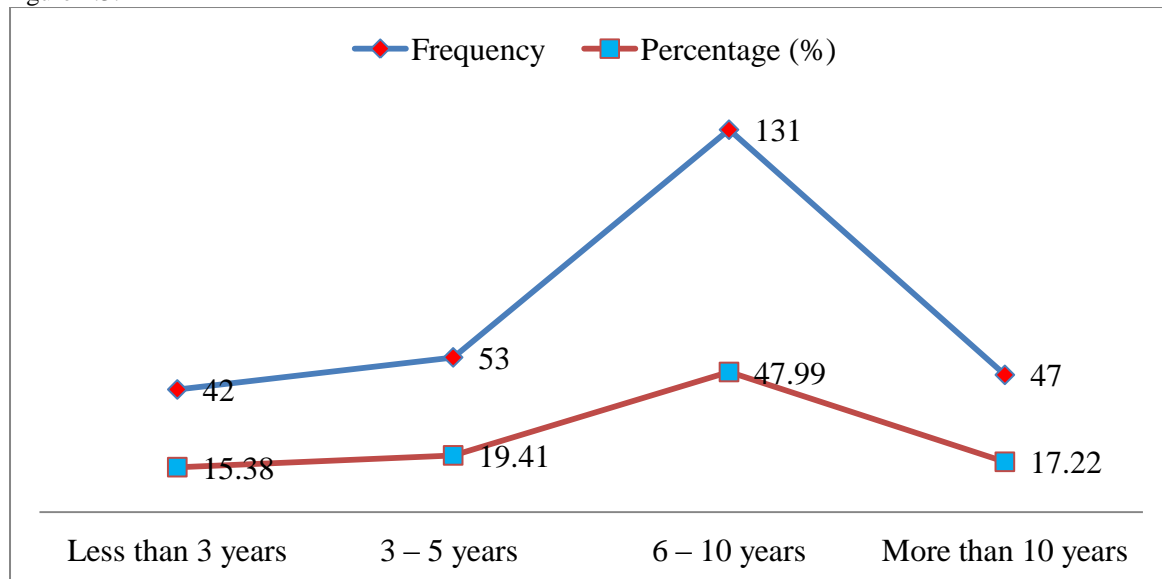


Figure 4.3: Length of Service of Respondents

Results in figure 4.3 indicate that 47.99% of the study respondents had worked for 6 to 10 years while 19.41% had worked for 3 to 5 years. It was further established that 17.22% of the respondents had worked for financial institutions for more than 10 years while 15.38% had worked for less than 3 years. This findings show that most study respondents had worked in financial institutions for long and had the necessary work experience to steer their organizations to good performance. The presence of employees who had worked for less than 5 years presents an opportunity for knowledge and skills transfer and this guarantees the studied financial institutions of continuity with regard to good performance and succession management.

4.3 Inferential Statistics

In order to address the four objectives of the study, the researcher employed various statistical tools to aid in answering the research questions. All the statistical procedures were performed at the level of significance of 0.05. Findings from the first objective were tested using Pearson Product Moment Correlation Coefficient while findings on the second objective were analyzed using Chi-Square. Partial Correlation was used to analyze study findings with regard to the third objective while Chi-Square and Regression were used to determine influences among study constructs in the fourth objective. Findings are presented in the sections that follow.

4.3.1 Effect of managerial expertise on performance of investment banks in Kenya

The objective of the study sought to determine the relationship between managerial expertise and performance of investment banks in Kenya. The following research question was formulated to guide the study; What is the effect of managerial expertise on performance of investment banks in Kenya? Study constructs relating to managerial expertise and those relating to performance of investment banks were subjected to Pearson Product Moment Correlation Coefficient and findings presented in table 4.3.

Table 4.3: Relationship between Managerial Expertise and Performance of Investment Banks

		Performance of Investment Banks
Managerial Expertise	Pearson Correlation	.702**
	Sig. (2-tailed)	.022
	N	273

**Correlation is significant at 0.05 level (2- tailed)

*Correlation significant at 0.01 level (2 - tailed)

Findings in table 4.3 reveal a statistically significant positive relationship between Managerial expertise and the performance of investment banks in Kenya ($r=0.702$; $P<0.05$). Respondents were of the opinion that acquisitions affect organizational performance and that this makes managers to make accurate speculations due to expertise. The overall influence of acquisition on the performance of investment banks was investigated using Partial Correlation in first order and zero order and findings presented in tables 4.4 and 4.5.

The first order test was run to establish how managerial expertise influenced performance of investment banks during acquisition. The three constructs (managerial expertise, performance and acquisition) were simultaneously measured to establish the extent of their influence on one another and findings presented in tables 4.4.

Table 4.4: Influence of Acquisition on the Relationship between Managerial Expertise and Performance of Investment Banks (First Order Partial Correlation)

Variables	Acquisition	Managerial Expertise	Performance of Investment Banks
Acquisition	1.0000		
Managerial Expertise	.694 P=.011	1.0000	
Performance of Investment Banks	.689 P=.016	.604 P=.019	1.0000

(Coefficient/D.F/ $\alpha=0.05$, $\alpha=0.01$ 2-tailed significance)

Source: Research Data

Findings in table 4.4 show a statistically significant positive influence among the three study constructs at 95% confidence level. Results of partial correlation indicate a statistically significant positive influence of Acquisition on performance of investment banks in Kenya ($r=.689$; $\alpha=.016$). It was further demonstrated based on study findings that managerial expertise has a significant influence on performance of investment banks during acquisition ($r=.604$, $\alpha=.019$). Majority of the respondents indicated that most acquisitions create interest in the firm and that managerial support influences performance of investment banks during acquisitions.

To establish the influence of managerial expertise on the relationship between acquisition and performance of investment, the presence of managerial expertise was controlled in zero order correlation and the results recorded in the Table 4.5;

Table 4.5: Influence of Acquisition on Performance of investment Banks (zero order)

Variables	Acquisition	Performance of Investment Banks
Acquisition	1.0000	
Performance of Investment Banks	.688 P=.021	1.0000

(Coefficient/D.F/ $\alpha=0.05$, $\alpha=0.01$ 2-tailed significance)

Source: Research Data

Findings in table 4.5 show a statistically significant positive influence of acquisition on performance of investment banks in the absence of managerial expertise ($r=0.688$; $\alpha=.021$). To establish the direction and magnitude of change in the relationship between managerial expertise and performance of investment banks, partial correlation scores in first order and zero order were compared and this revealed a significant increase in strength of relationship between managerial expertise and performance of investment banks during acquisition from ($r=.688$; $\alpha=.021$) to ($r=.694$; $\alpha=.011$). This is a clear indication that acquisition has a significant positive influence on performance of investment banks in Kenya. Findings of this study were compared with study findings from empirical studies conducted on the relationship between managerial expertise and performance of investment banks during acquisitions. One of the earlier pieces of research on the management of acquisitions by Jemison & Sitkin, (1986) found that it is useful to think about acquisitions in terms of both their strategic fit and organizational fit. Organizational fit tends not to correspond neatly to strategic fit. Thus, the complexity of an acquisition from an organizational standpoint can be quite different from what may be implied by the strategic considerations driving the transaction. Building on this insight, Wangui & Were(2014) suggests taxonomy of approaches for managing the integration process based on the combination of two types of assessments: the degree of strategic interdependence among the two firms, and the need for organizational autonomy necessary to protect and enhance the set of competencies in the two firms.

The choice of the level of integration between the acquired and the acquiring organization has been the subject of empirical inquiry. Pablo(1994) studied the antecedents of these decisions by surveying managers engaged in hypothetical decisional scenarios. In addition, Capron (1999) found that the extent of resource redeployment and knowledge transfer among the two organizations is significantly related with increased performance, thereby providing additional evidence on the benefits of achieving at least a partial degree of integration among the two organizations. Another important dimension of the post –acquisition integration process consists in the degree to which pre-existing resources within the acquired firm are replaced with the equivalent resources of the acquirer, or simply dismissed. Chief among the various types of firm resources is the human and social capital embedded in the employees and, particularly, in the top management team. The degree to which post-acquisition turnover of human resources is actively pursued by acquirers eager to speedily implement the desired changes and obtain the expected performance improvements, have been researched in a small number of empirical studies. Contrary to the predictions of the “Market for corporate control” approach which advocates the benefits of replacing underperforming management teams. Cannella & Hambrick(1993) find that managerial turnover was harmful to acquisition performance, and that the impact increased in magnitude the higher the degree of seniority of the replaced managers.

Similarly, to Pablo’s(1994) work on the choice of the integration level, a limited number of empirical studies have researched the antecedents of the decision to replace the target’s top management team. Walsh(1988) examines top management turnover rates, comparing post-acquisition turnover in a sample of firms with respect to a control group. He finds that turnover rates cannot be explained by the product market relationship between the acquirer and the target firm. In subsequent work, Walsh & Ellwood (1991) find that post -acquisition turnover can be explained by characteristics of the negotiation process and by the pre-acquisition profitability of the acquirer (as opposed to the target, as one would expect). Acquiring firms with higher levels of acquisition experience and with more sophisticated acquisition tools tend to integrate the acquired organization to larger extent and to replace its top management with higher probability.

Given the degree of causal ambiguity and heterogeneity of the acquisition process, acquirers might apply lessons learned in past experiences to contexts that seem superficially similar but are inherently different, thereby reducing the probability of success. There is clearly a need to understand in more depth the mechanism responsible for the development (or lack thereof) of organizational capabilities specific to the management of complex, infrequent and heterogeneous events such as acquisitions.

Research in financial economics examined returns to the targets in large samples of acquisitions. The dominant view in the financial economics literature is that acquisitions are transactions reflecting the workings of the market for corporate control. Management teams vie for the control of productive assets of firms. If a particular management team underperforms, then a more competent team takes its place (Jensen & Ruback, 1983). Empirically, research finds that while there are positive gains from the combination of the acquiring firm and the target’s assets much of the gains accrue to shareholders of the target firm. More recent empirical work shows evidence that average abnormal returns to the acquiring firm are either statistically equivalent to or lower than zero (Sufian & Habibullar, 2014).

In sum, research on the process of acquisition management has emphasized the potential benefits as well as the complexities involved in extracting payments from acquisition process. Striking the right balance between the achievement of the necessary level of organizational integration and the minimization of disruptions in the resources and competencies existing in the acquired firm seems to be a fundamental challenge not just for the success of the integration process, but for the performance of the entire acquisitive venture (Zaheer. A. et al, 2013).

V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study. It also presents conclusions of the research findings, recommendations and suggestions for further research on the effect of corporate acquisitions on performance of investment banks in Kenya. The discussions have been guided by the objectives of the study. The four objectives of the study are summarized in the purpose of the study which was to determine the effect of corporate acquisitions on performance of investment banks in Kenya.

5.2 Summary of the Findings

This study sought to determine the effect of corporate acquisitions on performance of investment banks in Kenya. The study adopted a descriptive research design in which 273 respondents were drawn from the top, middle level and lower level management teams of Old mutual and Faulu Kenya. The study relied on information obtained from respondents through the use of a standard questionnaire. In summary, the following were the findings of the study;

5.2.1 Effect of managerial expertise on performance of investment banks in Kenya

The first objective of the study sought to determine the relationship between managerial expertise and performance of investment banks in Kenya. Study constructs relating to managerial expertise and those relating to performance of investment banks were analysed using Pearson Product Moment Correlation Coefficient. Findings of the study established a statistically significant positive relationship between Managerial expertise and the performance of investment banks in Kenya ($r=0.702$; $P<0.05$). Respondents were of the opinion that acquisitions affect organizational performance and that this makes managers to make accurate speculations due to expertise. The overall influence of acquisition on the performance of investment banks was investigated using Partial Correlation in first order and zero order. The first order test was run to establish how managerial expertise influenced performance of investment banks during acquisition. The three constructs (managerial expertise, performance and acquisition) were simultaneously measured to establish the extent of their influence on one another. Findings revealed a statistically significant positive influence among the three study constructs at 95% confidence level. Results of partial correlation indicate a statistically significant positive influence of Acquisition on performance of investment banks in Kenya ($r=.689$; $\alpha=.016$). It was further demonstrated based on study findings that managerial expertise has a significant influence on performance of investment banks during acquisition ($r=.604$, $\alpha=.019$). Majority of the respondents indicated that most acquisitions create interest in the firm and that managerial support influences performance of investment banks during acquisitions. To establish the influence of managerial expertise on the relationship between acquisition and performance of investment, the presence of managerial expertise was controlled in zero order correlation. Findings of the study established a statistically significant positive influence of acquisition on performance of investment banks in the absence of managerial expertise ($r=0.688$; $\alpha=.021$). To establish the direction and magnitude of change in the relationship between managerial expertise and performance of investment banks, partial correlation scores in first order and zero order were compared and this revealed a significant increase in strength of relationship between managerial expertise and performance of investment banks during acquisition from ($r=.688$; $\alpha=.021$) to ($r=.694$; $\alpha=.011$). This is a clear indication that acquisition has a significant positive influence on performance of investment banks in Kenya.

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