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# THE RELATIONSHIP BETWEEN THE STRATEGIC SKILL COMPETENCE AND PERFORMANCE OF MERGERS AND ACQUISITIONS IN THE FINANCIAL SECTOR IN KENYA

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## Abstract:-
*As a growth strategy, mergers and acquisitions are a common feature of modern business life that forms a major reason for organization growth. The purpose of this study is to look into the determinants of performance of mergers and acquisitions in the financial sector in Kenya, basically Banks and Insurance. The objective was to evaluate the relationship between skill competence and performance of Mergers and Acquisition. The study used a descriptive and cross-sectional design, and a mixed methodology. Data collection instruments were questionnaire for obtaining the primary data and published data for secondary data. A total of 93 responses were obtained and the hypothesized relationships were tested using multiple regression analysis. Data analysis was conducted for the purpose of obtaining usable and useful information, with the aim of, describing and summarizing data, identifying relationships between variables, comparing variables, identifying the difference between variables and predicting outcomes of the research, coding, and developing themes. The study reveals that skill competence contributes significantly to performance of M&A. The study offers practical insights to the; Policy makers, academician, scholars and researchers in strengthening organizational identification of the determinants of performance of M&A by considering the crucial role skill competence on the performance. Using behavioural theory, the study suggests that there is a direct correlation between the skill competence and performance, indicating that skill competence were highly positively correlated and regression showed that there was a relationship between the skill competence and performance of mergers and acquisition in the financial sector in Kenya. On the basis of these findings, it is recommended that skill competence brings a greater impact leading to superior performance.*

**Keywords:-** *Skills, Competence, Strategic skill competence, Performance, Mergers and Acquisitions, Financial sector, Kenya.*

## INTRODUCTION

The concept of skill plays an important role in sociological research, from studies of labour process to debates over equal worth (Attewell 1990). Weigel, Mulder and Collins (2007), concludes that there has been, and still is, considerable variation in the meaning of the competence concept, citing the complexity of the various national approaches. Skills are something you know and learn something 'tangible'. They are the 'nuts and bolts' of what a person does in their job or role within an organization. Skill is the ability that allows a person to carry out a task or job. TalentGuard (2016), writes that, skill define specific learned activities, determined by training and experience inputs, stating that skill deals with the "what", looking at what specific abilities are required, though never deals with the "how", how one can perform well. Strategy through mergers and acquisitions brings these two terms together into one, skills competence. However, (Watson 2006) explains that competence can be assessed in different strategies because of the different approaches by different policy makers. Competencies are the effective application of those skills. They cover 'how' the job is done successfully, by using the skills they have learnt as well as implementing appropriate personality traits, behaviours and attitudes (Ralf 2005).

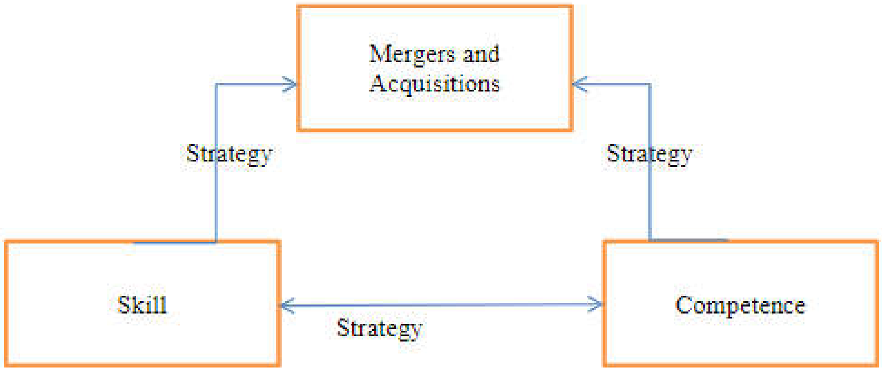


**Figure 1: Skill Competence framework.**

Brueller, (Carmeli, and Markman 2016), talks of the three generic M&A strategies: annex and assimilate, harvest and protect, and link and promote and matches generating the framework figure 1 highlighting the relationship between M&A, skills and competence.

### Background to the Problem

Sturgess (2012) states that, 'Skills' and 'Competencies' are used, interchangeably, skill being the learned capacity to carry out pre-determined results, proficiency acquired or developed through training or experience so as to carry out one or more job functions. Skills and competencies are different, in that there are various types of competencies needed within an organization. NCWSTI, (2002), discusses competence as the ability to perform a particular activity to a prescribed standard, a wide concept which embodies the ability to transfer skills and knowledge to new situations within the occupational area and includes those qualities of personal effectiveness that are required in the workplace to deal with co-workers, managers and customers. Sturgess (2012) concludes by stating that, competencies may incorporate a skill, that includes abilities and behaviours, as well as knowledge that is fundamental to the use of a skill. However, (Mulder, Weigel, and Collins 2007), argues that the influence of the competence concept has now moved beyond the original spheres of education and training and crossed into corporate strategy development (core competence), human resource management (competence management) and innovation (sectoral competence). Prahalad, a professor of Corporate Strategy, and Hamel, an American management expert, together states that, core competence is a concept in management theory and defines it as a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace which work to fulfill three criteria: (1) provides potential access to a wide variety of markets, (2) make a significant contribution to the perceived customer benefits of the end product, and (3) making it difficult to imitate by competitors (Prahalad & Hamel 1990).

Czaja (2017), states that competence management are the skills, motives and attitudes necessary to a job, and include such characteristics as communication skills, problem solving, customer focus and the ability to work within a team. Skills and knowledge are a part of a manager's competence. Wilson, Tarjani, and Rihova (2016), in discussing working at sectorial level, declares that; the analysis of skills demand and supply and possible mismatches, defines it as one which looks at changing skills needs from the perspective of a particular sector, and specific areas of economic activity. Competence then becomes specified skills, knowledge, attitudes and behavior necessary to fulfill a task as intellectual capital in an organization (Rousku 2014). In one's own work, competence may refer to updating, expanding, deepening or completely redirecting one's activities (Eriksson 2016).

People are able to assimilate processes of the acquired company's core competencies into the new organization's portfolio of talents (Evans 2010). Figure 2 gives the hierarchy of competence towards effective performance. Using the wrong intuition or the right intuition depends on the level of skill competence attained.

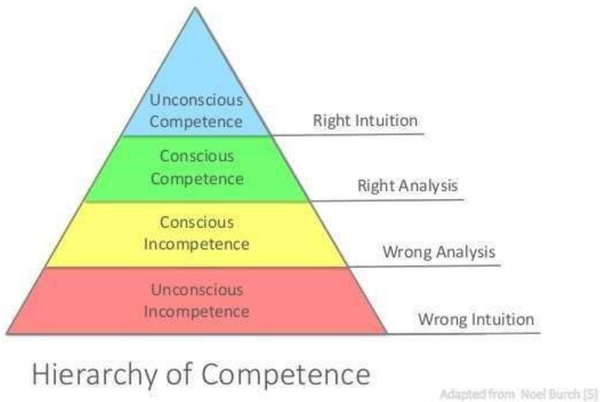


**Figure 2: Hierarchy of competence, Source (Abraham Maslow)**

**Statement of the Problem**

Mergers and acquisitions (M&A) are becoming an increasingly popular strategic option for organizations (Chuang, Ho & Tsai 2011). They represented important means of how organisations grow, competing in the market and accumulating resources. Organisations got into M&A because; they wanted to strengthen and maintain their position in the market place, create synergy or expand into new markets, acquire and exploit new technologies (Dumon 2008;Gwaya 2015;Gitau 2013). On the flip side; possible low productivity and performance cause: low staff retention, retrenchment looming, wastage of time in developing new working plans, diversity in structure and corporate hierarchies and the legal tussles inherited (Taneja & Saxena 2014).

**Study Hypothesis**

The following hypothesis was used; *there is no significant relationship between the strategic skill competence and performance of Mergers and Acquisition in the financial sector in Kenya. T*he conceptual framework of the study is shown Figure 3.

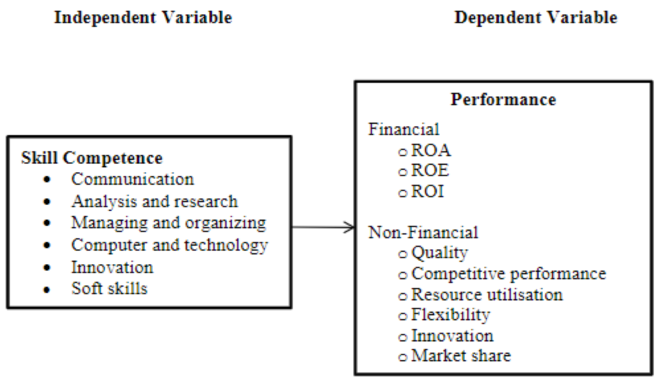


**Figure 3: Conceptual Framework**

**Skill Competence and performance**

Competencies refer to skills or knowledge that leads to superior performance after merger and acquisition. While measurable skill would identify successful employees against defined roles within the new Merger and acquisition, a competence would bring knowledge and skills (Khomeiran, Yekta, Kiger and Ahmadi 2006). (Khomeiran, *et al.* 2006) gives six categories that influence competence development, as; experiences, opportunities, environment, personal characteristics, motivation and theoretical knowledge. They declare that, the development of competence is dependent on both the context and the individual efforts. This implies that new organization after M&A, would benefit from improving employees' competence. Developing coherent work-based plans for competence become mandatory through continued education programmes. Rousku (2014) study on competence identification, assessment and development, concludes that competence of the employees aligned with the strategy is important and crucial for the organizational performance.

Ireri (2011), found out that, high rate of employee turnover, and companies merging were equals or in slight difference without loss of identity of individual companies involved. Competence attainment in terms of level of knowledge, skills, and abilities needed for success, can be used as potential measurement criteria. A team led by (Kibisu, Angima and Muhindi 2012), in their study concluded that competence assessment is an ongoing process of continually building knowledge and skills (Kibisu, *et al.* 2012).

Thibodeaux (2017) stated that, skills and competencies were abilities or knowledge one had to enable them do a task skilfully, effectively and efficiently. These skills and competencies would include; Communication, where other than speaking and writing, interpreting the use of proper body language would create work efficient and reduce conflict.

Papadakis (2005) declares that factors such as unrealistic expectations, poor planning, and talent lost or mismanaged, poor communication, cultural clashes, changing external environmental conditions, integration difficulties for M&A performance. Various research disciplines; economists and finance scholars; strategic management scholars; and behavioural scientists, suggested that performance for mergers and acquisitions was improved when a strong communication program existed by the management defining integration strategy, developing risk mitigation strategies, developing cultural integration plan, developing staffing plans and communication program itself (Papadakis 2005).

**Table 1: Critiquing of the existing Literature**

| Variable | Study by | Findings |
|---|---|---|
| Skills Competence | Bertrand and Betschinger (2011); Louise Schoop (2013); Hagedoorn and Duysters (2000). | These studies highlight that the firms go through a series of transformation, but none concludes whether the variable is significant or not significant. |

## Research Methodology

This study used positivism as a research philosophy (Johnson & Duberly 2000), descriptive and cross-sectional research design (Mugenda and Mugenda 2003) and (Kombo and Tromp 2009), and mixed methods (Miltiades 2008) on a population of 100 firms employing questionnaires and secondary data (Bala 2005). Statistical Package for Social Sciences (SPSS) was used to analyze the quantitative data (Afande 2015).

## Research findings and discussion

From the high scores on table 2, highly observed scored (30) 32.19% proofs that skill competence is a determinant of performance of M&A. The other scores includes; 24.3% and 23% for both moderately and observed scored respectfully, and 7.44% for least observed as the lowest score. Highly observed meant being highly active in the acquisition of information from a primary source, whereas least observed meant having a low rate of acquisition of information from a primary source.

**Table 2: Data Description - Skill competence and Performance**

| Statement | HO | MO | O | A | LO | Likert Mean | SD |
|---|---|---|---|---|---|---|---|
| Employees develop high level Language | (11) 11.8% | (20) 21.5% | (33) 35.5% | (13) 14.0% | (16) 17.0% | 2.97 | 1.238 |
| Body language makes communication more efficient reduce conflict | (16) 17.2% | (14) 15.1% | (27) 29.0% | (17) 18.3% | (19) 20.4% | 2.9 | 1.36 |
| Problem solving makes learning on the job easier | (35) 337.6% | (20) 21.7% | (20) 21.7% | (14) 15.2% | (4) 4.4% | 4.24 | 4.45 |
| Managing includes allocating resources, making and implementing budgets, and obey law | (37) 39.8% | (20) 21.5% | (20) 21.5% | (14) 15.1% | (2) 2.2% | 3.82 | 1.179 |
| Includes ability to hire and retain competent Staff | (30) 32.3% | (24) 25.8% | (22) 23.7% | (12) 12.9% | (5) 5.4% | 3.67 | 1.21 |
| Causes the ability to see the big Picture | (29) 32.6% | (24) 27.0% | (22) 24.7% | (8) 9.0% | (10) 6.7% | 3.7 | 1.21 |
| Involve keeping track of resources and distributing them where needed | (26) 28.0% | (31) 33.3% | (19) 20.4% | (14) 15.1% | (3) 3.2% | 3.68 | 1.134 |
| Technology competencies and positioning the Organization | (44) 47.3% | (29) 31.2% | (11) 11.8% | (7) 7.5% | (2) 2.2% | 4.14 | 1.038 |
| Innovation skills develops new objectives to foster use of few resources | (40) 43.0% | (18) 19.4% | (18) 19.4% | (13) 14.0% | (4) 4.3% | 3.83 | 1.248 |
| Soft skills diffuse conflict | (30) 32.3 | (25) 26.9% | (20) 21.5% | (10) 10.8% | (8) 8.6% | 3.63 | 1.275 |
| **Average** | **(30) 32.19%** | **(23) 24.3%** | **(21) 23%** | **(12) 13.2%** | **(7) 7.44%** | **3.66** | **1.535** |

The statistics scored include; N=93, M=3.66, SD=1.535. For the 3.66 + 1.535 = 5.195 and 3.66 - 1.535 = 2.125, indicating that most respondents concurred 5 times more than the 2 times that skills competence was a determinant of performance for M&A. A Shapiro-Wilks test=0.801 with significant Sig. =.000 (p>.05), and Normality test =0.234, showed that Skills competence was approximately normally distributed, with a Skewness=.29, and Kurtotic at 1.468. The VIF and collinearity of Skills Competence showed (VIF=1.630, collinearity =
0.532), and a significant .000. Homogeneity of variances was violated as Levene's test for equality of variances which showed an average (p=.283.

**Influence of the Variable**
Pearson Correlation was also used to report on the statistical evidence for linear relationship among the same pairs of variables in the population. While correlation coefficients were reported as a value between -1 and +1), the researcher squared the results to give a better interpretation. In measuring correlational, the research had in mind that extraneous variables were not to be controlled (Kanner, *et. al*., 1981). From table 3, each row of the table corresponds to one of the variables indicators. Each column also corresponds to one of the variables indicators. The cell at middle row and right column (or equivalently, the bottom row at the middle column) is more interesting, producing a 1.
A Pearson product moment correlation coefficient was conducted to evaluate that;
Ho: there was no significant relationship between skills competence and performance in the financial sector in Kenya
$H_1$: There was a significant relationship between skills competence and performance in the financial sector in Kenya.
The coefficient of determination gave the idea of how much variance the two scores shared that gave = (0.909)2= 82.63%. Each score of skill competence helps to explain 83% of the variance in the score of the score. There was no significant evidence to reject the null hypothesis and concluded that there was a strong positive association across the scores (M=3.617, SD=1.2056), r(93)=0.909, p<.001. The results concluded that the higher levels and the other scores were associated with higher levels in the other scores.

**Table 3: Skill Competence and Performance**

| Pearson Correlation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| Average for Performance | 1 | | | | | | |
| Employees develop high level language | .210* | 1 | | | | | |
| Body language makes communication more efficient-reduce conflict | -.129 | .418** | 1 | | | | |
| Problem solving makes learning on the job easier | .258* | .257* | .423** | 1 | | | |
| Managing includes allocating resources, making and Implementing | .416** | .219* | .341** | .545** | 1 | | |
| Includes ability to hire and retain competent staff | .214* | .312** | .337** | .387** | .521** | 1 | |
| Causes the ability to see the big picture | .211* | .228* | .351** | .369** | .480** | .470** | 1 |
| N | 93 | 93 | 93 | 93 | 93 | 93 | 93 |

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

**Skill competence and Performance - Continued**

| Pearson Correlation | 8 | 9 | 10 | 11 |
|---|---|---|---|---|
| Involves keeping track of resources and distributing them Where needed | 1 | | | |
| Technical competencies and positioning the Organization | .473** | 1 | | |
| Innovation skills develops new objectives to foster use of few resources | .567** | .572** | 1 | |
| Soft skills diffuse conflict | .421** | .343** | .486** | 1 |
| N | 93 | 93 | 93 | 93 |

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

The table 3, show Pearson correlation coefficient of significance of .01(2-tailed) indicates that r was purely due to chance factors and not due to an actual relation, indicating that if there was no relationship between the variables, the outcome r could not be this big with the 93 being the observations that were used to calculate the correlation coefficient. These results differ from (Christensen 2015 and Sharma 2009) whose opinion was that a high turnover emerges due to the technical enhancement and firm competitiveness. Weber, Tarba, and Reichel (2011) that culture integrates play a major role in the performance and M&A.

**Regression Analysis**

The results enhance (Miller and Fernandes 2009) that culture must be a focus in efforts to integrate companies, as the results prove that value creation was not undermined. The results concur with (Alga, Bisin, and Verdier 2016) who fronted the two-dimensional identity model that this study alluded to, figure 2.

Table 4 gave the regression model summary, R=0.909 indicating a high degree of correlation with $R^2 = .826$, which is 82.6%, indicating how much of the total variation in the dependent variable (Performance), can be explained by the independent variables (skills competence), which is high. $F(10,82) = 38.825$, $P<.05$, $R^2 = .826$. Table 4, indicated that the correlation of R=.909 and $P<.05$, F=38.825. The SE = .393002 showed how much the skill competence may be off by .39 on the model.

**Table 4: Model Summary – Skill Competence**

| Model | R | R Square | Adjusted R Squared | SE of the Est. | Change Statistics R Square Change | F Change | df1 | df2 | Sig. F Change |
|---|---|---|---|---|---|---|---|---|---|
| 1 | .909[a] | .826 | .804 | .393002 | .826 | 38.825 | 10 | 82 | .000 |

**Table 5: ANOVA[a] – Skill Competence**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 59.965 | 10 | 5.997 | 38.825 | .000[b] |
| | Residual | 12.665 | 82 | .154 | | |
| | **Total** | **72.630** | **92** | | | |

The study concurs with the sentiments of (Kibisu, *et. Al.*, 2012) that skill competence is an ongoing process and as the results show, building on the knowledge concept by concept. The results proof that Evans (2010) thought line was vital. The general meaning of the high r score indicates that figure 2 is a tool that could help enhance skill competence.

**Table 6: ANOVA[a]**

| Model | | Sum of Square | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 26.47 | 3 | 8.823 | 36.922 | .000[b] |
| | Residual | 21.268 | 89 | 0.239 | | |
| | Total | 47.738 | 92 | | | |

a Dependent Variable: Performance

b Predictors: (Constant), Skills competence

After considering, linearity, normality, homoscedasticity, the conclusion was that the there was a statistical significant of the regression model that run, $P<.05$, indicating that, overall the regression model statistically significantly predicts the outcome variables, therefore, is a good fit for the data.

**Table 7: Regression coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 1.767 | 0.456 | | 3.873 | <.001 |
| | Skill Competence | 0.281 | 0.077 | 0.315 | 3.668 | <0.001 |

a Dependent Variable: Performance

From table 7, the regression equation modelled here becomes;

$$Y = \beta_0 + \beta_1 SC + \mu$$

Where

Y = Performance, SC ~ Skill competence, $\beta_0$ = Constant term, $\beta_1$, = Beta coefficients,

μ = Error term and any unobserved factors that we don't know

**Performance = 1.767 + 0.281SC**

A significance test at 5% and confidence level at 95% will be used, to measure the significance of the determinants in explaining the changes in the performance.

## Discussion and Conclusion

The results of the study indicated that there was awareness of the skill competence of computer and technology positioning the organization to greater performance, gathering information and being sensitive to any diversity in the organization and its resources, and innovation skills develops new objectives to foster use of few resources. Also, involve keeping track of resources and distributing them where needed most, ability to hire and retain competent staff and allocating resources, making and implementing budgets, and obeys business law.

Problem solving makes learning on the job easier; body language makes communication more efficient reducing conflict and employees develop high level language enhancing soft skills that help diffuse conflicts. These were demonstrated by the mean score of responses ranging from 2 to 4 with and Mean average of 3.658, standard deviation of 1.535, and standard error of 0.160.

## Conclusions

The major result from the research performed for this paper has been the development of an understanding of the determinants of performance of mergers and acquisitions in financial sector in Kenya. These are a potential help to all stakeholders who includes; the policymakers, M&A advisors, legal consultants, investment bankers, multinational managers and private equity firms, among others.

Looking at the extent to which skills competence was the determinant of performance for Mergers and Acquisitions, and based on the findings, the study concurs with (Refsnes 2012; Knight 2016), that developing leadership base and a more inclusive work environment, specific learned activities and/or skills, are required. The study concurs with (Rousku 2014), that competence is a specified skills, knowledge, attitudes and behaviour necessary to fulfil a task as intellectual capital in an organization.

## Recommendations

Based on the findings and conclusions discussed, the study presents the following recommendations; several avenues of further research seem particularly interesting; (1) Measurable skills, abilities and personality traits that identify successful employees against defined roles within an Mergers and acquisitions, (2) A competence analysis to assess the value of knowledge and skills in mergers and acquisitions.

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**APPENDIX 2: LIST OF COMMERCIAL BANKS – AS AT 2016**

| No. | Name of Bank |
|---|---|
| 01 | African Banking Corporation |
| 02 | Bank of Africa Kenya Ltd. |
| 03 | Bank of Baroda (K) Ltd. |
| 04 | Bank of India |
| 05 | Barclays Bank of Kenya Ltd. |
| 06 | CFC Stanbic Bank Ltd. |
| 07 | Charterhouse Bank Ltd. (Under Statutory Mgt.) |
| 08 | Chase Bank (K) Ltd. |
| 09 | Citi Bank N.A. Kenya |
| 10 | Commercial Bank of Africa Ltd. |
| 11 | Consolidated Bank of Kenya Ltd. |
| 12 | Co-operative Bank of Kenya Ltd. |
| 13 | Credit Bank Ltd. |
| 14 | Development Bank of Kenya Ltd. |
| 15 | Diamond Trust Bank (K) Ltd. |
| 16 | Dubai Bank Kenya Ltd. |
| 17 | Ecobank Kenya Ltd. |
| 18 | Equitorial Commercial Bank Ltd. |
| 19 | Equity Bank Ltd. |
| 20 | Family Bank ltd. |
| 21 | Fidelity Commercial Bank ltd. |
| 22 | Fina Bank Ltd. |
| 23 | First Community Bank ltd. |
| 24 | Giro Commercial Bank Ltd. |
| 25 | Guardian Bank Ltd. |
| 26 | Gulf African Bank Ltd. |
| 27 | Habib Bank A.G. Zurich |
| 28 | Habib Bank Ltd. |
| 29 | Imperial Bank ltd. |
| 30 | I & M Bank Ltd. |
| 31 | Jamii Bora Bank Ltd. |
| 32 | Kenya Commercial Bank Ltd |
| 33 | K-Rep Bank Ltd. |
| 34 | Middle East Bank (K) Ltd. |
| 35 | National Bank of Kenya Ltd. |
| 36 | NIC Bank Ltd. |
| 37 | Oriental Commercial Bank Ltd. |
| 38 | Paramount Universal Bank Ltd. |
| 39 | Prime Bank Ltd. |
| 40 | Standard Chartered Bank (K) Ltd. |
| 41 | Trans-national Bank Ltd. |
| 42 | UBA Kenya Bank Ltd. |
| 43 | Victoria Commercial Bank Ltd. |
| 44 | Housing Finance Ltd. |

Source: Central Bank of Kenya (2014)

**APPENDIX 3: LIST OF INSURANCE FIRMS – AS AT 2015**

List of Insurance Companies in Kenya, regulated by the Insurance Regulatory Authority

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| AAR Insurance Kenya | APA Insurance – part of Apollo Investments Company |
| Africa Merchant Assurance Company (AMACO) | Apollo Life Assurance |
| AIG Kenya Insurance Company | Allianz Insurance Company |
| British - American Insurance Company Kenya Limited | Cannon Assurance Company Limited |
| Capex Life Assurance Company | CIC General Insurance |
| CIC Life Assurance | Continental Reinsurance |
| Corporate Insurance Company | Directline Assurance Company |
| East Africa Reinsurance Company | Fidelity Shield Insurance Company |
| First Assurance Kenya Limited | Gateway Insurance Company |
| GA Insurance Ltd. | Geminia Insurance Company |
| Intra-Africa Assurance | ICEA LION General Insurance Company |
| ICEA LION Life Assurance Company | Intra Africa Assurance Company |
| Invesco Assurance Company | Kenindia Assurance Company |
| Kenya Orient Insurance | Kenya Reinsurance Corporation |
| Liberty Life Assurance Kenya Limited | Madison Insurance Company Kenya |
| Mayfair Insurance Company | Mercantile Insurance Company |
| Metropolitan Life Insurance Kenya | Next Insurance Kenya |
| Occidental Insurance Company | Old Mutual Life Assurance Company |
| Pan Africa Insurance Holdings | Pacis Insurance Company |
| Phoenix of East Africa Assurance Company | Pioneer Assurance Company |
| Real Insurance Company | Resolution Insurance Company |
| Sanlam Kenya plc – was Pan Africa Life Assurance | Saham Assurance |
| Shield Assurance Company Limited | Takaful Insurance of Africa |
| Tausi Assurance Company | Heritage Insurance Company |
| Jubilee Insurance Company Limited | The Monarch Insurance Company |
| The Kenyan Alliance Insurance | Trident Insurance Company |
| UAP Insurance Company | UAP Life Assurance Company |
| Xplico Insurance Company | |
| | |

Source: CFM (May 2017); www.ira.com
(https://softkenya.com/directory/insurance-companies-in-kenya/)