FACTORS INFLUENCING COCA-COLA SABCO ACQUISITION STRATEGY IN KENYA

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DECLARATION AND APPROVAL

Declaration

This research Project is my original work and has not been submitted anywhere for a degree in this or any other University.

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Approval

This research Project has been submitted for examination with our approval as University Supervisors.

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DEDICATION

I dedicate this research work to my parents for their belief in the power of education and brothers who are aspiring scientists.

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ABSTRACT

Despite the burgeoning literature on acquisition as a growth strategy and its wide spread use currently by firms globally, little is known and documented about the factors that drive subsidiaries in the franchise territory to adapt a particular growth strategy in a given country. This is contrary to the fact that global and multinational firms for instance, Coca-Cola Sabco Company formulates clear strategies for competing with other players in the industry at global level. This study was to determine the factors (organizational and individual) that drive Coca-Cola Sabco Company to go for acquisition strategy in Kenya and to establish the relationship between the number of firms acquired and overall firm profitability between the years 2000 and 2009. A cross-sectional survey research design was used for this study and a census was conducted on all the 84 targeted respondents. A questionnaire with structured and unstructured questions was used to collect primary data from all 84 top managers of the company since they are the key decision makers. Secondary data was collected by going through the company's organizational structure and financial statements. Spearman's correlation analysis, ranking and descriptive analysis were used to analyze the specific objectives with the help of SPSS computer software. The results show that, when organizational factors that influence the company to acquire other plants were ranked, to increase diversification was the most influential factor as it ranked number one and was followed by R&D which ranked number two, need for technology ranked number three, market share and balancing cost and revenue ranked number four and to reduce competition ranked number six. For individual factors, the need for more power came first, followed by achievement, sensation seeking and prestige respectively. The profitability of the company increased over the years but the impact of the acquired plants on the overall profitability in subsequent years was very minimal as indicated by a weak positive correlation coefficient of $r=0.3499$, $p=0.0013$ which was statistically significant. This study recommends further research on the acquisition process to establish whether the acquisitions done are partial or full acquisition. Further, the business environment varies from industry to industry and from country to country, hence a similar study should be conducted to ascertain whether similar results/findings on factors that influence a company to adapt acquisition strategy hold.

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LIST OF ACRONYMS

R&D: Research and development.

U.S.A: United States of America.

UK: United Kingdom.

M & A: Mergers and Acquisitions.

SABCO: South Africa Bottling Company.

OECD: Organization for Economic Co-operation and Development.

SPSS: Statistical Package for Social Sciences.

FDI: Foreign direct investment.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Acquisition has been an important part of the business scene for decades (Barney & Heslerly, 2008) and is a popular topic for research (Lausberg & Stahl, 2006). Stacey (2007) points out that acquisition is a growth strategy that makes it necessary to change the structure to one based on more formal specialization of functions and identification of authority and responsibility. According to Barney and Heslerly (2008) and Lasserne (2005), acquirers have tended to fall into two categories, that is, strategic acquirers and investment acquirers. Strategic acquirers use acquisition strategy to extend their current business, to leverage their current capabilities, or to diversify into new business (Barney& Heslerly, 2008; Lasserne, 2005; Hemel & Prahalad, 1989, 1990, 1994). On the other hand, investment acquirers have got no central business they are looking to extend or enhance. Instead, they acquire a portfolio of underperforming firms and then implement a variety of incentives and control systems into high performing firms. In general, investment acquirers will hold onto a firm long enough only to turn it around, whereas strategic acquirers will operate the firms they acquire for longer periods of time (Barney & Heslerly, 2008; Lasserne, 2005).

Acquisition is a very common strategy that a firm can use to accomplish its vertical, horizontal integration and diversification objectives and Coca-Cola Sabco as a company is not an exception. Although a firm may be able to accomplish its vertical, horizontal and diversification objectives through acquisition, it is sometimes difficult to generate the real economic profit for doing so (Barney & Heslerly, 2008; Pearce& Robinson, 2007, 2009; Stacey, 2007). According to Porter (1985), acquisition provides a way to broaden a firm's scope through adding positions in new segments, positions in new geographical areas, greater integration, or gain a strong position in a new related industry.

Worldwide, the total value of announced merger and acquisition activities from the year 2003 through 2005 was \$2.58 trillion and in the year 2005 alone, 11,013 deals were well completed for a market value of \$1.2 trillion (Barney & Heslerly, 2008). It is noted that, it is during this period that Coca-Cola Sabco Company aggressively acquired other plants. It is, therefore, clear that acquisition has become very common and that firms are using this strategy to grow and curb competition in a competitive business environment. What is not clear particularly for firms in the soft drink industry in Kenya are the factors that drive these firms to go for the acquisition strategy, the motives behind the acquisition strategy.

Successful companies focus on leveraging resources, that is, using what they have innovated to reach seemingly unattainable goals. The main concern of these companies is to use their resources in challenging and bigger ways to build up a number of core competences. Consistency is maintained by firms involved in any growth strategy, having a central strategic intent and the route to this successful state is accelerated organizational learning, recognizing that no competitive advantage is permanently sustainable. Here, managers are not simply matching their resources to the requirements of the environment. Instead, managers creatively use the resources they have, create the requirements of the environment that they can meet, push to achieve set goals and so continually renew and transform their organizations (Hamel & Prahalad, 1989, 1990, 1994; Stacey, 2007).

The soft drink industry has witnessed increased competition among industry players in Kenya (Nyakeruma, 2006). Companies that have led to increased competition in the industry include Food Complex limited, Pepsi Cola, Kenya Breweries, Kevian Kenya Limited, Delmonte and Sameer Agriculture and Livestock Company among others which have entered the industry with substitute product like Picana, Afia, and Alvaro etcetera. Barney and Heslerly (2008), note that the acquisition strategy should not only lead to the economic value, but also to competitiveness of the market for corporate control through these valuable economies realized.

Porter (1980), points out that the essence of formulating a competitive strategy is relating the company to its environment. Environmental scanning is, therefore, very important for Coca-Cola Sabco because managers of the company cannot devise a successful strategy like acquisition strategy, without the understanding of the soft drink industry special competitive characteristics in Kenyan competitive business environment. Pearce and Robinson (2009), note that environmental scanning raises managers' awareness of potential developments that could have an important impact on the industry conditions posing new opportunities and threats.

1.2 Coca-Cola Sabco-Kenya

Cola-cola Sabco Company operates in seven Southern and East African countries and five Asian Countries, and employees more than 9500 people. Coca-Cola Sabco started operations in Kenya in 1978 on a quarter of an acre in size, on the Addis Ababa road in Nairobi's industrial area, with one manually operated line on stock keeping unit (Nyakeruma2006). The beverage proved so popular that another production line was commissioned almost immediately in the coastal region Mombasa. Today Coca-Cola products (Fanta, Sprite, Krest, Coca Cola, Dasani, Novida & Minute Made) are bottled in six plants, that is; Nairobi bottlers, Mt Kenya bottlers, Coastal bottlers, Rift Valley bottlers, Equator and Kisii bottlers around the country and with a well-established network of distributors.

1.3 Statement of the Problem

Today's business environment is characterized by stiff competition, rapid technological advancements, changing customer requirements and employees. However, while it is apparent that global firms (for instance, Coca-Cola Sabco Company) have clear strategies for competing with other players in the industry at the global level, it is not clear how the subsidiaries in the franchise territory adapt growth strategies in order to compete with other players in a given country and industry. Acquisition as a strategy has become a favorite for companies seeking to improve performance, expand their territories and adapt it as a growth strategy in order to compete with other players in a given country and industry. Coca-Cola Sabco has not been an exception. Further, the decision to adapt the strategy is made by the top management of the company hence factors/rationale to guide the managers to adapt the strategy is of interest given a dynamic and turbulent business environment in Kenya. Studies in this area have focused on economical benefits and personal motives for Mergers and Acquisitions. However, little information has been documented on factors that influence organizations to adapt the strategy in the soft drink industry in Kenya. This study seeks to determine the factors that influence the adoption of acquisition strategy of Coca-Cola Sabco in Kenya

1.4 Objectives of the Study

The broad objective of this study was to examine the factors that influence acquisition strategy in the soft drink industry in Kenya. The specific objectives of the study were:

i. To establish the organizational and individual factors that drive Coca-Cola Sabco Company to go for acquisition strategy in Kenya.

ii. To determine the relationship between the number of firms acquired and overall Coca cola Sabco Company's profitability between 2000 and 2009 in Kenya.

1.5 Research Questions

The research questions used in this study were:

i. What are the factors that drive Coca-Cola Sabco Company to go for acquisition strategy in Kenya?

ii. What is the relationship between the number of firms' acquired and overall firm profitability of Coca-Cola Sabco between 2000 and 2009in Kenya?

1.6 Justification of the Study

The study contributes to the existing knowledge by determining the factors that influence acquisition strategy of a firm in a competitive business environment in Kenya which has not been well documented. The study reveals the factors in order of preference that drive Coca-Coca Sabco Company to go for an acquisition strategy in a competitive Kenyan business environment. Further, the synergy that exists between the adapted acquisition strategy and the competitive business environment in order for the Coca-Cola Sabco to remain competitive and have an edge over other competitors in the soft drink business industry is also evident. The findings of the study are very useful since they give a general picture of what Coca-Cola Sabco goes through when they adapt acquisition strategy as a growth strategy. Moreover, the study contributes to the existing literature in the field of strategic management and other management courses. The study forms a basis of reference and activates more research in the study area by academicians and the business community in Kenya and the world.

1.7 Scope and Limitation of the Study

1.7.1 Scope of the Study

The study covered the acquisition strategy of Coca-Cola Sabco Company between the years 2000 and 2009 in Kenya because this was the period that the company was aggressively involved in the acquisition of new plants in Kenya. A cross sectional survey was conducted on all the top management staff of Coca-Cola Sabco Company headquarters only since they were directly involved in the formulation and implementation of the company growth strategies. They were selected from the company president to the line managers and there assistants excluding the board of directors and lower level employees according to the organizational hierarchy.

1.7.2 Limitation of the Study

The study was limited to the acquisition strategy of Coca-Cola Sabco Company in a competitive business environment in Kenya and the determination of the factors that drive it to adapt the growth strategy. Additionally, respondents were unwilling to give accurate information for fear that the information may be sensitive. Besides, these respondents considered certain information as classified and confidential, and were unwilling to share the information. The researcher, therefore, took the necessary steps and measures to ensure that proper communication was made on the purpose of the study and assured the respondents of confidentiality of the use of information provided. The study was also limited by the geographical location of the six branches of the company located all over the country. To overcome this limitation, the researcher conducted an in depth study at Nairobi bottlers which hosts the company's headquarters.

1.9 Definition of Terms

Acquisition: To obtain or expand the existing firm's operations by buying out other firms' plants in the same industry to cope with business environment of operation.

Acquisition strategy: A growth strategy where a firm/affect a company's operations, and includes customers, competitors, stakeholders, suppliers, industry trends, regulations, other government activities, social and economic factors and technological developmentscompany buys out competitors' plants in the soft drink industry in order to gain market share and reduce competition in the same industry in Kenya.

Business environment: Forces that affect a company's operations which includes customers, competitors, stakeholders, suppliers, industry trends, regulations, government activities, social and economic factors and technological developments.

Competitive business environment: An environment characterized by turbulent and dynamic changes in Porters five forces.

Divestment: A strategy where Coca-Cola Sabco Company sales or does away with a newly acquired plant or a major component of that plant.

Coca-Cola Sabco: A partnership between Coca-Cola Company and South Africa Bottling Company having their business operations and owning several plants in Kenya together.

Top management: Refers key decision makers of the company. They include directors, deputy directors and section heads selected systematically in order of organizational hierarchy of the company excluding the board of directors.

Plant: a factory which manufactures soft drink products like soda, water, juice etcetera.

Organizational factors: Refers to those factors that drive a firm to go for acquisition as a strategy for competing with other players within the same industry due to changing business environment.

Individual factors: Factors that influence individual managers of a company to favour the acquisition strategy decision.

CHAPTER TWO

LITERATURE REVIEW

2.1 Acquisition as a Growth Strategy

The 20th century witnessed a strong activity of mergers and acquisitions on several times (Scherer & Ross, 1990). However, the 1990's experienced a new wave of industrial restructuring which differed in many respects from prior consolidations periods. The new mergers and acquisitions operations involved larger multinational firms: the transaction value rose dramatically (Kang & Johansson, 2000). Also, mergers and acquisitions took place not only in manufacturing, but also in service sectors (especially in telecommunications, financial services and business services (OECD, 2001; Evenett, 2002).

Acquisition is the most popular means of diversification into another industry. It is not only quicker for trying to launch a brand new operation but it also offers an effective way to overcome entry barriers. Such barriers are acquiring technological know-how, establishing supplier relationships, becoming big enough to match rivals' efficiency and unit costs, having to spend large sums on introductory advertising and promotions, and securing adequate distribution (Gamble, Thompson& Strickland, 2004). Acquisitions allow the acquirer to move directly to the task of building a strong market position in the target industry, rather than getting into the start-up problems and trying to develop the knowledge, resources, scale of operation, and market reputation necessary to become an effective competitor within a few years.

Acquisition strategy can also be used as a grand strategy for diversification of a firms business (Barney & Heslerly, 2008). According to Pearce and Robinson (2009), acquisition for diversifying the firm's business can be concentric or conglomerate diversification. Concentric diversification involves the acquisition of business that is related to the acquiring firm in terms of technology, market, or products while in conglomerate diversification, a firm acquires a business because it represents the most promising opportunity available.

As observed by Ansoff (1999), firms must adapt new strategies to new environment. The change in the competitive environment will require new strategies, which in turn, call for reformed organization capability. Strategies are designed to capitalize on core competencies and distinctive assets to form a basis of creating a sustainable competitive advantage (Stacey, 2007). Stacey goes further to say that an obsession with winning, and winning on a global scale cannot be secured either through long-term plans or through unidirectional process of intra-preneurship or autonomous small taskforces. Instead, success is secured by discovering how to achieve a broad, higher and challenging intention to build core competencies.

2.2 Studies on Acquisition Strategy

Literature has pointed out that acquisition as a strategy has been researched on in various countries. Chari *et al.* (2004) did a study on cross border mergers and acquisitions in Michigan and they suggested that stock markets anticipate significant value creation from cross border acquisition of emerging markets. In their study, they formulated value returns theory due to cross border merger and acquisition and used questionnaires to collect data and regression model to analyze the collected data. A study by Lausberg and Stahl (2006), conducted in Maryland-Germany expands the current economic literature, which acknowledges the existence of personal motives(power, achievement sensation seeking and prestige) but fails to prove their importance by applying methods from psychological research. Furthermore, their results support the conclusion that, managers tend to accept great economic disadvantage in following their own motives.

In today's globalized economy, enterprises are facing ever increasing competitive pressures. A commonly adopted strategy for gaining new technologies and remaining competitive is to acquire needed technology from external sources (Hung & Tang, 2007). Hung and Tang (2007), identified influential factors and their impact using a multi-factorial analysis on the choice of technology acquisition mode. The effect of various factors on these modes was studied by examining a sample of the electronic industries of Japan, Korea and Taiwan. An analysis using Logit Regression was carried out and data tested on these electronic firms. The results indicated that among the factors analyzed, the technological capability (including technological level, technological innovation and research and development (R&D) activities) of a firm was the most significant factor in influencing the determination of the mode of technology acquisition.

In Nigeria, a study by Folasade and Ola (2002), surveyed three industrial sub-sectors (textile, chemical and light engineering) on trade liberalization and technology acquisition in the manufacturing sector. Their results showed that some elements of trade liberalization such as the abolition of import licensing and lower tariffs increased the availability of competing goods and facilitated firms' access to imports. However, the increasing competitive environment was yet to generate remarkable improvement in the technological activities of the firms in the sector. One of the strongest findings in this research in the field of strategic management and finance is that, on average, the equity holders of the target firms in mergers and acquisitions make money while the equity holders of the bidding firm in these same mergers and acquisitions usually only break even (Barney & Herslerly, 2008;Marie, 2004).

Foreign direct investment (FDI) model assumes the establishment of new plants and equipment or "greenfield" investment (Bajo-Rubio & Sosvilla-Rivero, 1994; Barrell & Pain, 1996; Gopinath *et al.* 1999). Such a model assumes that the investing Company chooses a location, plant size, product mix, distribution system, and other company attributes in order to maximize profits. The firm's structures are endogenous with the investment decision. The idea is that the investing company uses its funds (borrowed or internally generated) to build a facility that has a high return on investment and thus maximum profit.

These company characteristics can be changed after the merger and acquisition, but the factors that an acquiring company considers in its decision will be different than if it was building the plant, equipment, and distribution system from scratch. The advantage of a merger and acquisition is that risk is lowered because the company has an established track record (though there may be information asymmetry with respect to some company characteristics). The acquiring company is purchasing real assets and intangible assets such as goodwill (Babool, 2003).

Viewing FDI through a merger and acquisition, where there is an existing company and the acquiring firm faces the zero/one decision on whether to purchase the firm, is different. The analytical literature for mergers and acquisitions has focused on some of the same variables as the greenfield investment approach, such as exchange rates and economic activity, but diversification and the financial capacity of the acquiring firm is more important in mergers and acquisitions (M/A's) analyses. The most important measurement of financial capacity for the acquiring firm is often its stock price because mergers and acquisitions are often accomplished through issuance of stock by the acquiring firm. The greater the capitalization of the acquiring firm, the greater capacity they have for purchasing other firms.

Vasconcellos and Kish have done much work in this area on bilateral mergers and acquisitions (Vasconcellos & Kish, 1996; 1998). They developed a capital budgeting model to explain mergers and acquisitions activity between two countries. They assume that the foreign acquisition is an investment decision where future cash flows and the firm's terminal value are discounted with an interest rate. Present and future exchange rates are important because the values over time are repatriated to the acquiring firm's home country. The purchase can be made through a combination of borrowed funds and equity funds (which come from the acquiring firm's market capitalization). Thus, the company's stock price is an important factor. The empirical application of this model always involved acquisition differences between two countries as the dependent variable. The model regressed the difference in acquisition values for two countries as a function of the exchange rate, interest rate differential, and the value of stock price indices for the countries. Vasconcellos and Kish (1996) study, which explained acquisitions between U.S.A and Canadian firms, they found that the difference in interest rates and the price earnings ratio in each stock market were important explanatory variables. In Vasconcellos and Kish (1998) study, which explained acquisitions between U.S.A firms and firms from four European countries, they found that stock market prices and the interest rate differentials were major determinants, whereas the exchange rate was not consistent in its relationship to acquisitions.

Despite the fact that acquisition as a growth strategy has become a favorite of many firms in the Kenyan economy, little information has been documented about the acquisition strategy in the turbulent and dynamic Kenyan business environment. A study that has been conducted so far focuses on a firm's strategic response to changing business conditions in Kenya (Nyakeruma, 2006). This study used Porter's five forces theory, exploratory research design, a questionnaire to collect data and correlation analysis to analyze the data collected. The interesting part in this study is that it recommended a research to be done on the acquisition strategy in a competitive business environment as used by some firms which coincides with the recommendation of a study conducted by Grundy (2006) in United Kingdom which used the same theory and research methodologies.

2.3 Factors that Drive Firms to Adapt Acquisition Strategy

One or more of the following factors are present in all acquisitions: For better understanding the researcher classified these factors into two categories, that is, organizational and individual factors for purposes of this study.

2.3.1 Organizational Factors

The usual and generally least risky means of increasing global market penetration is through acquisition of, or joint venture with, a local partner. Due to the increased globalization of product markets, U.S.A cross-border merger and acquisition activity has been steadily increasing. Many of the most important and largest product markets for U.S. companies have become global in scope.

A number of studies have summarized and classified the possible capabilities that can be developed in a firm as well as their functions (Lall, 1991; Lall, 1992). Companies go for acquisition strategy because- they want to extend the Company's business into new products or international markets. For example, PepsiCo acquired Quaker Oats chiefly to bring Gatorade into the Pepsi family of beverages (Thompson, Gamble & Strickland, 2004) and Coca-Cola Company acquired Columbia Pictures in the early 1980s in the United States (Katsioloudes, 2006).

Starting with the 19th Century railroad and oil mergers, a prime motivation for merger has been to gain and increase market power. Left unrestrained by government regulation it would be a natural tendency of businesses to seek monopoly power. In practice, most firms are acquired as 'going concerns' with at least some goodwill in the form of an existing customer base, and acquisitions will normally be seen as an attempt to increase the firm's market share by increasing both capacity and customers simultaneously. A firm is more likely to look to acquisition if returns to investment in its existing business are low: there is little point in adding to its capacity, where the market overall is not growing or even declining, and acquisitions will be the only way in which the firm can hope to grow. In these circumstances there is likely to be competition between firms to acquire any target firmswithin the industry, which could lead to unprofitable (to the acquiring firm) takeover battles (Guy & Hay,1998).

Jensen (1988) emphasized the significant role of acquisitions in achieving restructuring in declining or stagnant industries. Another factor may be the overall strategy of the firm. A firm which is seeking to grow aggressively in markets will often view acquisition and internal growth as complementary strategies, rather than competing for funds.If the firm has run out of internal investment projects, it will ordinarily be in the interests of the shareholders to insist on a higher payout, so that they can chose how to reinvest (Bhagat, Schleifer & Vishny, 1990). This aspect has been emphasized by Jensen (1988) in his 'free cash flow' theory of acquisitionbehaviour. His theory illuminates two aspects of acquisition activity. The first is that firms may make acquisitions to mop up excess cash which they are unwilling to pay out to shareholders; the second is that shareholders may be willing to accept takeover bids for companies that they suspect of not using excess cash wisely. Jensen draws attention to the important role of debt in ensuring that firms' 'free cash' is reduced, so that they have less resources for making unprofitable acquisitions.

Acquisition will be an attractive option to the firm if there are assets to be acquired cheaply thereby. The obvious case is where the valuation ratio of the acquired firm is less than unity. However, there will also be incentives for acquisitions where the acquiring firm has a high valuation ratio itself. For instance, takeovers financed by offering shares in the acquiring company to the aquiree shareholders will be relatively cheap (Guy & Hay, 1998).

Rapid and dramatic technological developments have led companies to seek out acquisitions to remain competitive. Convincing examples are the acquisitions by telephone, software, cable and media companies designed to place them in a position to compete in an era of high-speed Internet access via cable in which people interact with the World Wide Web for news, information, entertainment and shopping. Banking is another example where rapid changes in technology have sparked a significant number of acquisitions.

A firm will acquire another firm in order to access new technology and save time in research and development (Folasade & Ola, 2002). This factor is a favourite of companies racing to establish attractive positions in the emerging markets. Such companies need to fill technological gaps, extend their technological capabilities along some promising new paths, and position themselves to launch next wave products and services. Cisco Systems purchased over 75 technology companies to give more technological reach and product breadth, thereby standing as the world's biggest supplier of systems for building the infrastructure of the internet (Katsioloudes, 2006).

Many of today's acquisitions involve a company with a favorable operating margin acquiring a Company with a lower operating margin. By improving the acquired company's operations, the acquirer creates synergies that pay for the acquisition premium and provide additional earnings for the acquirer's shareholders. Acquiring firms may reallocate or redeploy assets of the acquired firm to more efficient uses. Additionally, intra-industry consolidating acquisitions provide opportunities to reduce costs by spreading administrative overhead and eliminating redundant personnel.

This is particularly the case for companies such as suppliers to large retail chains that prefer to deal with a limited number of vendors in order to control costs of purchasing and carrying inventory. A similar situation has resulted in a large number of acquisitions of suppliers to the automobile manufacturers. The 1990s witnessed recognition by corporate management that it is frequently not possible to manage efficiently more than a limited number of businesses. Similarly, there has been recognition that a mergers and acquisitions can result in the market valuing the separate companies more highly than the whole. This factor results in sale of non-core businesses by a large number of companies enabling the management to focus on the core business of the firm (Badenhausen, 2005).

Institutional investors and other shareholder activists have had considerable success in urging (and sometimes forcing) companies to restructure or seek a merger. The enhanced ability of shareholders to communicate among themselves and to pressure boards of directors has had a significant impact. Boards have responded by urging management to take actions designed to maximize shareholder value, resulting in divestitures of non-core businesses and sales of entire companies in some cases. In other cases, shareholder pressure has been the impetus for growth through acquisitions designed to increase volume, expand product lines or gain entrance to new geographic areas.

Chari *et al.* (2004), notes in his study that, during periods of relative calm, cross-border mergers and acquisitions activity are driven by factors such as the transfer of technology, synergies, vertical specialization, management externalities, differences in the cost of capital and the acquisition of control. During crisis periods the same factors may continue to drive cross border mergers and acquisitions activity. However, a host of other factors such as targets experiencing financial distress as a result of liquidity crises, and increases in the bargaining power of the foreign acquirers may also become important drivers of cross border mergers and acquisitions activity.

Other reasons why companies go for acquisition strategy include: To pave way for the acquiring company to gain more market share and, further, create a more efficient operation out of the combined companies by closing high-cost plants and eliminating surplus capacity industry wide, to expand a company's geographical coverage, to try to invest in a new industry and lead the convergence of industries whose boundaries are being overtaken by changing technologies, new market opportunities and free cash flow (Barney & Heslerly, 2008; Thompson, Gamble & Strickland, 2004). However, in this study, the discussed factors are consolidated into five major organizational factors on which little have been researched on.

2.3.2 Individual Factors

The decision-making process in acquisition is subject to the influence of individual and group-related factors on one hand and organizational factors on the other. The current business literature, acknowledges the existence of personal motives (power, achievement, sensation seeking, and prestige) and managerial self-interest, but mostly fails to proove their importance, by applying methods from psychological research (Lausberg & Stahl, 2006). Lausberg and Stahl (2006), further argue that, one way to explain the importance of non-economic reasons (also referred to as personal reasons) is that, managers act as agents for the Company or the owners, but also pursue their own interests, especially if there is a lack of control. This is usually the case in the early phase of acquisition, from the point when the managers select an acquisition target until the owners and stakeholders get involved in the process.

In the study Lausberg and Stahl (2006), survey research design on forty banks in Germany; questionnaires were used as tools for data collection by the researcher through structured interviews, personal inventories and scenarios. Data collected were then analyzed by a multiple regression model. In this study, power, achievement, sensation seeking and prestige factors were considered because of acceptance in practice and reliability. Power is the need to be able to exert influence over others. A person with a strongly developed power motive strives to experience the opportunity to exert control over others or to experience control itself and aims at increasing their source of power (Schmalt, 1987).A merger unquestionably presents such a possibility since it presents, for instance, the possibility of increasing both the number of subordinates and the number of opportunities to exert influence. The assumption in this case is therefore that a person with a strong power motive regards a possible merger from the perspective of a potential increase in power and would therefore tend to decide in favor of the merger.

The achievement factor is effective in all areas in which something can be judged successful or unsuccessful. The critical target condition against which behavior and experience is measured is success or failure. The hope for success and the fear of failure are therefore the basic dimensions of achievement motivated behavior (Church & Elliot, 1997; Prochaska, 1998).Persons with a highly developed achievement motive seek challenges through tasks that are estimated to be difficult but manageable. Takeovers are prototypical for such a challenge because they are known to be highly complex and because the managers' of successful mergers are usually celebrated. It is therefore assumed that a person with a strong achievement motive will principally regard the challenge of a risky merger positively.

Sensation seeking is understood as the search for new, complex, and intensive perceptions, impressions, and experiences and the willingness to take physical, social, legal, and financial risks for the sake of these experiences (Zuckerman, 1994). As a complex process in which many consequences are not foreseeable during the decision-making phase, a merger includes a multitude of risks. There is great danger that later the merger will be regarded as a failure which invariably results in a loss of reputation for the decision-makers. It should be assumed therefore, that persons with a very pronounced sensation-seeking motive will show greater willingness to decide in favor of risky mergers.

Prestige is understood as recognition and esteem for a person, a group or a position by society. It strengthens self-esteem and satisfies the central human need for recognition (Goldschmidt, 1990). Prestige is characterized by a subjective component-evaluation according to the scale of values of the members of society-and an objective component-the importance that a person derives from this for himself/herself or others.

In the social sciences, the prestige motive has mainly been examined by sociologists who, for instance, have quantified the prestige value of various professions (Wegener, 1992).Their work had a different focus: esteem for individuals-within companies and specialist circles-and the self-evaluation that results from this. In fact it was assumed that the social prestige value of a chairperson of the executive committee was, as a rule, only marginally improved by the increase in size resulting from a merger. Prestige is in this sense the quality attributed to a person by others based on his/her characteristics, actions, and abilities. The assumption is that a decision-maker with a pronounced drive for prestige is generally in favor of a potential merger due to the perspective of an increase in prestige.

2.4 Performance of Acquisition Strategy

Acquisitions which are related in product/market or technological terms create higher value than unrelated acquisitions. Related acquisitions are found to have greater total dollar gains than unrelated acquisitions. Acquired firms in related acquisitions have substantially higher gains than acquired firms in unrelated acquisitions. These findings indicate that related target firms benefit more from acquisition than unrelated target firms (Montgomery & Singh, 2010; Bruton, Magaret & Oviatt, 1994,).

Based on 173 acquisitions in the U.S.A manufacturing industry, a study by Datta (1991) examined the impact of organizational differences between acquiring and acquired firms on post-acquisition performance. The findings indicated that differences in top management styles have a negative impact on performance in acquisitions characterized by both high and low levels of post-acquisition integration. However, no such relationship was observed between differences in the reward and evaluation systems and post-acquisition performance in either the high or low integration subgroups (Datta, 1991).

Kusewitt (2006) investigated the relationship of seven common factors of acquisition strategy to the long run financial performance of acquiring firms in U.S.A. The study highlighted relative size, acquisition rate, and industry commonality, and timing, type of consideration, acquiree profitability and price paid as key success factors for firms' performance in U.S.A. The factors were analyzed individually and in concert using a database of 138 active acquiring firms which had accomplished some 3500 acquisitions during the 1967-1976 study time period. All factors except price paid were found to be individually significantly statistically related to the performance measures. Also, these factors together accounted for most of the post-merger financial performance which was attributed to the acquisition program.

Acquisitions may occur multiple times in an organization's history, so prior acquisition experience may be used for a subsequent acquisition and affect its performance. The performance of an acquisition can be assessed objectively using abnormal stock price returns, a commonly used method to assess event performance within the finance and strategic management (Finkelstein & Haleblian, 1999). Finkelstein and Haleblian (1999) developed a contingency model drawn from a learning model in psychology that predicts that the effects of acquisition experience may range from positive to negative. Their study made a contribution to the organization experience and organization learning literature by developing a theoretical framework to understand the influence of organization experience across a broad variety of contexts based on this learning model and then empirically testing this theory to add a new perspective to understanding of organizational acquisitions.

Studies have shown that acquisitions do not always produce the hoped for outcomes. Combining the operations of two companies, especially large and complex ones, often entails formidable resistance from organization members, hard to resolve conflicts in management styles and corporate cultures, and tough problems of integration (Lasserne, 2005; Thompson, Gamble & Strickland, 2004). Stahi (2004) suggests that contrary to common belief, it is not poor strategic fit that most often causes acquisitions to fail but poor execution. He further argues that errors can be seen, for example, in instances of insensitive management, lack of trust building and communication, slow execution, power struggles, or leadership vacuum following the deal.

A study by Auken *et al.* (2008) on the relationship between capital acquisition and bankruptcy laws in the United States observes that ineffective acquisition decisions at start-up may lead to business failures and bankruptcy, a result which is both costly and disruptive to owners and other stakeholders of the firm. They further found that as the level of initial capital acquisition increases, owners embark on activities intended to reduce firm risk. Dickerson *et al,*. (1997) investigated the impact of acquisitions on company performance using a large panel of United Kingdom-quoted companies observed over a long time period. The results indicated that acquisitions have a detrimental impact on company performance and that company growth through acquisition yields a lower rate of return than growth through internal investment.

To achieve superior performance, firms must operate effectively in their market environment. They must be efficient in production and responsive to consumer demand. They must anticipate and adapt to change, innovate through research and development (R&D), and develop new products and services (Baron, 2010; De Wit & Meyer, 2004). Baron (2010) further argues that effective management in the environment is a necessary condition but it is not sufficient.

Most literature has pointed out that mergers and acquisitions do not add value in all cases. 23 % of all acquisitions earn their cost of capital and that when a merger and acquisition deal is announced; a company's stock price rises only 30 % of the time. The synergies projected for mergers and acquisitions deals are not achieved in 70 % of cases and that chief executive officers and chief financial officers routinely cite "people" problems and cultural issues as the top factors in failed integrations (Liebling & Marie, 2004). Liebling and Marie (2004) note that, the vast extent of mergers and acquisitions failures raises an important question: Why don't corporate executives fully assess the risks and probable outcomes of proposed mergers and acquisitions. This issue is especially remarkable given that most major deals include lawyers, certified public accountants, and other professionals who advise buyers. Moreover, numerous articles and books provide standard techniques for evaluating potential acquisition targets.

2.5 Benefits of Acquisition as a Growth Strategy

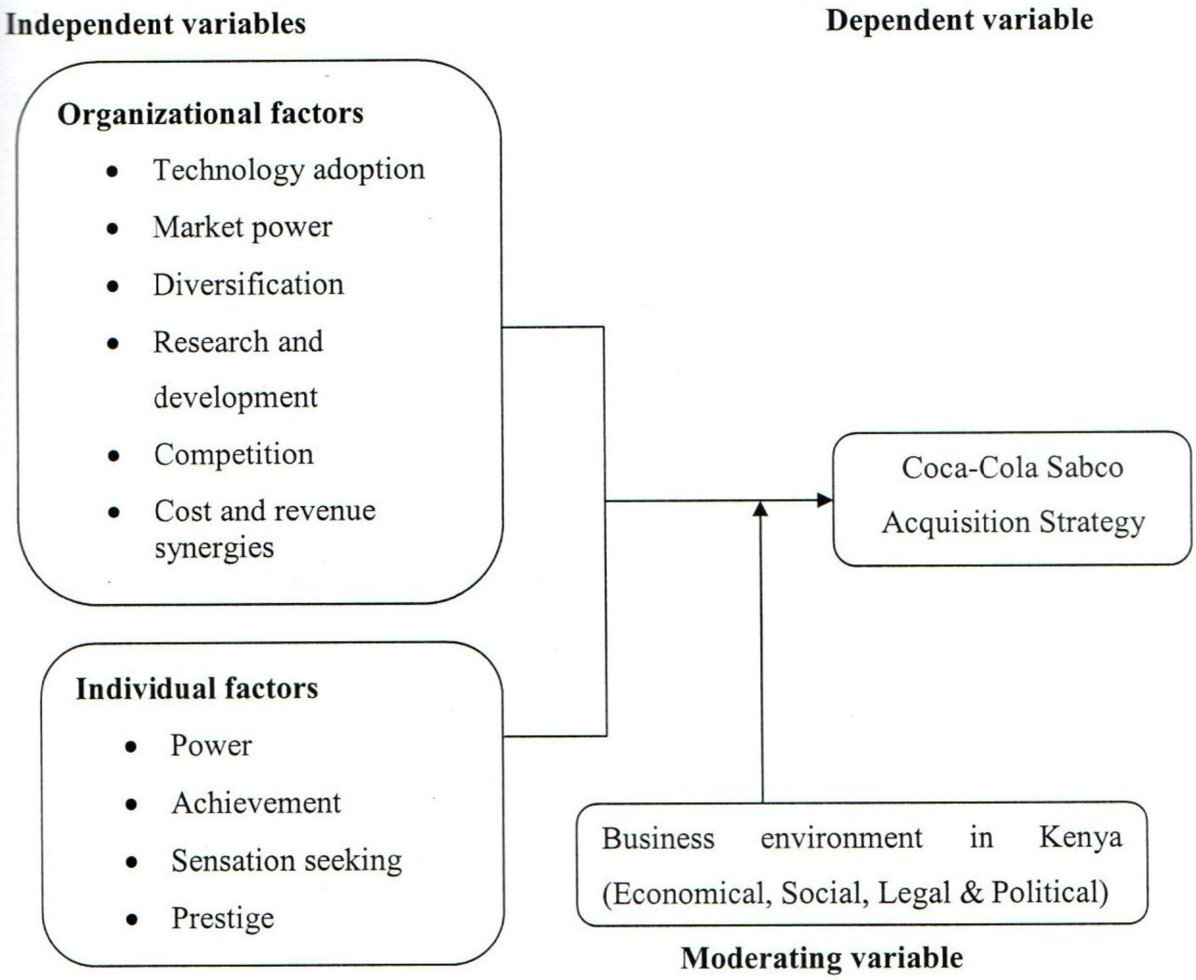
Daniels *et al.* (2009) concludes that above all, acquisition reduces costs and saves time. That is, by buying another company, an investor avoids inefficiencies during the start-up period and gets an immediate cash flow rather than tying up funds during construction. Daniels *et al.* (2009) observed that much of Chinese investment in the United States has been through acquisition, simply because of Chinese companies desire to secure well-known brands that will help them sell. Coca-Cola Sabco Company acquisition of competitors' plants in Kenya causes curiosity as to what factors drive the company to adapt acquisition strategy, organizational motives and reasons the company has in Kenyan competitive business environment.

2.6 Competitive Environment of a Firm in an Industry

Porter (1985), describe the competitive forces that determine the state of competition in an industry. These forces are similar to those faced by Coca-Cola Sabco Company in the soft industry in Kenya. They classify these forces into five basic categories: the bargaining power of suppliers, the bargaining power of buyers, threat of new entrants, threat of substitutes and rivalry among existing firms. Porter further argues that the strongest competitive force or forces determine the profitability of an industry and so the five forces are of greatest importance in strategy formulation. For instance, Nyakeruma (2006), note that even a company with a strong position in an industry like Coca-Cola Sabco unthreatened by potential entrants will earn low returns if it faces superior or lower cost substitute products.

To achieve superior performance, firms must operate effectively in their market environment. They must be efficient in production and responsive to consumer demand. They must anticipate and adapt to change, innovate through research and development (R&D), and develop new products and services (Baron, 2010; De Wit & Meyer, 2004). The acquisition strategy should, therefore, be able to result to sustained competitive advantage of a firm by offering to customers' products and services which are valuable, rare, and not easily imitated (Barney & Heslerly, 2008).

2.7 Conceptual Framework



Source: Own conceptualization

Figure 1: Conceptual Framework of Factors Influencing Coca-Cola Sabco Acquisition Strategy

The conceptual framework, figure 1, shows that, a firm adopts acquisition strategy as a result of two groups of factors, which are organizational and individual factors. Organizational factors include: technology acquisition, market power, diversification, research and development (R & D), competition and cost and revenue synergies. Individual factors influencing managers' include power, achievement, sensation seeking and prestige. All this largely depends on how the competitive the business environment is and as characterized by Porter's five forces in the soft drink industry.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Cross-sectional survey research design was used in this study. This was because data required for analysis for purposes of this research was collected just once. This design saved time, effort, and costs that would otherwise be incurred in collecting data over several time periods (Owens, 2002; Mugenda & Mugenda, 1999).

3.2 Study Area

The study was conducted at Coca-Cola Sabco Company headquarters, Nairobi-Kenya. Coca-Cola Sabco Company was purposively chosen in the Soft drink industry since it was key player in the soft drink industry and presented a unique scenario of acquisition strategy in the industry

3.3 The Population

The target population was 84 top managers of Coca-Cola Sabco Company who are based at the head office only. This was the total population of all top managers working at the head office which coordinates all the activities in East and Central Africa region. Eighty four (84) respondents were arrived at based on Coca-Cola Sabco Company organizational structure for East and Central Africa which is based in Nairobi-Kenya (Coca-Cola Sabco, 2010) as shown in Table 1.

Table 1:Coca-Cola Sabco Top Management Organizational Hierarchy.

Sample	**Total**
President	1
Deputy president	3
Country directors	8
Deputy country directors	16
Sales and marketing manager and assistants	13
Supply chain manager and assistants	10
Human resource manager and assistants	12
Finance manager and assistants	11
Production manager and assistant	10
Total	84

3.4 Sample

A census was conducted on all the 84 top managers. A census was used because acquisition strategy adoption was a top management decision and all of them were involved in the process.

3.5 Data Collection

Primary data supplemented by secondary data was collected by going through Coca-Cola Sabco strategic plans, organizational structure and financial statements/records between the year 2000 and 2009. Primary data was collected by each respondent filling the questionnaire (appendix 1) with the guidance of the researcher. A questionnaire was used to collect primary data (Mugenda &Mugenda, 1999).

3.6 Data Analysis

Data analysis was aided by SPSS computer software. Objective one on factors that drive Coca-Cola Sabco to go for acquisition strategy, descriptive statistics and ranks were used. According to Hawkins and Tull (1997) ranking method requires the respondent to rank a set of objects according to some criterion. Displays of the data collected was tabulated to show the number of top managers who ranked each organizationalfactor and individual factor as 1, 2, 3, 4, 5 or 6 and 1, 2, 3 or 4 respectively.

For analysis of objective two, on establishing the relationship between the number of firms acquired and firm profitability, Spearman's correlation analysis was used. The significance of the relationship was then determined at alpha level of p=0.05.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Experience of the Respondents

A total of 84 questionnaires were administered. Out of these 82 questionnaires were returned duly filled. Thus the response rate was 98%, which indicated a high rate of compliance. Of the 82 respondents, 21% had experience of less than 5 years, 39% had experience of 5 to 10 years while 40%had over 10 years' experience working with Coco-cola Sabco Company. Thus the composition of the respondents was such that they were competent and knowledgeable enough to respond to the issues raised in the study.

4.2 Rating Coca- cola Sabco's Growth Strategies in Kenya

Majority of the respondents (70%) indicated that Coca-Cola Sabco Company's growth strategies are competent while 30% indicated that the company's growth strategies are excellent. None of the respondents indicated that the strategies were either, average or good. This means that all the sampled employees have a very high regard for the company's strategies. Moreover, this could be because the company adapts other growth strategies besides acquisition strategy in Kenya. Figure 2 shows respondents ratings graphically.

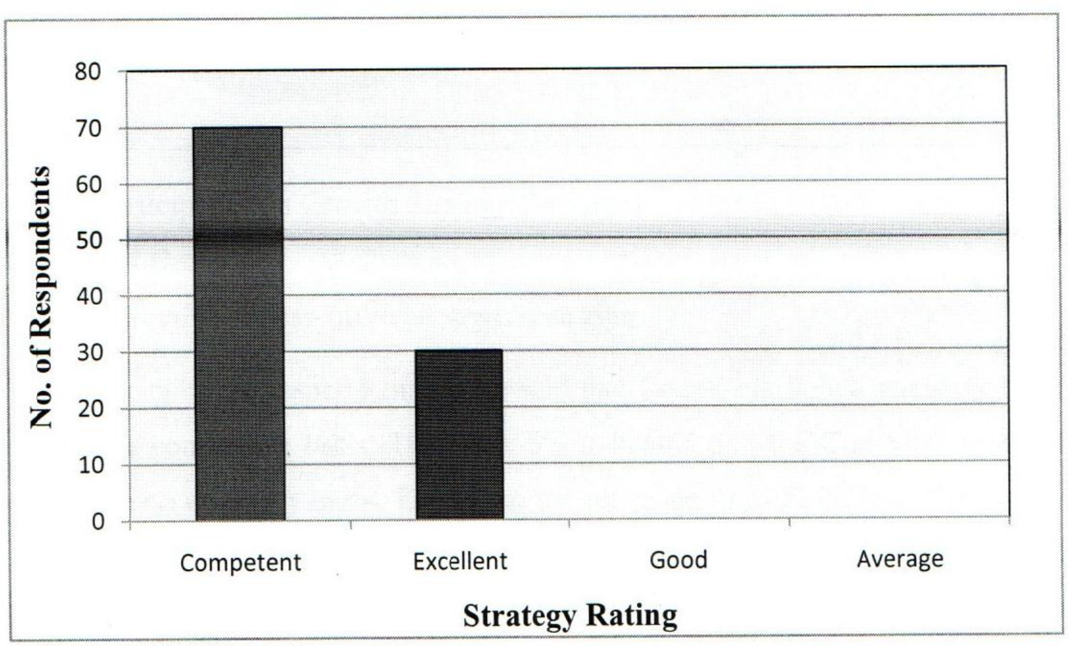


Figure 2: Rating of the company's growth strategies

Source: Field Data

4.3 Participation in Growth Strategy Decisions

All the respondents (98%) indicated that as managers they had participated in decisions involving growth strategies of the Company such as acquisition strategy. Of these 78% of the respondents were involved in the whole process of the acquisition, 6% were involved in the formulation process only, while 3.7% were involved in implementation only. Another 3.7%of the managers were involved in control process while 8.6% were involved in the monitoring and evaluation process. The results show that Coca-Cola Sabco Company has a vibrant policy of involving mangers at different levels in decision making. This means that, managers are highly regarded by the company encouraging participation and reducing resistance when it comes to strategy execution. The pie chart shown in Figure 3 represents managers' participation in growth strategy decision of the company.

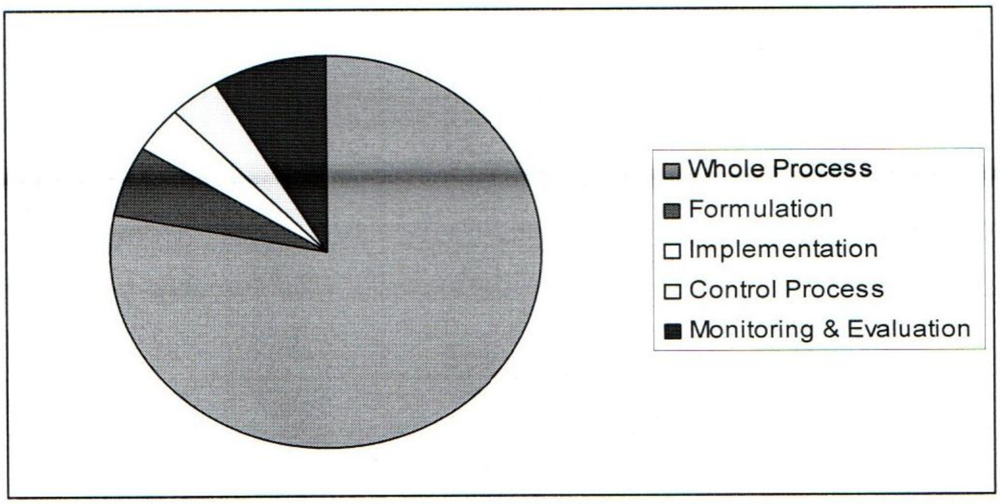


Figure 3: Participation in Growth Strategy Decisions

Source: Field Data

4.4 Coca-Cola Sabco Business Environment Scanning

The majority of the respondents (97%) said that Coca-Cola Sabco scans the business environment on a continuous basis. The other 3% indicated that the Company conducts an environment scan on a weekly basis. The 3% of the respondents differed from the opinion of the rest because possibly they were still new in the Company and they were still familiarizing themselves with the operations of the Company. The results showed that the Company was keen on evaluating the business environment on a frequent and periodic basis. This agrees with the findings of Nyakeruma (2006). This frequent scan of the business environment enables the Company to be aware of the changes that occur in the Kenyan business environment in terms of Porters five forces that is, threat to entry in the industry, threat of substitutes, supplier power, buyer power and rivalry in the industry. Table 2 below shows how the respondents rated their opinions regarding Porters five forces as applied in Kenyan soft drink business environment.

Table 2: Rating of the soft drink Porter's Five Forces in Kenya.

Force	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total (Percentage)
Threat to entry in the industry	22%	57%	20.7%	-	-	99.7%
Threat of substitute products	40.2%	40.2%	19.6%	-	-	100.0%
Supplier power in the industry	19.6%	22%	58.4%	-	-	100.0%
Buyer power in the industry	19.6%	17%	63.4%	-	-	100.0%
Rivalry among competitors in the industry	19.6%	60.8%	19.6%	-	-	100.0%

Source: Field Data

From Table 2, 22% of the managers strongly agreed, 57.3% agreed while 20.7% of the managers were neutral that the soft drink industry was characterized by threat to entry in Kenya. With regard to threat to substitute products in the industry, 40.2% strongly agreed, 40.2% agreed while 19.6% of the managers were neutral. Table 2, also shows that, 19.6% strongly agreed, 22% agreed while 58.4% were neutral on supplier power. Moreover, 19.6% strongly agreed, 17% agreed and 63.4% were neutral on buyer power. Further, on rivalry within the industry, 19.6% strongly agreed, 60.8% agreed and 19.6% of the managers were neutral.

It is clear from Table 2 that a majority of the managers agree that the Soft drink business environment is competitive and turbulent due to threat of substitute products like Alvaro, Delmonte juice, Afia etcetera. This finding agrees with that of Nyakeruma, 2006 that even a Company with a strong position in an industry like Coca-Cola Sabco unthreatened by potential entrants will earn low returns if it faces superior or lower cost substitute products.

4.5 Factors that Drive Coca Cola Sabco Acquisition Strategy

Table 3, below shows the response of the respondents to various factors that influence their decision to favour acquisition strategy for the company. The factors are categorized into organizational and individual factors. Means were calculated and ranked.

Table 3: Organizational Factors for Acquisition

Statistics							
		To increase diversification	**To acquire new technology**	**Need for research and development**	**To increase market power**	**To balance cost and revenue**	**To reduce competition**
N	Valid	79	79	82	79	80	81
	Missing	3	3	0	3	2	1
Mean		2.5696	2.5063	2.4878	2.4557	2.4557	1.8519
Std. Error of Mean		0.10154	0.12411	0.10104	0.09482	0.09061	0.13846
Minimum		1.00	1.00	1.00	1.00	1.00	1.00
Maximum		5.00	5.00	4.00	5.00	4.00	5.00
Sum		203.00	198.00	204.00	194.00	194.00	150.00

Source: Field Data

Table 3, shows that, the organizational reasons for the acquisition of new plants by Coca-Cola Sabco with the highest score being to increase diversification having 2.5696 points. This could be because acquisition enables the company to move directly to task of building a strong market position in the industry to avoid getting into startup problems and trying to develop the knowledge, resources, scale of operation and market reputation necessary to become an effective competitor within a few years. The company management also agreed that, the juice market had a huge potential in Kenya. To expand its production capacity and diversify into other product ranges the company was to invest about Ksh.5 billion in Kenya (Daily nation, 9th May, 2011). In second position was the need for research and development (2.5063), possibly because the Company wants to come up with new innovative products with different tastes and preferences produced in different locations within the country. The need to acquire new technology was third, with2.4878points. This agrees with the finding by Folasade and Ola (2002), that a firm will acquire another firm in order to access new technology and save time in research and development. These findings however, differ with those of Hung and Tang (2007) in Korea, Japan and Taiwan, that technology was the most significant factor influencing the determination of the mode of technology acquisition. Possible reasons for this difference could be that technology has not been very much impressed and whenever it has, it has faced resistance from the work force through trade unions. Moreover, the government is trying to encourage stakeholders in various sectors to adapt new technology through reduction of import duties on machines like computers and other state of art industrial machines.

The need to increase market power and balancing of costs and revenue tying in fourth position with 2.4557 points. This finding agrees with that of Barney and Heslerly (2008); Thompson, Gamble and Strickland (2004), that firms will acquire others in an effort to increase market share and lastly to reduce competition with a score of 1.8519 points since managers contend that it was health to have other competitors in the industry to eliminate monopoly in the industry. This results to benefits which are extended to the customer.

Table 4: Individual factors for Acquisition

Statistics					
		Need to have more power	**Need for achievement**	**Sensation seeking**	**Need for prestige**
N	Valid	79	79	79	79
	Missing	3	3	3	3
Mean		2.2658	2.1898	2.1647	1.3671
Std. Error of Mean		0.10559	0.08344	0.10027	0.05852
Minimum		1.00	1.00	1.00	1.00
Maximum		4.00	4.00	3.00	3.00
Sum		182.00	176.00	174.00	111.00

Source: Field Data

Ranking of the personal reasons for acquisition advanced by the respondents shows that the need for more power with a score of 2.2658 as being the most influential (Table 4).

This agrees with the finding by Schmalt (1987), where he found out that a merger presents the possibility of increasing both the number of subordinates and the number of opportunities to exert influence for a manager. This was followed by need for achievement (2.1898). This agrees with the finding by Church and Elliot (1997) and Prochaska (1998), that persons with a highly developed achievement motive seek challenges through tasks that are estimated to be difficult but manageable. In third place was sensation seeking with a score of 2.1647, which agrees with the finding by Zuckerman (1994) that a person will take any risk to experience the new perceptions. In fourth position was need for prestige (1.3671).This agrees with the finding by Wegener (1992) that a decision-maker with a pronounced drive for prestige is generally in favor of a potential merger due to the perspective of an increase in prestige. All the facors were however found to be important as the scores were relatively high.

A general observation made by the researcher is that, all these factors considered are significant and they interrelate with each other. They cannot thus be looked at in isolation. This observation is closely related to that of Lausberg and Stahl, (2006), that managers will pursue self-interest when making key decisions of company (acquisition decision) since they act as agents of the company.

4.6 Relationship between the Number of Firms Acquired and Profitability

This section presents results of firms acquired by Coca-Cola Sabco between the years 2000 to 2009. Of those acquired, the section also indicates those firms which are still operational, those not in operation and the overall profits realized during the entire period of interest in this study. Further, the relation between the profits and the number of acquired firms is analyzed using correlation analysis.

4.6.1 Plants Acquired from Competitors Since 2000 to 2009

Table 5: Annual Profitability and Firm Acquisitions from 2000 – 2009

Year	**Profitability (millions)**	**Number of Plants acquired**	**Name(s) of Acquired Plants**	**State of operation (i.e. running /not running)**
2000	193	0	None	-
2001	207	0	None	-
2002	227	1	Flamingo Bottlers	Not Running
2003	301	0	None	-
2004	351	1	Eastern Bottlers	Not Running
2005	388	0	None	-
2006	391	0	None	-
2007	399	0	None	-
2008	423	1	Anspar	Running
2009	446	0	None	-

Source: Field Data

All the respondents (98%) indicated that Coca-Cola Sabco Company acquired Flamingo Bottlers in Nakuru in the year 2002 and Eastern Bottlers in Nanyuki in the year 2004. Both acquisitions were done to increase market share and reduce competition in the industry. Both factories are no longer operational, however, the company decided to consolidate its operation through the Nairobi factory by acquiring Anspar in the year 2008 (Table5) which is currently in operation. According to majority of the respondents (73%) agree that this was done mainly to acquire the company's technology and take advantage of their ideal locality according to 18%of the respondents.

The results in Table 5 also show that Coca Cola Sabco got an increased profitability each time they acquired another plant, but this cannot directly be attributed to the said acquisition apart from that of Flamingo Bottlers in 2002. In 2002, the profit rose from 227 million in to 301 million in 2003, an increase of 74 million compared to an increase of only 20 million the previous year. Other reasons that may have led to increase in profit in subsequent years could be improved sales and aggressive marketing of the company products, inclusion of new products to the company product line like Novida, Minute maid juicy fruit etcetera and increase of product selling price while the price of raw materials remained the same. Last but not least could be the utilization of economies of scope principle by producing various company products in different parts of the country in Kenya. By so doing Coca-Cola Sabco Company was to take advantage of minimizing the cost of production which may vary from one location to another in Kenya in order cope with the increasing/threat of new entrants in the industry as shown in table 2.

The relationship between the number of firms acquired by Coca Cola Sabco and its profitability had a positive Spearman's correlation coefficient and was statistically significant ($r= 0.3499$, $p=0.0013$) since, $p<0.05$ (Table6).

Table 6: Correlation between Number of Firms Acquired and annual Profits (2000-2009)

	Profitability	Plants Acquired
Profitability	1.000 . 82	0.3499** 0.0013 82
Plants acquired	0.3499** 0.0013 82	1.000 . 82

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

Source: Field Data

This means that the number of plants acquired result to some extend an increase in Coca-Cola Sabco overall profits. However, the contribution of profits from the acquired plants to the overall profit was minimal as indicated by a weak positive correlation coefficient (r=0.3499). Hence there might be other variables that contribute to overall Company profits. Therefore, the decision for Coca Cola Sabco Company to acquire other plants or businesses in order to be profitable does not yield the desired economic value. This finding agrees with the finding of Barney and Heslerly (2008) and Stacy (2007), that usually acquisitions are difficult to generate the real economic profit if that is the reason for doing so.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The main objective of this study was to determine the factors that influence Coca-Cola Sabco Company to adapt acquisition strategy as a growth strategy in Kenya. The factors were classified into two major groups that is organizational (increase diversification, R&D, market share and balancing cost and revenue, technology and reduce competition) and individual (need for more power, achievement, sensation seeking and prestige) factors. As the managers make decisions to adapt the strategy it was assumed that the Kenyan business environment was dynamic and the dynamism was moderated by Porter's five forces in the soft drink industry. However, the effect of the number of plant on the overall company was also determined to ascertain whether the acquisitions had any economic value to the company.

5.2 Conclusion

The study determined the factors (organizational and individual) that drives Coca-Cola Sabco Company to go for acquisition strategy and establish the relationship between the number of firms acquired and overall firm profitability between the years 2000 and 2009, in Kenya.

From the study the following conclusions were made:-For organization factors that influence the company to acquire other plants, to increase diversification ranked number one followed by R&D, the need for technology, market share and balancing cost and revenue in tied in rank four, and reduce competition respectively contrary to other studies done elsewhere in the world, that technology was the most influential factor that drive companies to acquire other companies either in the same related or unrelated industry. For individual factors, the need for more power came first, which was followed by achievement, sensation seeking and prestige respectively. The respondents contend that usually, they pursue this strategy to advance their individual interests. Nevertheless, both organizational and individual factors are interrelated in influencing Coca-Cola Sabco company managers favouring acquisition strategy decision whenever they are called upon.

Coca-Cola Sabco Company acquired three plants during the period of study. Of the acquired plants during the period in question, only one plant (Ansper) was still in operation.

The profitability of the company increased over the years but the impact of the acquired plants on the overall profitability in subsequent years was very minimal as indicated by a weak positive correlation coefficient of r= 0.3499 and a p=0.0013 which was significant at p=0.05.This means that acquisition adds very minimal economic value to Coca-Cola Sabco company in Kenya and hence there might be other benefits that drive the managers of the company to adapt the strategy.

Finally, the study reveals that the Kenya soft drink industry business environment is dynamic and turbulent. The Kenya business environment is regulated by Porter's five forces where threat of substitute products like alvaro, afia, picana, Del Monte etcetera and threat of new entrants (Kenya breweries, Kevian, Pepsi cola, Del Monte etcetera) in the industry have intensified competition in the soft drink industry in Kenya. As a result Coca-Cola Sabco has diversified its product lines in order to tap juice market which has a huge potential despite stiff competition industry.

5.3 Recommendations

From the study the following recommendation were made:-

It is evident from the findings that both organizational and individual factors influence managers of Coca-Cola Sabco Company to favour acquisition strategy as a growth strategy of the Company. The managers do this by attaching strength to each factor in terms of preference. However, the interaction between both factors is not clear and therefore the study recommends that when the managers are making these decisions, there must be clear distinction between the factors for the benefit of the company.

With regard to the relationship between the number of firms acquired and profitability, it clear that the weak correlation coefficient (r=0.3499) means that acquisition do not yield the desired value to the company and therefore the study recommends that Coca-Cola Sabco should focus on other growth strategies and variables like production cost minimization, product tastes that are not easily imitable, building brand loyalty and image for its new product lines etcetera that will yield economic value to the benefit of the company.

Finally, since the Kenya business environment in the soft industry is competitive due to a threat of new entrants and substitutes in the industry, the study recommends Coca-Cola Sabco to continuously scan the business environment with particular focus to Porter's five forces besides other business environmental forces. This will enable the company discover new and better opportunities and further built on their core competencies in order to maintain the market leadership in the soft drink industry.

5.4 Recommendation for Further Research

Given an increase in the acquisitions that are being witnessed in the country and the world day in day out, the study recommends further research on the acquisition process of Coca-Cola Sabco Company or any other company to establish whether the acquisition done are partial or full acquisition. Further, whether there are other benefits for a company to adapt acquisition strategy other than economic and individual gains.

Since the business environment varies from industry to industry and from country to country, a similar study should be conducted to ascertain whether similar results/findings on factors that influence a company to adapt acquisition strategy hold. The study can be across borders or within the same country, in related or in unrelated industries.

Since acquisition process involves various professionals coming on board for instance accountants, lawyers, business professionals, consultants and shareholders of the company, a study should be done to establish who among this professionals should participate most in the acquisition process a minimize problems that arise from acquisitions

This study recommends further comprehensive research on divestment strategy in order to establish why acquiring firms usually divest the acquired firms particularly in Kenya.

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APPENDIX

Appendix 1: Questionnaire

You are kindly requested to fill in the questionnaire with precision and accuracy. The questionnaire is supposed to assist the **Student** to answer the specific objectives of a **research** which he is undertaking as part of the University requirement. Any information given herein will be treated with utmost confidentiality and only be used for the purpose of research. So kindly feel free to fill the questionnaire. Thank you.

Put a tick (√) in the appropriate box.

1. Please indicate the number of years you have worked with Coca-Cola Sabco Company.

Less than 5 [ ] 5-10 [ ] Over 10 [ ]

2. How do you rate the overall competitive scenario in the soft drink industry in Kenya with regard to each of the forces listed? **Tick (√) where appropriate**.

A) Threat to entry in the industry	Very competitive	Competitive	Competitively high	Low	Very low
	5	4	3	2	1

B) Threat of substitute products	Very competitive	Competitive	Competitively high	Low	Very low
	5	4	3	2	1

C) Supplier power in the industry	Very competitive	Competitive	Competitively high	Low	Very low
	5	4	3	2	1

D) Buyer power in the industry	Very competitive	Competitive	Competitively high	Low	Very low
	5	4	3	2	1

E) Rivalry among competitors in the industry	Very competitive	Competitive	Competitively high	Low	Very low
	5	4	3	2	1

3. How often does the Company scan the business environment in Kenya?

Weekly ☐ Monthly ☐ Yearly ☐ Continuously ☐

4. How do you rate your Company's growth strategies in Kenya?

Average ☐
Good ☐
Competent ☐
Excellent ☐

5. Do you as a manager participate in decisions related to growth strategies of the Company for instance acquisition strategy?

Yes ☐ No ☐

6. If the answer to number 5 above is **'Yes'**, at what stage of decision making are you involved?

Formulation ☐

Implementation ☐

Control ☐

Monitoring and evaluation ☐

The whole process ☐

7. **a)**Please indicate the name(s) and the number of plants that your Company has acquired from competitors between the years 2000 to 2009 in Kenya and the possible reasons for each acquisition?

Year	**Number of Plants acquired**	**Name(s) of those Plants acquired**	**State of Operation(i.e. running /not running)**	**Reason(s) for acquiring the Plants**
2000				
2001				
2002				
2003				
2004				
2005				
2006				
2007				
2008				
2009				

b)In the table below, please indicate your Company's estimated profitability between the years 2000 to 2009.

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
NBL Profitability										

c) How frequent does your Company acquires other competitors' plants?

Yearly ☐ After every2years ☐ After every 5years ☐ Other ☐

d) Please indicate the name(s) and the number of plants that your Company has divested (done away with) between the years 2000 to 2009 in Kenya and the possible reasons for each divestment?

Year	**Number of Plants divested**	**Name(s) of those Plants divested**	**Reason(s) for divesting the Plants**
2000			
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			

8. Please rank your level of agreement with the following statements (**Tick(√) where appropriate**).

a) 'Acquisition of new technology is a major drive in the acquisition of new Plants by Coca-Cola Sabco from competitors'(Tick (√) where appropriate).

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

b) 'To increase market power/position is the major drive in the acquisition of new Plants by your Company from competitors' (Tick (√) where appropriate).

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

c) 'To increase diversification is the major drive in the acquisition of new Plants by your company from competitors' (Tick (√) where appropriate).

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

d) 'The need for Research and Development (R & D) is the major drive in the acquisition of new Plants by Your Company from competitors'.

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

e) 'To Reduce competition is the major drive in the acquisition of new Plants by your Company from competitors' (Tick (√) where appropriate).

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

f) 'To balance cost and revenue is the major drive in the acquisition of new Plants by Coca-Cola Sabco from competitors' (Tick (√) where appropriate).

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree
5	4	3	2	1

9. Please indicate your level of agreement with the following statements (**Tick(√) where appropriate**).

a) 'The need to have more power dominates managers decision to favour the acquisition of new Plants from competitors' (Tick (√) where appropriate).

Least influential	Indifferent	Influential	Most influential
4	3	2	1

b) 'The need for achievement dominates managers decision to favour the acquisition of new Plants from competitors' (Tick (√) where appropriate).

Least influential	Indifferent	Influential	Most influential
4	3	2	1

c) 'Sensation seeking dominates managers decision to favour the acquisition of new Plants by Coca-Cola Sabco from competitors' (Tick (√) where appropriate).

Least influential	Indifferent	Influential	Most influential
4	3	2	1

d) 'The need to have prestige dominates managers decision to favour the acquisition of new Plants by Coca-Cola Sabco from competitors' (Tick (√) where appropriate).

Least influential	Indifferent	Influential	Most influential
4	3	2	1

10. Between a managers personal motives (Power, Achievement , Sensation seeking, Prestige) and organizational factors(technology, competition, market power cost and revenue balancing e.t.c) ,in your opinion do you think personal motives are more superior to organizational factors in influencing a managers decision to favour the acquisition competitors plants.

Strongly Disagree	Disagree	Indifferent	Slightly Agree	Strongly Agree

11. Please indicate the department in which you work.

i. Finance and accounting ☐
ii. Human resources and administration ☐
iii. Sales and marketing ☐
iv. Production and Engineering ☐
v. Operation and supply chain ☐
vi. Other ☐

12. Please indicate the level of management in which you belong.

I.	Senior management	☐
II.	Middle level management	☐
III.	Lower level management	☐
IV.	Other	☐

Thank you once again for sparing time to fill this questionnaire.