

# Effect of Mergers and Acquisitions on the Competitiveness of Insurance Companies in Kenya: The Moderating Effect of Competency Trap

 Njagi Robert,  Maina Esther and  Kiai Richard

Department of Business and Economics, School of Business, Karatina University, P.O.  
Box 1957-10101, Karatina, Kenya

## Abstract

Mergers and acquisitions (M&A) have become strategic tools for insurance companies worldwide to strengthen market position, improve operational efficiency, and enhance competitiveness. In Kenya, the insurance industry is evolving rapidly, driven by increased demand for insurance products, regulatory reforms and a competitive market environment. Therefore, M&A offer local insurance companies a pathway to consolidate resources, increase capital base and utilize economies of scale to compete more effectively both domestically and regionally. However, M&A also carry risks that may affect competitiveness negatively, particularly when companies fall into a competency trap. The competency trap, therefore, could act as a moderating variable, weakening the expected positive relationship between M&A and competitiveness by affecting the necessary organizational change and learning required for successful integration and growth. This study objective was to evaluate the moderating role of competency trap on the relationship between mergers and acquisitions on the competitiveness of insurance companies in Kenya. The study was grounded on agency theory, while its research approach was based on an epistemological philosophy. A descriptive research design and census sampling technique were used, targeting 50 insurance firms in Kenya, with five senior managers from each firm, totaling 250 respondents. A pilot study was conducted to determine the validity of the research instrument, which was assessed using factor analysis and Cronbach alpha respectively. Data was collected using structured questionnaire and analysed using descriptive and inferential statistics. The study found that mergers and acquisitions ( $\beta = 0.288$ ,  $p = .002$ ) had a statistically significant and positive effect on the competitiveness of insurance firms in Kenya. The competency trap significantly moderated the effects of mergers and acquisitions ( $\beta = -0.286$ ,  $\Delta R^2 = 0.059$ ,  $p = .000$ ) on the competitiveness of insurance firms in Kenya. Thus, the study concludes that mergers and partnerships enhance firm competitiveness when firms experience a competency trap. Hence the study recommends that Insurance companies should actively pursue mergers and strategic partnerships, to boost competitiveness.

**Keywords:** Insurance companies, mergers and acquisitions, competency trap, competitiveness, Kenya

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**Correspondence:** [njagi@gmail.com](mailto:njagi@gmail.com)

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## Introduction

Insurance originated as a response to society's growing need for security in economic activities. O'Malley (2024) explains that the insurance industry emerged in the 19th century, not founded on solidarity or mutual aid but on financial gain and individualism, reflecting the evolution of capital and economic thought at the time. Santos, Pacheco, Santos and Levin (2021) further clarify that insurance initially operated as a personal risk-sharing mechanism, which gradually evolved into a collective system where insured individuals rely on an expert that is the insurer to manage risks for a broader group. This shift expanded insurance beyond personal social circles to larger solidarity units managed professionally. Ajide, Osinubi and Ojeyinka, (2023) highlights the critical role modern insurance plays, emphasizing its contribution to economic activity and gross domestic product (GDP), serving as a necessary foundation for many sectors that rely on effective risk management to operate.

Worldwide the insurance industry continues to face challenges in sustaining growth and competitiveness. Majka (2024)

emphasize insurance's role in promoting economic resilience by transferring financial risk and protecting individuals and businesses from financial distress and bankruptcy. However, McKinsey's Global Insurance Report (2023) documents a consistent decline in the insurance sector's performance relative to overall economic growth. While nominal GDP in major markets has grown steadily over the past two decades, insurance premium growth has lagged behind, indicating insurers have not kept pace with the economies they serve. Kočović, Mladenović, Boričić and Gavrilović (2023) attributes these struggles to factors such as economic downturns, recessions, poor risk management, and insufficient competition. Such conditions have led some insurers to take excessive risks, engage in aggressive reserving, and fail to innovate, creating operational inefficiencies and undermining long-term sustainability. Strategic restructuring, particularly through mergers and acquisitions (M&A), has emerged as a key response to these challenges (Kujala, 2024).

In Africa, insurance sector shows promising signs of growth fueled by

improving economic conditions, enhanced infrastructure, and the adoption of new technologies (Signé & Johnson, 2020; Horvey, Odei-Mensah & Liebenberg, 2024; Nagasha, S., Bananuka, Musimenta & Lulu, 2017). Balcilar, Gupta, and Williams (2020) find a positive relationship between insurance company growth and the region's economic stability, increased international trade, and technological penetration. African insurers are increasingly engaging in consolidation and innovation to strengthen competitiveness and expand their market presence. Despite this upward trajectory, challenges persist, including low insurance penetration, limited awareness, affordability constraints, and high operational costs (Nicholas & Deji, 2023; Nthenge, 2012).

Kenya's insurance industry has witnessed significant expansion and heightened competition with the entry of multinational players like Sanlam and Old Mutual (Ouma, 2016). Despite this growth, market share remains concentrated among a few dominant firms, with many others struggling to achieve profitability and sustainable growth. Karanja (2009) emphasizes the importance of differentiation strategies, including product innovation, continuous development, and IT adoption, as key factors in improving competitiveness. Nonetheless, the collapse of several insurance companies such as Resolution Insurance and Invesco Assurance highlights critical gaps in management competencies, particularly in adapting to changing market conditions and effectively governing risk (IRA, 2023). To counter these challenges, mergers and acquisitions have become a common strategic tool in Kenya's insurance sector as reported by Miyianda (2015) and Mitema (2014).

Mergers and acquisitions (M&A) serve as strategic restructuring mechanisms that enable insurance companies to consolidate resources,

broaden capital bases, and leverage economies of scale to strengthen market position and operational efficiency (Mugweru, 2020). However, the potential benefits of M&A are not guaranteed. One key risk is the competency trap, where firms become overly reliant on existing skills and routines, hindering their ability to adapt and integrate new capabilities following restructuring (Levitt & March, 1988). In the Kenyan insurance sector, such traps are significant barriers to realizing M&A benefits, as entrenched management practices may limit innovation and organizational alignment post-merger (Karanja, 2009).

The competency trap, rooted in organizational learning theory, describes situations where past successes anchor a company to outdated routines and limit its adaptability to new market conditions (Levinthal & March, 1988). For insurance firms undergoing M&A, falling into this trap may prevent effective integration of new technologies, cultures, or strategies, thereby undermining the positive effects of restructuring on competitiveness. This study seeks to explore how the competency trap moderates the relationship between M&A and competitiveness among Kenyan insurance firms.

## Theoretical Framework

The study was grounded on Agency theory which was created by Jensen and Meckling (1976). They intimated a theory of why the ownership of a firm hinges on the interest conflicts between the owners of a firm (shareholders), its managers, and its major furnishers of debt capital. Agency theory is a phrase utilized to refer to the nexus that exists among the principals being the shareholders and their agents being the managers and executives of a firm. The company owners or founders are the owners and shareholders who hire managers and executives to work and

manage the operations within their companies.

In the content of this theory, the agents are the managers of the company who implements the strategies of the principals. The managers must focus on firm competitiveness through increasing their market share. At the same time the managers must focus on how to raise the firms' profit in order to retain dominance. One of the main drawbacks on strategy implementation is top manager's competency gaps that inhibit their ability to foster the industry growth. The management must adopt career development by embracing new innovative technology in sharpening their skills for them to achieve firm competitiveness.

The origin and purpose of this theory was to examine potential conflicts of interest that may arise when manager's goals differ from those of the shareholder. Ray Atchinson, II, (2017) and Berle and Means, (2018) assert that the executives and managers of the firm will more than likely be forced to act in their own interest, and that will work against the interest of the owners. Jensen and Meckling (2016) wrote that shareholder and executive interests possibly conflict giving rise to agency problems like managers acting for their own benefits rather than for the benefits of the firm's owners. He characterizes employees in agency theory as self-interested, individualistic and whose primary interest is rewards rather than punishment. To minimize the potential agency problem between shareholders and management the theory seeks to align interest of both parties and improve organizational performance by designing effective contracts, monitoring mechanism, and incentive structures. Bruton and Keels (2017) postulates that agency theory can be used for strategic decision support by providing a premeditated framework for making decisions related to the organizational

structure and governance to ensure resolutions made therein are related to organizational objectives.

In this study understanding, the agent theory helps in unpacking the governance structures and mechanism that align with the interest of shareholders and management where reduction of costs through restructuring, improving competitiveness and long-term sustainability of the business is concerned. Zogning (2017) says Agency theory has a drawback of inadequate treatment of risk, this theory does not adequately address the treatment of risks and uncertainties in insurance companies which affects the movement of products since it relies more on understanding and managing principal agent relationships.

Agency theory applies to this study by explaining how conflicts between principals (owners or shareholders) and agents (managers) in Kenyan insurance companies can influence decisions around mergers and acquisitions (M&A) and ultimately affect competitiveness. Managers may pursue M&A for personal benefits, such as increasing their control or job security, rather than maximizing shareholder value, which can lead to poor integration, misaligned goals, and inefficient use of resources. This misalignment may exacerbate the competency trap, as managers resist changes that threaten their established routines or authority, affecting the successful realization of M&A benefits. Understanding these agency challenges helps explain why some insurance firms struggle to translate M&A into improved competitiveness and highlights the need for effective governance mechanisms to align interests and promote strategic adaptation.

## Empirical Review and Hypothesis Development

### Effects of Mergers and Acquisition on Firm's Competitiveness

Mergers between firms, which began in the 1890s, have occurred in five major waves: the 1890s, 1920s, 1960s, 1980s, and from the 1990s to today. This trend started in the USA and has since spread globally (Cheffins, 2003). A merger involves two or more independent firms combining assets and capabilities into a new entity, ending their previous legal identities. Acquisitions differ legally as they occur when one firm takes control of another by purchasing most or all of its shares, often leading to the acquired firm losing legal and economic independence (Phillips & Zhdanov, 2013). Though mergers aim for equal partnership to strengthen competitive advantage and growth, acquisitions often involve larger firms absorbing smaller ones to expand markets or product lines at lower costs.

Mergers and acquisitions in the insurance industry can be advantageous in that they allow for geographic market expansion, providing access to new regions, customer segments, and distribution channels. A study conducted by Cummins, Klumpse, and Weiss (2015) on mergers and acquisitions in the global insurance industry found that combined operations can lead to economies of scale. Larger companies often benefit from reduced per-unit costs, improved operational efficiency, and increased negotiating power with suppliers. Cummins et al. (2015) also found that mergers help insurance companies manage risks more effectively. Diversifying portfolios and spreading risks across a larger customer base can contribute to a more stable and resilient business model.

Li (2024) examined the impact of technology-focused mergers and acquisitions (M&As) on the sustainable

competitiveness of Chinese A-share listed firms from 2007 to 2021. Using a staggered difference-in-difference model, the study found that technology M&As improved firms' competitiveness by 6.2% compared to those involved in non-technology M&As. The positive effect was driven by increased productivity and enhanced market power. Further analysis revealed varying impacts across different firm types.

Erdil et al. (2018) investigated how market and brand performance influence competitiveness following M&As in Turkey. Analyzing 243 firms from a larger pool of 2,287 that conducted M&As between 2010 and 2017, the study confirmed a significant relationship between brand performance and competitiveness. Similarly, Xiao (2022) studied the influence of cross-border M&As on innovation inputs among Chinese pharmaceutical companies between 2014 and 2018. Results showed that competitors of merging firms increased their R&D investments, shifting towards high-risk exploratory projects. However, tax incentives weakened this effect, suggesting firms and policymakers need to reassess M&A and innovation strategies to balance competitiveness and innovation promotion. Zhang et al. (2018) also explored how different types of M&As affect firm performance in emerging economies, focusing on Chinese pharmaceutical companies from 2008 to 2016. Their analysis showed that value-chain-extension and technology-seeking M&As positively impacted performance, while mixed M&As showed no significant effect.

Sharma (2020) studied mergers and acquisitions in insurance companies in India and found that mergers lead to improved financial performance. Synergies created through operational integration may result in increased revenue, reduced costs, and improved profitability. Komal also noted that mergers and acquisitions often lead to the consolidation and

streamlining of operations, resulting in more efficient business processes, improved customer service, and better overall organizational performance. Similarly, Dhir (2015) observed that M&A activities can provide access to diverse distribution channels such as online platforms, brokers, or agency networks, thereby improving market reach and customer acquisition. Acquiring firms with different lines of insurance products or complementary services helps diversify portfolios, reducing reliance on a single line of business and tapping into new customer segments. However, he cautioned that diversification through M&A may dilute core competencies, leading to loss of focus and expertise and potentially affecting overall competitiveness.

In the Kenyan, Mboroto (2013) analyzed the effect of M&As on petroleum firms' financial performance between 2002 and 2012. The study found that post-merger/acquisition, firms exhibited improved return on assets (ROA) and total asset ratios, indicating enhanced financial performance. Similarly, Njambi and Kariuki (2018) established that M&As positively influenced capital base, income diversification, asset quality, and liquidity, thereby improving financial institutions' performance in Kenya. Mwanza (2016) found that mergers and acquisitions in the Kenyan insurance sector could strengthen competitive positioning, enhance market share, increase returns on capital, and offer a competitive advantage. The review establishes that mergers and acquisitions (M&As) have historically been a global strategy to improve firms' competitiveness by combining assets, expanding markets, reducing costs, improving operational efficiency, and enhancing risk management. Evidence from global studies shows M&As can drive sustainable competitiveness through technology adoption, brand performance, innovation stimulation, and strategic market

positioning. However, potential downsides include dilution of core competencies and loss of focus when diversification is not strategically aligned. In the insurance sector, M&As often lead to operational synergies, broader distribution networks, and improved financial performance. In Kenya, empirical evidence indicates that M&As in both petroleum and insurance industries have strengthened financial performance, market share, and competitive positioning. Based on this analysis, the following hypothesis is proposed:

**Hypothesis 1.** *Mergers and acquisitions have no significant effects on Firm's Competitiveness of insurance companies in Kenya.*

### Competency Trap

The competency trap is the organizations' tendency to over-rely on familiar routines which can undermine strategic change and firm performance. Piao (2014) explains that firms deeply embedded in existing practices become less attentive to new knowledge and gradually lose vision of alternative opportunities. Such traps bias decision-makers toward short-term payoffs even when alternative strategies could yield better results over time. Empirical studies have shown that competency traps weaken the benefits of strategic initiatives. In innovation contexts, Mu and Jiang (2024) found that prior experiential knowledge can discourage investment in radical innovation, consistent with a competency trap perspective. Their study of blockchain funding in China revealed that investors with relevant past experience invested less in new technologies, showing how entrenched expertise hampers innovation. They also noted that high-status investors were more likely to underinvest due to reliance on past successes, suggesting that prior



success negatively moderates the returns on innovation strategies. Similarly, Piao (2014) observed that firms delaying learning alliances until later stages suffer from entrenched routines, reducing receptivity to new knowledge and suppressing innovation. Operational change research also supports this view. Lawrence (2019) found that teams with more prior experience in an old process performed worse initially under a new process due to competency traps. Although such teams could learn faster later, their initial productivity was significantly lower, indicating that entrenched know-how hinders short-term change performance.

In Africa, few empirical studies directly test competency-trap moderation in mergers and acquisitions (M&A), related research indicates its role. Heracleous, Papachroni, Andriopoulos, and Gotsi (2017) showed that organizational dysfunctions, such as siloed structures, create competency traps that compromise ambidexterity and change outcomes. In their longitudinal study of Xerox PARC, exploratory innovations were often dismissed as external to the core business, demonstrating how core rigidities can undermine the benefits of strategic renewal. Bwabo, Ma, and Li (2023) found that addressing heterogeneous capabilities in Tanzania's dairy industry helped firms avoid competency traps and improve performance. Their study highlighted that differences in dynamic-capability drivers between managers and employees needed to be managed to sustain competitive advantage.

Although direct evidence from Kenya is scarce, similar patterns have emerged, Nderitu (2015) conducted a case study of CIC General Insurance Company to assess the role of core competencies in strategic planning. The study observed that the firm's competitive strategy was anchored in traditional competencies

linked to the cooperative movement. While these competencies initially offered a competitive edge, over-reliance limited the company's responsiveness to technological changes and market shifts. The study recommended that managers must adopt innovation-driven competencies to break free from stagnation and improve firm competitiveness. Chumba, K'Obonyo, Muindi and Njihia (2025) explored whether employee competence moderates the relationship between reward systems and job performance in Kenya's national referral hospitals. Their findings revealed a positive moderating effect of employee competence increased the explanatory power of rewards on performance from 74.2% to 82.0%. The study emphasized that even well-structured incentive programs require a competent workforce to produce performance gains, reinforcing the need to avoid competency traps.

Overall, evidence across regions indicates that the competency trap moderates the effectiveness of strategic decisions. Firms entrenched in familiar practices tend to realize smaller gains from innovation, M&A, or restructuring than adaptable firms. This underscores the importance of fostering experimentation and broad learning to mitigate the negative moderating effects of competency traps on firm competitiveness. Based on this analysis, the following hypothesis is proposed:

**Hypothesis 2.** *Competency trap has no significant moderating role on the relationship between Mergers and acquisitions and firms' competitiveness of insurance companies in Kenya.*

## Methodology

This study adopts an epistemological research philosophy grounded in the positivist paradigm. Which explores what

counts as valid knowledge and the most appropriate ways to investigate reality (Saunders, Lewis & Thornhill, 2009). The positivist approach supports objective observation and measurement, enabling the study to test hypotheses and produce generalizable findings. Descriptive research design was employed during data collection.

The target population consists of 50 insurance companies registered and actively operating within Kenya. The study focuses on top management personnel within these firms as respondents, considering their strategic roles and competitiveness. Specifically, the study targets five key senior managers in each company including Chief Executive Officer, Chief Finance Officer, Chief Human Resource Officer, Chief Marketing Officer, and Chief Underwriting Officer totaling 250 respondents.

This study uses a census approach by including all 50 licensed insurance companies in Kenya. Within each company, judgmental sampling selects the five senior managers as respondents due to their direct involvement and influence over strategic decisions related to mergers, acquisitions, and organizational competitiveness. This purposive selection ensures that data is gathered from knowledgeable individuals who can provide relevant insights into the study variables.

A pilot study was conducted to pre-test the research instruments and assess their suitability for the main study. Ten percent of the total respondents, drawn from five insurance companies excluded from the main study, participated in this pilot. The pilot helped identify ambiguous questions and refine the questionnaire to improve clarity and reliability before full deployment.

Primary data was collected using structured, self-administered questionnaires designed to gather

quantitative data on strategic restructuring activities and competitiveness outcomes. The questionnaires were distributed and collected using a drop-and-pick-later method, allowing respondents sufficient time to provide thoughtful answers. Secondary data was gathered through review of industry reports and financial statements of the insurance companies covering the period from 2013 to 2023, providing historical context and triangulation for the primary data.

Validity was established by ensuring that the questionnaire items accurately measured the concepts under study. Content validity was achieved through alignment with established theories and literature, removing irrelevant questions to maintain focus. Construct validity was tested using confirmatory factor analysis during the pilot phase, assessing convergent validity through average variance extracted (AVE) scores above 0.5, and discriminant validity by ensuring that shared variance between constructs was lower than their AVE values. This process confirmed that the instruments measured distinct but related constructs appropriately.

Reliability refers to the consistency of the instrument in measuring the variables. Internal consistency reliability was assessed using Cronbach's alpha, with values of 0.6 or higher considered acceptable. The pilot data yielded satisfactory reliability scores, confirming that the questionnaire items consistently captured the intended information.

Collected data underwent thorough screening for completeness and consistency before analysis. Quantitative data was coded and entered into the Statistical Package for Social Sciences (SPSS) version 23 for analysis. Descriptive statistics, including means, standard deviations, and frequency distributions, summarized the data characteristics. Inferential statistical techniques, including



multiple regression and Pearson correlation analysis, tested the relationships between mergers and acquisitions, competency trap, and competitiveness.

The study employed multiple linear regression models to test the hypotheses. The general models assessed effects mergers and acquisitions on insurance companies’ competitiveness (Model 1). An additional model evaluated the moderating effect of the competency trap on these relationships (Model 2). The models included an intercept, regression coefficients, and an error term to capture unexplained variance. Statistical significance was determined at the 5% level, guiding conclusions about the influence of each factor on competitiveness.

*Effect of Mergers and Acquisitions on Competitiveness*

$Y_{it} = \beta_0 + \beta_2 X_{2it} + \varepsilon$ .....Model 1

*Moderating role of competency trap*

$Y_{it} = \beta_0 + \beta_1 CT_{4it} + \varepsilon$ .....Model 2

Where;

- $Y_{it}$  = competitiveness of insurance companies.
- $\beta_0$  = Intercept
- $X_1$  = Reengineering

- $\beta_1$  = Regression Coefficient
- CT= Competency Trap (Moderator)
- $\varepsilon$  = error term.

Results and Discussion

Descriptive Statistics

Although Likert scale data are ordinal in nature, researchers commonly treat them as interval-level data to enable more sophisticated statistical procedures such as correlation and regression analyses (Norman, 2010). This transformation assumes equal intervals between response categories, which allows for the computation of meaningful means and standard deviations. In this study, Likert items were aggregated into composite scores representing each construct and treated as continuous variables, making them suitable for regression analysis. A five-point Likert scale was used for measurement, where 1 represented "Strongly Disagree" and 5 represented "Strongly Agree". To enhance interpretation of responses, the following mean score ranges were adopted: 1.00–1.49 = strongly Disagree (very low score), 1.50–2.49 = Disagree (low score), 2.50–3.49 = Neutral (moderate score), 3.50–4.49 = Agree (high score), and 4.50–5.00 = strongly Agree (very high score).

Table 1: Descriptive statistics summary for M&A, competency trap, and competitiveness

| Construct              | Sub-Dimension        | Mean | Std. Dev |
|------------------------|----------------------|------|----------|
| Mergers & Acquisitions |                      | 4.35 | 0.43     |
|                        | Market Segmentation  | 4.32 | 0.52     |
|                        | Customer Focus       | 4.42 | 0.42     |
|                        | Diversification      | 4.32 | 0.55     |
| Competency Trap        |                      | 3.45 | 1.27     |
|                        | New Technology       | 3.57 | 1.32     |
|                        | Innovation           | 3.45 | 1.34     |
|                        | Skills and Expertise | 3.33 | 1.27     |
| Firms Competitiveness  |                      | 4.22 | 0.65     |
|                        | Market Share         | 4.13 | 0.78     |
|                        | Brand Reputation     | 4.32 | 0.66     |
|                        | Customer Retention   | 4.20 | 0.80     |

It’s evident in Table 1 that Mergers and Acquisitions (M&A) received a high mean score (M = 4.35, SD = 0.43), with Customer Focus recording the highest dimension rating (M = 4.42, SD = 0.42), followed by Market Segmentation and Diversification (both M = 4.32). These results are similar to those of Mwanza (2016), who found that M&A in the Kenyan insurance sector strengthened competitive positioning, enhanced market share, and increased returns on capital. Similarly, Njambi and Kariuki (2018) observed that M&A activities in Kenyan financial institutions improved asset quality, income diversification, and liquidity, contributing to higher competitiveness.

Competency Trap recorded a moderate mean score (M = 3.45, SD = 1.27), suggesting partial resistance to adopting new capabilities. New Technology scored the highest within this construct (M = 3.57, SD = 1.32), followed by Innovation (M = 3.45, SD = 1.34) and Skills and Expertise (M = 3.33, SD = 1.27). This moderate rating reflects findings by Kinyua, Muchemi and Kiiru (2021), who noted that some Kenyan insurance firms struggle with overreliance on existing systems and expertise, leading to delayed adoption of innovative practices that could improve competitiveness.

Firm Competitiveness scored high overall (M = 4.22, SD = 0.65). Brand Reputation was the highest-rated dimension (M = 4.32, SD = 0.66), followed by Customer Retention (M = 4.20, SD = 0.80) and Market Share (M = 4.13, SD = 0.78). These findings resonate with Mboroto (2013), who found that post-M&A petroleum firms in Kenya recorded improved return on assets and stronger brand positioning, and with Mwanza (2016), who reported enhanced market retention and brand loyalty in insurance firms after M&A integration. Overall, the results indicate that M&A practices are perceived positively in enhancing competitiveness, though the presence of moderate competency traps suggests potential for greater improvement through investment in innovation and skills upgrading.

Reliability Tests Results

Reliability analysis was conducted to assess the internal consistency of the study constructs. Cronbach’s alpha coefficients were computed for each construct, with values above 0.7 indicating acceptable reliability for social science research (Tavakol & Dennick, 2011). The results are summarized in Table 2.

Table 2: Reliability analysis

|                          | Reliability Statistics |            |
|--------------------------|------------------------|------------|
|                          | Cronbach's Alpha       | N of Items |
| mergers and acquisitions | 0.797                  | 11         |
| Competency trap          | 0.768                  | 10         |
| Firm’s Competitiveness   | 0.822                  | 12         |

The results in Table 2 indicate strong internal consistency for all constructs. Firm’s Competitiveness recorded the highest reliability ( $\alpha = 0.822$ ), suggesting high measurement stability across its twelve items. Mergers and Acquisitions also demonstrated high reliability ( $\alpha = 0.797$ ), while Competency

Trap achieved an acceptable level ( $\alpha = 0.768$ ). Overall, the pilot results indicate that all constructs met the acceptable standards for reliability. The findings align with recommendations from Nunnally and Bernstein (1994), who argue that instruments with a Cronbach’s alpha above 0.7 are sufficiently reliable for research.

Factor Analysis for Mergers and Acquisitions

Factor analysis was performed to evaluate construct validity and identify the underlying factor structure of the study variables. The Kaiser–Meyer–Olkin (KMO) measure assessed sampling adequacy,

while Bartlett’s Test of Sphericity evaluated the suitability of data for factor extraction. KMO values above 0.7 indicate good sampling adequacy, and significant Bartlett’s test results ( $p < 0.05$ ) confirm that correlations between items are sufficient for factor analysis (Hair et al., 2019).

Table 3: Factor analysis results

| Construct              | KMO<br>(Sampling Adequacy) | Bartlett's Test (p-value) | Components Extracted | Total Variance Explained |
|------------------------|----------------------------|---------------------------|----------------------|--------------------------|
| Mergers & Acquisitions | 0.74                       | $p < 0.001$               | 3                    | 61.736%                  |
| Competency Trap        | 0.947                      | $p < 0.001$               | 1                    | 81.999%                  |
| Firm Competitiveness   | 0.878                      | $p < 0.001$               | 3                    | 74.412%                  |

Factor analysis results (Table 3) showed that Mergers & Acquisitions (KMO = 0.740,  $p < 0.001$ ) yielded three components (Diversification, Market Segmentation, and Customer Focus) accounting for 61.74% of the variance. Competency Trap (KMO = 0.947,  $p < 0.001$ ) emerged as a unidimensional construct explaining 81.99% of the variance, indicating strong internal consistency. Firm Competitiveness (KMO = 0.878,  $p < 0.001$ ) extracted three components (Market Share, Brand Reputation and Customer Retention) explaining 74.41% of the

variance. These results confirm the structural validity of the measurement constructs, with Competency Trap exhibiting the highest explanatory power as a single factor.

Correlation Analysis

Table 4 presents the correlation analysis results for Firm Competitiveness, Mergers & Acquisitions, and Competency Trap. Pearson correlation coefficients were computed to assess the strength and direction of the relationships among the study variables.

Table 4: Correlation analysis results

|                                |                     | FC    | R     | M&A   | CP    | CT |
|--------------------------------|---------------------|-------|-------|-------|-------|----|
| Firm Competitiveness (FC)      | Pearson Correlation | 1     |       |       |       |    |
|                                | Sig. (2-tailed)     |       |       |       |       |    |
|                                | N                   | 203   |       |       |       |    |
| Mergers And Acquisitions (M&A) |                     | .666* | .707* |       |       |    |
|                                | Pearson Correlation | *     | *     | 1     |       |    |
|                                | Sig. (2-tailed)     | 0.000 | 0.000 |       |       |    |
| Competency Trap (CT)           |                     | 203   | 203   | 203   |       |    |
|                                | Pearson Correlation | .200* | .270* | .464* | .312* |    |
|                                | Sig. (2-tailed)     | *     | *     | *     | *     | 1  |
|                                |                     | 0.004 | 0.000 | 0.000 | 0.000 |    |
|                                |                     |       |       |       |       | 20 |
|                                | N                   | 203   | 203   | 203   | 203   | 3  |

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

The results in Table 4 indicate a strong and significant positive relationship between Mergers & Acquisitions and Firm Competitiveness ( $r = 0.666$ ,  $p < 0.001$ ), suggesting that effective M&A activities are associated with improved competitiveness among insurance firms in Kenya. Competency Trap also shows a positive but weaker relationship with Firm Competitiveness ( $r = 0.200$ ,  $p = 0.004$ ), implying that while competency traps may influence competitiveness, their effect is smaller compared to M&A. Additionally, M&A and Competency Trap are moderately correlated ( $r = 0.464$ ,  $p < 0.001$ ), suggesting that while overreliance on existing routines can affect innovation, awareness and mitigation of such traps may still be aligned with broader competitiveness strategies.

Effect of Mergers and Acquisitions on Firms’ Competitiveness in Kenya

To assess the influence of mergers and acquisitions on the competitiveness of insurance firms in Kenya, a multiple regression analysis was conducted. The objective was to determine the extent to which mergers and acquisitions practices such as consolidation of resources, strategic diversification, and market positioning predict variations in firm competitiveness. The model’s performance is summarized in Table 5, which presents key indicators including the correlation coefficient (R), coefficient of determination ( $R^2$ ), and the adjusted  $R^2$ . These statistics offer insights into the strength and explanatory power of the regression model.

**Table 5:** Model summary for effect of mergers and acquisitions on firms’ competitiveness  
Model Summary

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | .680a | 0.463    | 0.455             | 0.48149                    |

*a Predictors: (Constant), Diversification, Customer Focus, Market Segmentation*

The regression analysis presented in Table 5 showed that coefficient of determination ( $R^2 = 0.463$ ) suggests that 46.3% of the variation in the competitiveness of insurance firms can be attributed to mergers and acquisitions activities such diversification, customer focus, market segmentation. This means that mergers and acquisitions play a meaningful role in enhancing firm competitiveness, though 46.3% of the variation is still influenced by other external or organizational factors not included in the model. Furthermore, the adjusted  $R^2 = 0.463$ , which closely aligns with the  $R^2$  value, indicates that the model remains robust after adjusting for sample size and predictor count. The small difference between  $R^2$  and adjusted  $R^2$  (0.003) implies that the model is not over fitted and maintains internal stability. These findings suggest that strategic mergers and

acquisitions contribute significantly to improved competitiveness likely through economies of scale, expanded market reach, and improved product offerings.

Wang and Jain (2003) emphasize the importance of evaluating whether the overall regression model provides a statistically significant fit to the data, which is achieved through the F-statistic test. In this study, a linear regression ANOVA was performed to test the significance of the model assessing the effect of business mergers and acquisitions on the competitiveness of insurance firms. The results are presented in Table 6.

The ANOVA results in Table 6 reveal an F-statistic of 57.21 and a p-value of .000, which is far below the conventional alpha level of 0.05. This result indicates that the regression model is statistically significant and provides a strong fit to the data.

**Table 6:** ANOVA for effect of business mergers and acquisitions on firms’ competitiveness

| ANOVAa     |                |     |             |       |       |
|------------|----------------|-----|-------------|-------|-------|
| Model      | Sum of Squares | df  | Mean Square | F     | Sig.  |
| Regression | 39.79          | 3   | 13.263      | 57.21 | .000b |
| Residual   | 46.135         | 199 | 0.232       |       |       |
| Total      | 85.925         | 202 |             |       |       |

a Dependent Variable: firms’ competitiveness  
b Predictors: (Constant), business mergers and acquisitions

The high F-value suggests that the variation explained by the predictor variable diversification, customer focus and market segmentation is substantially greater than the unexplained variance (error), thereby validating the model’s predictive strength. Therefore, the findings confirm that business mergers and acquisitions significantly influence the competitiveness of insurance firms in Kenya, and the model can reliably be used for further inference and decision-making.

To evaluate the influence of diversification, customer focus, market

segmentation on the competitiveness of insurance firms in Kenya, a multiple linear regression analysis was conducted. This model aimed to determine whether external business conditions such as infrastructure, market dynamics, and security shape organizational competitiveness, especially by influencing strategic capabilities like market expansion and customer segmentation. Table 7 presents the regression coefficients, including the unstandardized coefficients (B), standardized beta ( $\beta$ ), standard error, t-statistics, and p-values.

**Table 7:** Coefficient of estimates for effect of business mergers and acquisitions on firms’ competitiveness

|                     | Unstandardized Coefficients |            | Standardized Coefficients |        |       |
|---------------------|-----------------------------|------------|---------------------------|--------|-------|
|                     | B                           | Std. Error | Beta                      | t      | Sig.  |
| (Constant)          | -0.543                      | 0.372      |                           | -1.459 | 0.146 |
| Market Segmentation | 0.155                       | 0.108      | 0.123                     | 1.443  | 0.151 |
| Customer Focus      | 0.616                       | 0.109      | 0.394                     | 5.630  | 0.000 |
| Diversification     | 0.316                       | 0.088      | 0.268                     | 3.595  | 0.000 |

a Dependent Variable: firm competitiveness

Table 7 presents the regression results assessing the effect of key dimensions of business mergers and acquisitions market segmentation, customer focus, and diversification on firm competitiveness within the insurance sector. The constant term ( $B = -0.543$ ,  $p = 0.146$ ) is not statistically significant, suggesting that in the absence of the independent variables, the baseline level of competitiveness is not meaningfully different from zero.

Among the predictors, customer focus emerged as the most influential and statistically significant factor ( $\beta = 0.394$ ,  $p = 0.000$ ). This finding indicates that M&A initiatives that prioritize customer-centric strategies such as enhanced customer service delivery, expanded product offerings and improved customer relationship management substantially contribute to increased competitiveness. The positive and high  $\beta$ -value ( $\beta = 0.394$ ) shows that customer-focused integration efforts post-merger are a key driver of

organizational success in competitive markets. Diversification also shows a statistically significant and positive relationship with firm competitiveness ( $\beta = 0.268$ ,  $p = 0.000$ ), implying that firms engaging in M&A to broaden their product lines, geographic presence, or customer segments are likely to achieve a competitive advantage. Diversification reduces dependency on a single revenue stream and allows firms to exploit synergies across different markets. Market segmentation, while positive, is not statistically significant ( $\beta = 0.123$ ,  $p = 0.151$ ). This suggests that segmentation efforts alone such as targeting niche markets or reorganizing market positioning may not independently lead to improved competitiveness unless complemented by more transformative strategies like customer engagement and product diversification. This supports the conclusion that well-executed M&A strategies play a vital role in enhancing the competitive positioning of insurance firms. Consequently, the null hypothesis was rejected, confirming that M&A activities significantly influence firm competitiveness. These findings are in line

with previous empirical evidence. For example, Cummins, Klumpes, and Weiss (2015) noted that M&A in global insurance markets leads to cost efficiencies, broader risk diversification, and improved operational scalability all of which contribute to enhanced competitiveness. Similarly, Mwanza (2016) found that in the Kenyan insurance context, M&A activity improves market reach, capital utilization, and overall performance. The present study aligns with these findings, reinforcing the view that strategic M&A execution is a critical lever for growth, structural efficiency, and sustainable competitiveness in the insurance sector.

**Moderating Effect of Competency Trap on the Relationship between Mergers and Acquisitions and Firms’ Competitiveness**

A hierarchical regression analysis was conducted to examine whether competency trap moderates the relationship between mergers and acquisitions and firms’ competitiveness. This moderated regression was analyzed through a model summary, ANOVA for model fit, and regression coefficients, with results summarized in Table 8.

**Table 8:** Model summary of moderating effect of competency trap on the relationship between mergers and acquisitions and firms’ competitiveness

| Model | Model Summary |          |                   |                            | Change Statistics |          |      |      |             |   |
|-------|---------------|----------|-------------------|----------------------------|-------------------|----------|------|------|-------------|---|
|       | R             | R Square | Adjusted R Square | Std. Error of the Estimate | R Square Change   | F Change | df 1 | df 2 | Sig. Change | F |
| 1     | .666a         | 0.444    | 0.441             | 0.48748                    | 0.444             | 160.576  | 1    | 20   | 0.000       |   |
| 2     | .709b         | 0.503    | 0.498             | 0.46221                    | 0.059             | 23.582   | 1    | 20   | 0.000       |   |

a Predictors: (Constant), Mergers and acquisitions  
b Predictors: (Constant), Mergers and acquisitions, Mergers and acquisitions \*competency trap  
c Dependent Variable: Firms’ competitiveness

In Model 1, the R Square value of 0.444 indicates that mergers and acquisitions alone explain 44.4% of the

variance in firms’ competitiveness. When the interaction term (mergers and acquisitions × competency trap) is added in



Model 2, the R Square increases to 0.503, representing an additional 5.9% increase in explained variance ( $\Delta R^2 = 0.059$ ). This suggests a moderate improvement in the model's explanatory power upon inclusion of the moderator.

More importantly, the F Change statistic for Model 2 is 23.582 with a significance level of  $p = 0.000$ , which is below the conventional 0.05 threshold. This implies that the addition of the

competency trap as a moderating variable significantly improves the model's fit. Therefore, contrary to the initially stated interpretation, the interaction between mergers and acquisitions and competency trap does significantly moderate the relationship, enhancing the prediction of firms' competitiveness. The results are presented in Table 9, which outlines the regression coefficients for both the direct and interaction effects.

**Table 9:** Coefficients results for moderating effect of competency trap on the relationship between mergers and acquisitions and firms' competitiveness

| Model |                                              | Unstandardized Coefficients |            | Standardized Coefficients |        |       |
|-------|----------------------------------------------|-----------------------------|------------|---------------------------|--------|-------|
|       |                                              | B                           | Std. Error | Beta                      | t      | Sig.  |
| 1     | (Constant)                                   | -0.162                      | 0.347      |                           | -0.467 | 0.641 |
|       | Mergers and acquisitions                     | 1.006                       | 0.079      | 0.666                     | 12.672 | 0.000 |
| 2     | (Constant)                                   | -0.645                      | 0.344      |                           | -1.876 | 0.062 |
|       | Mergers and acquisitions                     | 1.235                       | 0.089      | 0.818                     | 13.901 | 0.000 |
|       | Mergers and acquisitions<br>*competency trap | -0.031                      | 0.006      | -0.286                    | -4.856 | 0.000 |

*a Dependent Variable: Firms' competitiveness*

The findings in Table 9 indicate that the interaction term between mergers and acquisitions and competency trap is statistically significant ( $\beta = -0.286$ ,  $p = 0.000$ ), revealing a negative moderating effect. While the direct influence of mergers and acquisitions on firms' competitiveness is strong and positive ( $\beta = 0.818$ ,  $p < 0.001$ ), the inclusion of competency trap weakens this relationship. This means that as competency traps increase reflected in firms becoming overly reliant on existing routines and capabilities the benefits typically associated with mergers and acquisitions begin to diminish. Consequently, the null hypothesis ( $H_{02}$ ), which stated that competency trap does not moderate the relationship, is rejected.

These findings align with the theoretical perspective of Yilmaz and Tuzlukaya (2022), who described competency traps as organizational rigidities that arise when firms overexploit

existing strengths and fail to explore new strategies or capabilities. Denrell and Le Mens (2020) further argued that competency traps limit a firm's willingness to adopt emerging technologies like blockchain or artificial intelligence, thereby reducing the potential performance gains from strategic mergers. In the context of Kenyan insurance firms, this suggests that without overcoming internal rigidities, the full competitive potential of mergers and acquisitions cannot be realized. While mergers and acquisitions significantly enhance firm competitiveness, their effectiveness is compromised in the presence of competency traps. Firms should therefore invest in continuous learning, innovation, and cultural change to escape these traps. Leaders must champion adaptability and ensure that strategic changes like mergers are not undermined by organizational complacency.

## Conclusion

Also, mergers and acquisitions positively contribute to the firm competitiveness of insurance companies. This infers those M & A initiatives, when strategically managed, offer firms a powerful means to reposition themselves in the market, realign their strategic priorities, and consolidate their resources for future growth. The findings indicate that post-merger integration is often accompanied by targeted adjustments in market segmentation, allowing firms to refine their target audiences and reach new customer bases with tailored offerings. Furthermore, M&A enables firms to enhance customer focus by incorporating feedback mechanisms, introducing technology-driven improvements in service delivery, and strengthening relationship management strategies. This customer-centric transformation often leads to improved loyalty, better market penetration, and enhanced brand equity. In addition to customer alignment, diversification through M&A allows firms to enter new product lines, explore emerging industries, and respond proactively to external pressures such as regulatory shifts and market volatility. These changes not only strengthen operational resilience but also create multiple streams of income and innovation opportunities. Therefore, mergers and acquisitions are not just structural changes but transformative strategies that, when executed with precision, significantly enhance firm competitiveness, adaptability, and long-term performance in the insurance sector.

## Recommendations

### Managerial Implications

The study also concluded that mergers and acquisitions positively influence competitiveness, implying that insurance firms must approach M&A with a deliberate strategic framework. Managers

should focus on thorough due diligence, post-merger integration planning, and the realignment of marketing and customer service strategies to fit the new organizational structure. Special attention should be given to harmonizing systems, aligning cultures, and retaining talent during and after integration. Further, managers must ensure that M&A activities go beyond structural consolidation to include innovation, diversification, and strategic repositioning. By adopting a proactive and holistic M&A management approach, firms can maximize the value derived from such initiatives.

### Policy implications

In view of the significant impact of mergers and acquisitions on firm competitiveness, policymakers should strengthen regulatory frameworks that guide M&A activities in the insurance sector. This includes streamlining approval processes, setting clear post-merger integration expectations, and protecting consumer interests during structural transitions. Furthermore, government agencies can provide strategic support to smaller insurance firms seeking to merge by offering advisory services, financial guidance, and integration toolkits. Policymakers must also monitor market concentration to ensure that M&As do not undermine competition and service diversity in the sector.

### Implication for Further Studies

Future studies could expand this scope by exploring additional restructuring strategies such as strategic outsourcing, digital transformation or organizational downsizing to offer a more comprehensive understanding of their effects on firm competitiveness.

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