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CULTURAL INTEGRATION IN MERGERS AND ACQUISITIONS: AN EMPIRICAL APPROACH

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ABSTRACT

The study investigated the perceptions of employees on both the outcomes/drivers of cultural integration in mergers and acquisitions in the banking industry and the approaches/strategies employed in the process of the integration. The study purposively selected four Nigerian deposit money banks that emerged from mergers/acquisitions. Aon Hewitt's (2011) skill, business process based questionnaire items constituted a part of the questionnaire. According to Chidress (2011) corporate culture has recently been recognised as more complex than just the collection of shared behaviours (mindset), but also skills and business processes. Data collected from three hundred and eighty (380) randomly selected employees of these banks were analysed using descriptive and inferential statistics such as means, frequency tables and the independent sample t - test for difference between means. Findings revealed that post-merger/acquisition culture integration was not successful in Nigerian banks. The study recommended that management team should determine from the onset what a high-performing culture looks like for the business in the course of arranging mergers and acquisitions.

Key Words: Cultural Integration, Merger/Acquisition, Nigerian Banks, Employees,

1. Introduction

Generally, mergers and acquisitions are on the rise and companies seeking to expand in the financial services industry and all other industries would seek to acquire other firms or enter into merger agreements. Until 2005, Mergers and acquisitions were foreign to the Nigerian banking system. All that changed in the wake of the global financial crisis and formulation of new policies and operations in 2004 within the sector. Other sectors such as the oil and gas, food and beverages, power, insurance and manufacturing have also not been spared. Spurred by the need for survival from the scourges of increased business risks, low naira exchange rate, shortage of foreign exchange for importation among other pitfalls, these have had to take advantage of the economic gains that mergers and acquisitions offer. As noted by Kaur and Kaur (2010), the aim of mergers and acquisitions is to achieve economies of scale and scope accruable from the increase in size and consequent efficiency of the system.

According to Gaughan (2007), merger is a combination of two or more corporations in which only one of the two corporations survives. The acquiring company assumes the assets and liabilities of the merged company and being in control of a larger number of the company's shares, its name overrides the constituent names. Acquisition, on the other hand is the purchase and total takeover of the property (assets and liabilities) of the purchased institution. Afolabi (2011) defines a merger as a transaction where two entities combine with each other so that one of the initial entities loses its distinct identity, while an acquisition refers to a transaction where one company buys a controlling stake (and/or the whole) of another company. The terms mergers and acquisition will be used interchangeably to represent transactions which involve the combination of at least two independent companies to form one.

Up to the point in the transaction where the deal papers are signed, the merger/acquisition business is largely financial: valuation of the assets, determination of the price and due diligence. However, before the ink is dry, this fiscally-driven transaction turns into a human transaction packed with emotions, trauma and survival behaviour - the irrational, often non-linear world of human beings in the middle of change (Gitelson, Bing & Laroche, 2001). While effective cultural integration is clearly a critical component in deal success, many firms lack the technical know-how to successfully pull through it during a merger/acquisition (Aon Hewitt, 2011).

Culture is the knowledge and characteristics pervasive in a particular group of people, defined by everything from social habits, language, cuisine, religion, music and arts (Zimmermann, 2015). Culture is the number one reason a merger/acquisition fails to achieve the promised value (Bain, 2011). The effects of not fully integrating organisational cultures can last many years, holding back performance and the dividends expected from the merger/acquisition. Given that culture will rarely stop a planned transaction, it behoves on the people managing the transaction to prevent culture from undermining the desired goals (Deloitte, 2009).

Corporate strengths may sometimes be incompatible. More solidly established companies often acquire start-ups as a strategy of enlarging their products portfolio. What they usually find is that the structured controls and sound defined processes that give assurance of expected performance for the acquirer may be impossible to combine with the less structured methods of the start-up (Deloitte, 2009). Rather than getting exasperated in trying to change the culture in anticipation that behaviour will follow Deliotte (2009), advocates that companies should embark on behaviour change and assume that culture will adjust accordingly.

This study investigated the perceptions of employees on both the outcomes/drivers of cultural integration in mergers and acquisitions in the banking industry and the approaches/strategies employed in the process of the integration

2. Literature Review

Mergers and acquisitions in financial institutions are taking place at a swift pace in the United States of America, Europe, Asia and emerging economies of the former Eastern Europe and Africa. For instance, Berger et al (1998) assert that between 80s and 90s, there were almost 3,600 mergers in the US.

An appreciable number of mergers and acquisitions have occurred in the Nigerian Financial Industry. At the end of December 31st, 2005, the number of banks in Nigeria reduced from 89 to 25. In 2011, another round of examinations and regulatory requirements spurred the shareholders of 5 Nigerian banks to approve mergers and acquisitions transactions. According to Afolabi (2011), the banks and their chosen investors were: Ecobank Plc (Oceanic Bank Plc); First City Monument Bank Plc (Finbank Plc); Shareholders and African Capital Alliance Group (Union Bank Plc); Access Bank Plc (Intercontinental Bank Plc);and Sterling Bank (Equitorial Trust Bank Plc).

Mergers and acquisitions (M&A) are a big part of the corporate financial sector. Every day, investment bankers on Wall Street arrange M&A transactions, which enables separate companies to come together to form larger ones. When these investors are not forming big firms from smaller ones, corporate finance transactions do the opposite and split up companies through carve-outs, spinoffs, and or stocks trading. The motives for these mergers and acquisitions are usually for businesses to (1) fill a strategic gap in the firm's product, human resources (people) and capabilities (2) enter a new market, preferably with a income stream. All other motives; tax reduction, economies of scale etc. are secondary (Forbes, 2013).

Companies don't buy start-up or merge with other companies, people (Chief Executive Officers (CEOs) and Senior Vice Presidents) do. Mergers and Acquisitions occur when the Chief Executive Officer (CEO) sees a strategic gap in the future, or a Vice President (VP) identifies a gap in what he/she can achieve in the near to medium term— and plugs that gap with a deal, right or wrong (Forbes, 2013). Mergers & Acquisitions are tactics for strategy execution. It is not necessarily the strategy itself: Companies must have an unambiguous, well-defined strategy for the different business segments. As part of this process, the business leader (typically the CEO or VP) considers all potential alternatives: get a license, build internally, co-invest, partner, acquire, etc., and come to the conclusion that a specific merger/acquisition is the best way to go.

According to Herlihy (2015), investors are beginning to be aware of a situation where banks and other financial firms face challenges which affect many of the conventional measures of financial health—net interest margin, return on capital, dividend and repurchase activity, fee income, efficiency ratios etc. M&A continue to be a viable alternative for improving returns, and are encouraging managements to consider strategic alternatives. The M & A deals in financial institutions around the world, along with other recent announcements like Skye Bank/Keystone Bank, Heritage Bank/Enterprise Bank both in Nigeria suggest that growing economic confidence, on-going expense supervision challenges and enhancing stability of the regulatory climate will facilitate, occasionally, major mergers where the organisational size, strategic fit and opportunity are just spot-on. The environment driving consolidation in banking, insurance, and asset management will continue to impact profitability and drive the need for scale. However, buyers will need to proactively show the expertise needed to manage the combined institution, and the need will be critical if the seller also has a history of regulatory issues (Herlihy, 2015).

There are several challenges organisations face in the event of mergers and acquisition. These include problems of intergroup relations for intra-organisational networks, struggle with the development and maintenance of good interpersonal relations between employees of target and parent organisations, difficulty in achieving cultural integration among others.
The importance of organisational culture in the Nigerian banking industry came into limelight in the post-consolidation era resulting from various culture clashes which accompanied the mergers and acquisitions that reduced the number of Nigerian banks from 89 to 25 between July 2004 and December 2005. Coleman (2013) identified six common components of great corporate cultures. These components include vision, values, practices, people, narrative and place. There are other elements that influence culture, but these six components can offer a firm foundation for modelling a new business' culture. Identifying and embracing them more fully in an existing company can be the major step to invigorating or reshaping culture in an organisation seeking for change (Coleman, 2013).

There is a very high positive connection between organisational culture and performance in the Nigerian banking sphere. The stronger the strength of corporate culture, the greater the bank's performance is expected to be (Umobuarie, 2013). Banks are veritable institutions to demonstrate what organisational culture is. Although every bank offers similar financial services especially in the areas of cash deposit, cash withdrawal, cheque collection etc., it is not uncommon to hear a bank employee say "This is ABC Bank, that can't happen here."

The culture in Nigerian banks is manifested in its furniture, structural designs, the lawn, dressing of the staff, language, style of communication as well as the way management responds to bottom-up matters in the organisation (Umobuarie, 2013). Integration in broad terms refers to the process of joining two businesses into one entity at all levels. Integration is also defined as the conjoining of the two companies' structures into one set. These may include human systems like HR and purchasing functions and information systems like company e-mail and intranets and their associated processes and policies. (Knilans, 2009).Specifically, culture integration encompasses the fusion of individuals into one corporate culture. The new culture could solely be the culture of the acquiring business that is foisted on the acquired business or some new entity that is a mixture of the best features of both organisations' cultures.

Many mergers/acquisitions do not deliver longer-term value because they lack a robust cultural-integration plan. Like human beings, acquired businesses experience a change curve immediately after a deal is made, and the processes, programs and systems that support the acquired company's culture are severely examined (Knilans, 2009). According to Brenner (2011) as cited in Aon Hewitt (2011) two cultures need be brought together and merged to create a cooperative, high-performance new organisation; leadership, culture, and people will be the game changers.

3. Methodology

The necessary data for this study were elicited purposively from sampled staff of four Nigerian deposit money banks that emerged from mergers/acquisitions with a view to assessing the cultural integration outcomes and strategies employed for culture integration. Thus, the study adopted the survey research design. To ensure that the results from the study are a true representation of the population, the random sampling technique was employed to determine the sample respondents.

The average number of staff for these four Nigerian Banks is 2000. Hence, the population for this study is 8, 000. Out of the total population of the study, the sample is selected using the following sampling technique:

$$\text{Sample} = \frac{N}{1 + N(e)^2}$$

e= 0.05

By employing a confidence level of 95% and a confidence interval of 5%, we arrived at a sample size of 380 respondents. The 380 respondents were equally divided amongst the four Nigerian Banks to arrive at 95 staff from each of the banks. 339 questionnaires were returned out of which only 264 were valid (those that have experienced a merger/acquisition)

The study partially adopted questions on culture drivers or outcomes used by Aon Hewlett (2010) in a survey on cultural integration across 123 organisations.

Responses to these questions and other sets of questions constituted the study's primary data. The questions include those on the demographics of respondents i.e. experience of the merger / acquisition, job grade and work location. The question-response format included questions where respondents were asked to tick their responses on a five Likert-type scale with options ranging from Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) to Strongly Disagree(1). A mean of 3.50 on each of the responses as well as on entire items under each section was accepted as indicative of a successful cultural integration/ approach post merger/acquisition. The questions sought to assess respondents' perception on the outcomes of culture integration in M&A in Nigerian Banks. For quantitative analysis, descriptive and inferential statistics which include frequency tables, means and percentages were employed to answer the research questions. The independent sample t-test was employed in testing the significant difference in responses of senior and junior employees on the outcomes of the culture integration and approaches/strategies used in integrating culture during mergers and acquisitions.

4. Results and Discussions

A total of 380 questionnaires were distributed. Of this number, 339 of the questionnaires were returned. Out of a total of 339 returned questionnaires, only two hundred and sixty four (264) were valid (i.e staff of the bank that experienced the merger/acquisition) for the purpose of this study. The results in Table 1 reveals that majority of the respondents were in the Trainee – Banking Officer (BO) grade with a total of one hundred and sixty one respondents (60.98%). followed by Senior Banking Officer (SBO) – Deputy Manager (DM) grade with sixty six(25%). The Manager (M) – Principal Manager (PM) grade followed with twenty three (8.7%) while only fourteen (5.30%) of the respondents were in the Assistant General Manager (AGM) grade and above. The study categorized these grades of employees into two main ranks: junior and senior/management staff with 161 (60.98%) and 103 (39.02%) employees respectively (table 1).

Junior staff agreed on items 1 (system and processes – the work processes and tools we have in place allow me to work efficiently); 2 (customers- we are responsive to the changing needs of our customers); 7 (customers- I have the resources required to meet customer need) and 8 (leadership- I see strong evidence of effective leadership in our Business Unit leadership term). They disagreed on others especially/strongly on items 4 (pay and recognition-the way we rewarded financially helps us produce the organisational results wanted) and 5 (pay and recognition-senior leaders appropriately recognize employee contributions and accomplishments). With a total mean of 3.00, junior employees generally seem to be undecided (see table 2). With means of 2.92, 3.05, 3.33 and 2.39, senior staff generally disagreed on items 3 (structure and governance- as an organisation, we are structured in a way that helps us achieve our goals), 5(pay and recognition- senior leaders appropriately recognize employee contributions and accomplishments), 7 customers- I have the resources required to meet customer need) and 9 (leadership- the Business Unit leaders are excellent role models of our values) respectively. They however agreed on the other items (see table 3).

The independent sample t test result ($t = 7.05$, $p < 0.05$) shown above in table 7 indicates that there is a significant difference between junior and senior staff perceptions on the overall approaches/strategies used in integrating culture in the Nigerian Banking System. Even on specific items with the exception of item 10, both categories of staff's perceptions are significantly different (see table 7).

5. Presentation of Results

The results of this study indicated that

1. Employees (junior and senior staff) perceived that culture integration was not successful post-merger/acquisition in Nigerian Banking Institutions.
2. Junior staff perceived issues of pay and recognition as stated in items 3 and 4 as negative drivers/outcomes. These issues were perceived as having very serious impact on the cultural integration of the banks. The senior staff differed on the same items with special reference to reward (item 3) most likely because they are well remunerated as management staff.
3. Perceptions on outcomes of culture integration were generally not influenced by employees' ranking.

4. On approaches and strategies for integrating culture, senior and junior staff agreed that their banks apply the following approaches/strategies :

    a. Cultural Objective is well defined in broad terms
    b. Culture is defined with specific behaviour measures and incentives

5. Junior staff did not perceive the following as approaches/strategies applied by their banks in integrating culture:
    a. Staff are regularly trained on cultural behaviours
    b. Use of company's portal to regularly communicate its cultural behaviours
    c. Management carries out employees' survey and physical interviews
    d. Management regularly holds town hall meetings with employees

6. Discussion of Findings

These results of the study revealed that the banks studied were not careful enough to implement a total cultural integration package post mergers and acquisitions. The implication is that culture is taken for granted or not taken too seriously. Perhaps the cost associated with culture integration constitutes a form of discouragement to profit making stakeholders. This finding corroborates that of Aon Hewitt (2011):"...although deal activity is on the rise and cultural integration is cited as a top priority during M & A activity, most organisations do not have a clearly defined approach to addressing culture."

Secondly, the results from this study suggested that staff ranking is not a determinant of Culture Integration outcomes. The implication of this is that effective culture integration can be achieved all-round the organisation as long as the right approaches are employed and adequate communication on the merger/acquisition plans and culture filters through the ranks in the organisation.

Thirdly, it is obvious from the outcomes of this study that different organisations can employ different approaches for culture integration in a merger/acquisition. The first thing to remember is that organisations decide to undertake a merger/acquisition for a certain desired objective. The responsibility of the integration consultants and Human Resource experts/manager is to help achieve the merger/acquisition objective by ensuring that all aspect of human challenges that could pose as major problems to the achievement of the desired objective are carefully planned for and handled in the early planning phase of the merger/acquisition. Kavanagh and Ashkanasy (2006) evaluated the effect of leadership and change management strategy on M&A integration in three organisations and found that managers responsible for driving the merger process were not equipped with the necessary change management skills to ensure success.

For organisations in the financial services industry, this can be done via synchronization of processes and technology, use of employee portal to communicate M&A plans; use of screen savers that communicates the vision & mission and educating employees of the bank's culture, values, systems, processes, policies and norms amongst other approaches.

7. Conclusion and Recommendations

Culture integration is a key factor in mergers and acquisitions and can influence the success of the organisation post-merger/acquisition. The distress that Nigerian banks among their international counterparts world over experienced in the recent past can be avoided if diligent effort is made towards a successful cultural integration. The study has provided some insights into the successful strategies that can be used for culture integration in the banking institutions.

The banking industry is the backbone of every economy worldwide. For greater security of depositor's funds, financial stability, greater returns to shareholders and an increased ability to support the real economy, banks are always considering the options of mergers and acquisitions. A successful merger or acquisition is one that is built around a culture shared and accepted by all and sundry that make up the organisation.

Leaders/management in the banking sector in Nigeria must begin to think and act differently on the issue of corporate culture. For culture to produce desired results, it must be taken seriously and considered a vital requirement for enhanced productivity. Management must define right from the start what a high-performing culture is for the business as they plan to embark on mergers and acquisitions. Thus, we can well assume that only a culture that has been effectively thought out can be effectively communicated.

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Appendix

	Total No. of Employees	%		Staff Ranking	Job Grade	Total No. of valid Employees	%
Invalid Employees	75	22.12					
Valid Employees	264	77.88	161	Junior Staff	Trainee – BO	161	60.98
			103	Senior Staff	SBO – DM	66	25
					M – PM	23	8.71
					AGM - Above	14	5.30
No. of Employees				**Total**		339	100

Table 1 Demographic Profile of Employees
Source: Author's Field Work (2016)

S/N	Outcomes/Drivers of Culture Integration	SA	A	UD	D	SD	MEAN
1.	System and processes – the work processes and tools we have in place allow me to work efficiently.	70	34	20	17	20	**3.73**
2.	Customers- we are responsive to the changing needs of our customers.	50	43	32	23	13	**3.58**
3.	Structure and Governance- as an organisation, we are structured in a way that helps us achieve our goals	34	15	78	13	21	**3.17**
4.	Pay and Recognition-the way we rewarded financially helps us produce the organisational results wanted	6	12	18	82	43	**2.11**
5.	Pay and recognition- Senior leaders appropriately recognize employee contributions and accomplishments	2	9	23	79	48	**1.99**
6.	Pay and Recognition- Management clearly acknowledge behaviours that drive company success	17	16	67	32	29	**2.75**
7.	Customers- I have the resources required to meet customer need	20	87	21	20	13	**3.50**
8.	Leadership- I see strong evidence of effective leadership in our Business Unit leadership term	32	78	31	12	8	**3.71**
9.	Leadership- The Business Unit leaders are excellent role models of our values	13	17	26	82	23	**2.47**
	Mean of means						**3.00**

Table 2 Junior Staff's Perception on Outcomes of Culture Integration
Junior Staff's Perception on the Outcomes of Culture Integration
Source: Author's Field Work (2016)

S/N	Outcomes/Drivers of Culture Integration	SA	A	UD	D	SD	MEAN
1.	System and processes – the work processes and tools we have in place allow me to work efficiently.	50	34	3	10	6	**4.09**
2.	Customers- we are responsive to the changing needs of our customers.	20	52	8	17	6	**3.61**
3.	Structure and Governance- as an organisation, we are structured in a way that helps us achieve our goals	13	13	40	27	10	**2.92**
4.	Pay and Recognition-the way we are rewarded financially helps us produce the organisational results wanted	27	50	17	5	4	**3.88**
5.	Pay and recognition- Senior leaders appropriately recognize employee contributions and accomplishments	15	13	44	24	7	**3.05**
6.	Pay and Recognition- Management clearly acknowledges behaviours that drive company success	15	55	20	6	7	**3.63**
7.	Customers- I have the resources required to meet customer need	17	47	5	21	13	**3.33**
8.	Leadership- I see strong evidence of effective leadership in our Business Unit leadership term	30	52	1	17	3	**3.86**
9.	Leadership- The Business Unit leaders are excellent role models of our values	5	18	8	53	19	**2.39**
	Mean of means						**3.42**

Senior Staff's Perception on Outcomes of Culture Integration
Table 3: Senior Staff's Perception on Outcomes of Culture Integration
Source: Author's Field Work (2016)

S/N	Approaches/Strategies of Culture Integration	SA	A	UD	D	SD	Mean
10.	Cultural Objective is well defined in broad terms	78	76	2	2	3	**4.39**
11.	Culture is defined with specific behaviour measures and incentives	61	67	19	6	8	**4.04**
12.	Staff are regularly trained on cultural behaviours	24	21	21	38	57	**2.48**
13.	Use of company's portal to regularly communicate its cultural behaviours	28	23	19	49	42	**2.67**
14.	Management carries out employees' survey and physical interviews	30	24	27	57	23	**2.88**
15.	Management regularly holds town hall meetings with employees	7	20	15	23	96	**1.88**
	Mean of means						**3.06**

Approaches used in Integrating Culture during Merger and Acquisition
Table 4: Junior Staff's Perception of Approaches used in Culture Integration
Source: Field Survey, 2016

Approaches/Strategies of Culture Integration	**SA**	**A**	**UD**	**D**	**SD**	**Mean**
Cultural Objective is well defined in broad terms	56	44	0	2	1	**4.48**
Culture is defined with specific behaviour measures and incentives	66	29	1	3	4	**4.46**
Staff are regularly trained on cultural behaviours	15	35	25	11	17	**3.19**
Use of company's portal to regularly communicate its cultural behaviours	17	19	33	21	13	**3.06**
Management carries out employees' survey and physical interviews	34	31	7	22	9	**3.57**
Management regularly holds town hall meetings with employees	15	19	21	22	26	**2.76**
Mean of means						**3.59**

Approaches used in Integrating Culture during Merger and Acquisition
Table 5: Senior Staff's Perception of Approaches used in Culture Integration
Source: Field Survey, 2016

		Junior		**Senior**			
S/N	**Items**	**Mean**	**S.D**	**Mean**	**S.D**	**T**	**p**
1.	System and processes – the work processes and tools we have in place allow me to work efficiently.	3.73	1.43	4.09	1.20	2.13	0.034
2.	Customers- we are responsive to the changing needs of our customers.	3.58	1.28	3.61	1.15	0.18	0.858
3.	Structure and Governance- as an organisation, we are structured in a way that helps us achieve our goals	3.17	1.23	2.92	1.13	1.67	0.097
4.	Pay and Recognition-the way we rewarded financially helps us produce the organisational results wanted	2.11	1.00	3.88	0.98	14.15	0.000
5.	Pay and recognition- Senior leaders appropriately recognize employee contributions and accomplishments	1.99	0.88	3.05	1.11	8.56	0.000
6.	Pay and Recognition- Management clearly acknowledge behaviours that drive company success	2.75	1.18	3.63	1.03	6.21	0.000
7.	Customers- I have the resources required to meet customer need	3.50	1.11	3.33	1.32	1.15	0.253
8.	Leadership- i see strong evidence of effective leadership in our Business Unit leadership term	3.71	1.03	3.86	1.10	1.17	0.244
9.	Leadership- The Business Unit leaders are excellent role models of our values	2.47	1.11	2.39	1.12	0.59	0.553
	Total	3.00	1.32	3.42	1.24	7.69	0.000

Table 6: Differences in the perception of junior and senior staff on the outcomes/drivers of cultural integration in the Nigerian Banking System

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Source: Field Survey, 2016

With an independent sample t test result ($t = 7.69$, $p < 0.05$) shown above in table 6, there is a significant difference between junior and senior staff perceptions on the entire items. Nevertheless, junior and senior staff varied on their perceptions on specific items 1, 2, 3, 7, 8 and 9 see table 6).

		Junior		**Senior**			
S/N	**Items**	**Mean**	**S.D**	**Mean**	**S.D**	**T**	**p**
10.	Cultural Objective is well defined in broad terms	4.39	0.75	4.48	0.70	0.92	0.36
11.	Culture is defined with specific behaviour measures and incentives	4.04	1.05	4.46	0.96	3.28	0.00
12.	Staff are regularly trained on cultural behaviours	2.48	1.46	3.19	1.29	4.03	0.00
13.	Use of company's portal to regularly communicate its cultural behaviours	2.67	1.44	3.06	1.25	2.27	0.02
14.	Management carries out employees' survey and physical interviews	2.88	1.35	3.57	1.37	4.04	0.00
15.	Management regularly holds town hall meetings with employees	1.88	1.25	2.76	1.40	5.33	0.00
	Total	3.06	1.52	3.59	1.36	7.05	0.00

Table 7: Differences in the perception of junior and senior staff on the approaches/strategies used in integrating culture in the Nigerian Banking System
Source: Field Survey, 2016