MANAGING MERGERS AND CULTURAL DIVERSITIES IN DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examined the effect of cultural diversities on mergers and acquisition in deposit money banks in Nigeria. The study focused on four deposit money banks: namely, Access, Diamond, Titan Trust, and Union Bank. Questionnaires were utilized to gather data for the study. Spearman's rank correlation coefficient was used to analyze the data collected. The findings show that cultural diversities play a major role in the consummation of mergers and acquisitions. It was therefore recommended that entities should seek organisations with similar cultural diversities to merge with or acquire.

Keywords: Acquisitions, mergers, cultural diversities, deposit money banks

INTRODUCTION

M&A are becoming common occurrence in the deposit money banks in Nigeria. In March 2019, Access Bank Plc acquired Diamond Banks Plc. Also, towards the end of December 2021, Titan Trust Bank Limited (TTB), incorporated in 2018, acquired 88.39% of the shareholding of Union Bank of Nigeria Plc, a much older bank. The mergers and acquisitions involving these four DMBs is the subject-matter of this study.

When management of entities contemplate merging with other entities or acquiring another entity, they seem to be more interested in how the transaction will be successful, with little consideration of the difficulty in integrating different organizational cultures into a unified whole in the emerging entity. When two or more organisations are coming together to form one entity, the major issue of cultural differences in the former organisations must be resolved and harmonized to avoid cultural clashes in the new entity.

The Consummation of a merger or acquisition is one thing, but the post-merger integration of the human, materials, and machines is entirely a different thing. Another much challenging issue is the integration of the different organizational cultures. This study discusses the managing of the merger and acquisition process as well as the integration of the different organizational cultures that existed in the legacy banks into the banks that emerged from the mergers and acquisitions. This topic is chosen because, even though so much research has been carried out on M&A, no research, to the best of the knowledge of this researcher, has been done on M&A that occurred between 2019 and 2021 in the deposit money banks in Nigeria. Neither has any research been conducted on integrating cultural diversities in M&A that have occurred between 2019 and 2021 in Deposit Money Banks in Nigeria

The main objective of this research is to ascertain the effect of cultural diversities during mergers and acquisitions. The specific objectives are as follows:

1. To ascertain the effects of cultural diversity on management choice of which entity to merge with or acquire.
2. To examine the effects of cultural diversity on successful mergers and acquisitions.
3. To investigate the effects of cultural diversity on employees' productivity post-merger

LITERATURE REVIEW

Conceptual Framework

Organisations engage in mergers and acquisitions to enhance their shareholders' wealth, amongst other reasons. On the flip side many mergers and acquisitions failed because leaders of the entities involved failed to consider other critical issues, especially the cultural diversities of the entities involved in the business combination. According to Gaonkar (2005), it is very common that cultural issues are ignored prior to striking merger deals. Organizational culture plays a major role in the day-to-day functions of any entity. Culture defines the fortunes or misfortunes of any organisation.

Mergers: There are many definitions of mergers as there are many authors on the subject. According to Schuler and Jackson (2001) 'in a merger, two companies come together and create a new entity. 'In an acquisition, one company buys another one and manages it consistent with acquirer's needs.' Thus, a merger can be said to be a combination of two or more entities into a single entity. In some cases, all the merging entities lose their independent identity. In other instances, the identity (name) of one of the merging entities is retained as the new entity. The merger of Access Bank Plc and Diamond Bank Plc is a good example.

Acquisitions: In the case of acquisition, one company gains control or buys another company. The acquirer becomes the parent company while the acquiree becomes the subsidiary. Agarwal and Mittal (2014) define acquisition as the taking over of one company by another where the target company still exists as a separate entity controlled by the acquirer.

Culture: Culture is the norms, beliefs, and values accepted and adopted by members of a group, community, or society as the principles that govern their conducts, and relationship with each other. As the saying goes, culture is the way of life of a people as members of a community or society. Taylor (1871), cited in Okpokunu (1997), defined culture as "that complex whole which includes knowledge, belief, art, law, morals, custom and any other capabilities and habits acquired by man as a member of society".

Organisational Culture: As every society or community has its culture, so also every organisation, entity, or company has its culture. Koontz and Weihrich (1988) in defining organizational culture, have stated:

> …as it relates to organisations, culture is the general behaviour, shared beliefs, and values that members have in common. It can be inferred from what people say, do, or think within an organizational setting. It involves the learning and transmitting knowledge, beliefs, and behavioral patterns over a period.

An example of organizational culture is the mode of greeting. An organisation could have a policy of subordinates referring to their superiors by saying Mr. Johnson (Johnson be the Surname of the superior officer). In another organisation, a subordinate can call their superiors by their first names. Another example of organizational culture is the mode of dressing. Employees could be asked to wear English dresses to the office from Mondays to Thursdays and wear traditional attires or T-shirts with the organisation name and logo to the office on Fridays.

It is obvious that when two or more organisations merged, or one company acquires another, the entities involved in the mergers and acquisitions will not have the same organizational culture. This may lead to conflict, which if not addressed from the onset, may affect the new entity's performance negatively. But if the organizational cultures of the different companies involved in the M&A are harmonized early, the performance of the new company that emerged from the M&A will be positively affected.

Cultural Diversity: Having discussed culture, let us attempt to explain the meaning of cultural diversity. Diversity refers to variety along many dimensions such as race, ethnicity, gender, socio- economic status, physical features, religious beliefs, marriage systems and political ideologies (NOUN, 2014).

Employees of an organisation come from different ethnic, religious, or racial backgrounds. Organizational culture only moderates those cultural diversities among staff members. In other words, there are national cultural diversity among staff based on their ethnic, racial, religious backgrounds, and there are also organizational cultural diversities among staff of the organisations involved in M&A. The focus of this paper is on the latter, organizational cultural diversities among staff of the entities involved in M&A.

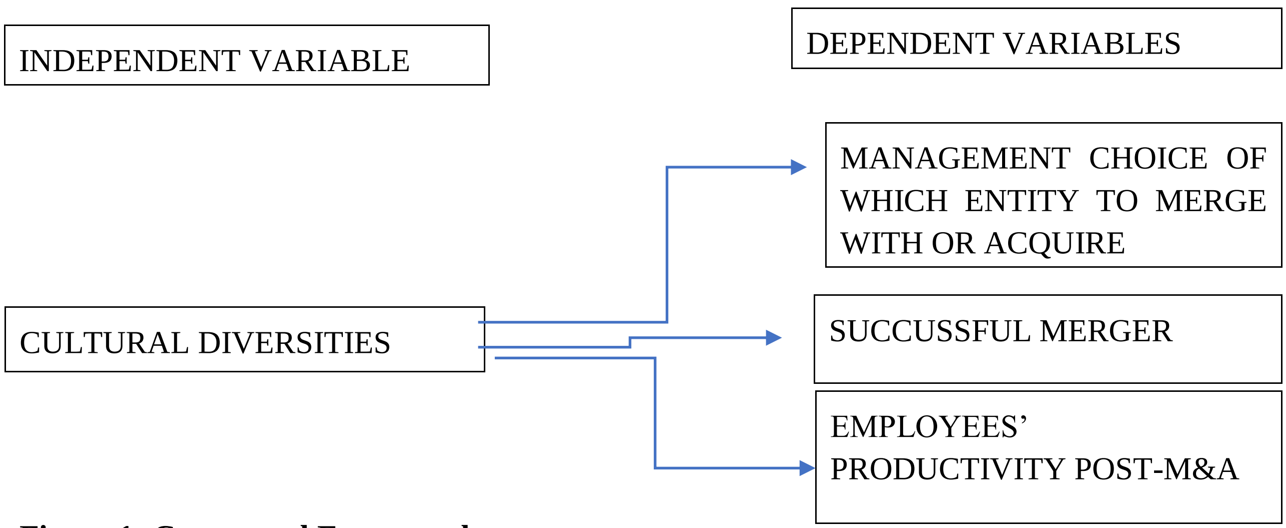

Figure 1: Conceptual Framework

Theoretical Review

This study is based on the theory of **Meta-Analysis approach** developed by Stahl and Voigt (2008) in their study, titled ***"****Do Cultural Differences Matter in Mergers and Acquisitions? A Tentative Model and Examination****".*** Stahl and Voigt (2008) came up with twelve hypotheses and two propositions on managing cultural differences during mergers and acquisitions. Some of these hypotheses were anchored on the following:

a) Sociocultural Integration. Citing Byre (1971) as well as Darr and Kurtzberg (2000) and Stahl and Voigt, 2008 state "that people tend to be attached to those whose attitudes and values are similar to their own". Continuing they state that "research on interpersonal trust development has shown that shared norms, ideologies, and values facilitate the emergence of trust, while limiting the potential for conflict" (Lewicki & Bunker, 1995; Sitkin & Roth, 1993). "Conversely, trust can erode and the potential for conflict increases when a person or group is perceived as not sharing key values. As a result of perceptual biases and basic cognitive processes such as social categorization, negative characteristics and intentions are often attributed to members of the out-group".

Thus, organizational cultural diversities of the merging firms may affect post-merger performance of the newly emerged firm positively or negatively. If the merging firms have the same organizational cultural leaning, the post-performance of the organisation will be greatly enhanced. But if there are disparities in the organisational cultures of the merging firms, this may affect the post-performance of the new firm adversely.

b) *Task Integration.* Stahl and Voigt (2008), citing the research works of other scholars, stated that "while M&A literature tends to emphasize the potential problem in the integration process caused by cultural differences, the opposite view that cultural differences can be a source of value creation and learning has also been advanced by M&A scholars. This view is largely based on the assumption that differences rather than similarities between merging organisations create opportunities for synergies and learning". But this school of thought is countered by other scholars who argue that the benefits of cultural differences can only be realized if such cultural differences of the merging organisations are not so large that they interfere with the successful transfer of capabilities, resource sharing, and learning (Bjorkman et al, 2007).

c) *Sociocultural Integration, Task Integration, and Synergy Realization.* Under the foregoing title, Stahl and Voigt (2008), citing the work of other scholars, stated that "some of the most common synergies sought in M&A are economies of scales or scope, cross-selling products through complementary sales organisations and distribution channels, and cost reductions through elimination of redundant staffs and operations (Jemison, 1988; Schweiger, 2002; Schweiger & Walsh, 1990)".

Stahl and Voigt (2008), in their findings, concluded "that overall successful integration is an interactive process whereby necessary interdependencies between the acquiring firm and the target firm build in a cyclical manner, and "that if task integration is pursued before sociocultural integration has begun, then the likely result is integration problems, because the individuals on each side do not know and trust one another."

d) *Cultural Differences and Synergy Realization.* Again, Stahl and Voigt (2008), citing the research work of other scholars, posited "that poor social integration limits the effectiveness of task integration efforts as a driver of operational synergies. In other words, poor sociocultural integration will block successful task integration which cannot be driven faster than success with sociocultural integration (Birkshaw et al., 2000; Haspeslagh & Jemison, 1991)." These arguments, in their conclusion, "suggest that although cultural differences may enhance the potential for synergies, the impediments to sociocultural integration created by cultural differences are likely to adversely affect the realization of projected synergies."

e) *Announcement Returns:* Stahl and Voigt (2008), in referring to the work of other scholars, stated that "the capital market perspective on the role of culture in M&A suggests that perceptions of cultural differences affect shareholder value by influencing expectations of investors about the future performance of the acquiring firm." They therefore concluded that "cultural differences may adversely affect the acquiring firm's market value".

f) *Long-Term Shareholder Value:* Stahl and Voigt (2008), drawing from the work of other researchers, asserted that "acquisition announcement returns represent investors' expectations of takeover benefits and do not capture whether M&A generate actual economic benefits and create value for the shareholders in the longer term (Healy, et al., 1992)". The conclusion from their findings is that "to the extent that cultural differences have an impact on the realization of projected synergies, the acquiring firm's market value should be affected. Hence synergistic benefits will translate into shareholder wealth only if they are viewed by investors to be more than the price paid for the acquired company – that is, if the acquirer does not overpay for the target firm (Datta & Puia, 1995; Schweiger, 2002)".

The foregoing theory of Meta-analysis developed by Stahl and Voigt (2008) is relevant to this study because its main objective is integration of cultural diversities in M&A.

Empirical Review

Olu (2010) undertook a research work entitled "Organisational Culture and Corporate Performance: Empirical Evidence from Nigeria" The purpose of the research article is to examine various concepts on organisational culture and strives to ascertain the importance of the relationship between organisational culture and corporate performance in a business context. The study adopted survey research design. The population of the study is the entire employees of Nigerian commercial banks. Primary data were used for the study. Data were collected through questionnaire, which was administered to the selected respondents, The two hypotheses proffered were tested and relevant recommendations were made. The conclusion drawn from the study is that organisational culture plays a vital role in an organisation's general performance. The study contributes to organisational culture's literature by showing that employees would commit themselves to organisational goals and work actively in achieving those goals when they buy into cultural norms of the organisation and thus increase organisational performance.

Obuma and Worlu, (2017) examined the bond in workplace diversity and employee engagement in banks in Rivers State. The study utilized cross-sectional research design, while the research data was collected from both primary and secondary sources. The spearman rank correlation coefficient was used to analyze the hypothesis at 0.05 level. The study showed that there is a correlation between the dimensions of workplace diversity and the measures of employee engagement. Based on the findings, it was recommended among others that top managers must understand that there is unity in diversity, and this can be done through orientation programs, seminars, and workshops on a periodic interval, and culture of organisations should be established in such a way that nepotism and favoritism is eliminated. The banking sector requires improved performance and productivity, and workforces with vigor, dedication and absorption exhibit positive attitude towards work. Therefore, effort should be made to make them engage at work.

Olanrewaju et al. (2019) examined the relationship between organizational culture and employee efficiency among commercial banks in Nigeria. Primary data was gathered by means of a self-administered questionnaire. The sample comprised 223 respondents selected using simple random sampling technique. However, 218 copies of the questionnaire were retrieved and analyzed using the Statistical Package for the Social Sciences (SPSS). The findings revealed that organizational processes and structures were significant predictors of employee efficiency. As a result, the staff's familiarity with the organizational processes and structure, their efficiency levels. They recommended that all bank employees should become familiar with and committed to the corporate culture. Appropriate incentives should be offered to employees. These should not be restricted to monetary rewards but should include recognition of their performance and present opportunities to achieve individual goals and aspirations. Finally, both managers and employees should receive training to enhance efficiency.

RESEARCH METHODOLOGY

Research Design

The researcher used survey research design to establish the relationship between mergers and acquisitions and cultural diversities in deposit money banks in Lagos state.

Population and Sample

The population of interest for this study comprised of the staff of Access Bank Plc, Awolowo Road, Alausa, Ikeja, Lagos State, Titan Trust Bank Limited and Union Bank of Nigeria Plc, Allen Avenue, Ikeja, Lagos State. The total population of study is two hundred and fifteen (215).

The required sample size for the study was determined using a popular method named *Taro – Yamane Formula (1967)*. It was obtained as thus.

$$n = \frac{N}{(1 + Ne^2)}$$

$$n = \frac{215}{(1 + 215(0.05^2)} = 139.84 \approx 140$$

The sample size determined for this study was 140. These numbers of questionnaires were administered at Access Bank Plc, Titan Trust Bank Limited and Union Bank of Nigeria Plc,

Data Collection Instrument

Questionnaire was adopted for collecting data from the respondents by the researcher. The questionnaire was designed to obtain information needed for analyzing and interpreting the result in order to aid answering the research questions. The questionnaire was designed using the close ended questionnaire, and it comprised of two parts: the respondents' background and the research related questions. All the scale items were measured using a five-point Likert scale ranging from (1) strongly disagree to (5) strongly agree.

Method of Data Analysis

In analyzing data, descriptive and inferential statistics was adopted to analyze the bio-data information as well as the research questions raised and in testing the hypotheses formulated. The Spearman's rank correlation coefficient statistics was adopted to accept or reject the hypotheses formulated. This was adopted in order to determine the relationship as well as the degree of relationship between variables at hand.

DATA PRESENTATION, ANALYSIS OF RESULTS AND DISCUSSION

This section of the study is based on the data collected from the questionnaires administered to respondents. A total of one hundred and forty (140) copies of the questionnaires were administered to staff of Access Bank Plc, Titan Trust Bank Ltd and Union Bank of Nigeria Plc, while one hundred and twenty-three (123) were fully completed and returned. The analysis was carried out using Statistical Packages for Social Science (SPSS). Descriptive statistics of frequency count and percentage; and Spearman's rank correlation coefficient were used to analyze the data collected in order to answer the hypotheses raised in this study. All statistical analysis was tested at 5% level of significance.

Hypothesis Testing

Hypothesis I

(Ho): There is no significant relationship between management choice of which entity to merge with or acquire and the acquired entity's cultural diversities.

(**Hi):** There is a significant relationship between management choice of which entity to merge with or acquire and the acquired entity's cultural diversities

Hypothesis II

(Ho): There is no significant relationship between successful M&A and cultural diversities.

(H1): There is a significant relationship between successful M&A and cultural diversities.

Hypothesis III

(Ho): There is no significant relationship between employees' productivity post-M&A and cultural diversities.

(H1): There is a significant relationship between employees' productivity post-M&A and cultural diversities.

The interpretation of the three hypotheses tested show that there is a relationship between the independent variable (cultural diversities) and the three dependent variables (successful M&A, employees' productivity post-M&A and Management choice.

Summary of Findings

After the analysis of data in the preceding section of this study the researcher now presents the summary of findings as follows:

1. There is a significant relationship between management choice of which entity to merge with or acquire and the acquired entity's cultural diversities.
2. There is a significant relationship between successful M&A and cultural diversities.
3. There is a significant relationship between employees' productivity post-M&A and cultural diversities.

CONCLUSION

Based on the findings above, the researcher reached the following conclusions:

1. Management of an entity does take into consideration the cultural diversities of another entity before merging or acquiring that entity.
2. Cultural diversities of entities involved in mergers or acquisitions could affect the success or failure of the contract.
3. Integration of cultural diversities of entities soon after a merger or an acquisition could lead to enhanced productivity of staff post-merger.

Based on these conclusions, the study offers the following recommendations:

1. In seeking to merge with or acquire another DMBs, banks should look out for DMBs with similar organizational culture for easier acculturation.
2. As soon as a merger is concluded, or a subsidiary acquired the DMBs involved should embarked on integration of the different cultures of the legacy DMBs to avoid cultural clashes.
3. Because banks including DMBs often have network of branches nation-wide they should merge or acquire DMBs with wide network of branches and which will invariably have similar cultural diversities.

Also, the study offers the following suggestions:

1. Since this study focused on DMBs in Lagos State, similar studies could be carried out in other States in Nigeria within DMBs sub-sector of the banking industry to ascertain whether similar results could be arrived at.
2. Future researchers could also consider using a different methodology or research design e.g., Partial Least Square-Structural Equation Modelling (PLS-SEM) or increase the population or sample size to confirm or discredit the result arrived at in this study.
3. Since only four variables were used in this research, more variables could be used by scholars who may want to carry out similar work with DMBs.

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