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BIMBO ATILOLA
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MERGERS AND ACQUISITIONS AND THE CHALLENGES OF HUMAN RESOURCES MANAGEMENT IN THE NIGERIAN BANKING SECTOR.

ABSTRACT

This paper demonstrates that Human Resources Management (HRM) is an essential part of Mergers and Acquisitions (M & As) and that Human Resources (HR) issues should be given a lot of emphasis throughout the process. It argues that majority of mergers and acquisitions fail to reach their intended objectives because merging organizations (banks) typically overlook the importance of the human resource factor. The paper posits that M & As are not in any way new and that when organizations merge, labour is the first casualty. The paper examines the role of HR practitioners in a M & As arrangement and note that the process of M & As often has a negative impact on employee behaviour resulting in counter productive practices, absenteeism, low morale and job dissatisfaction. It finds that poor merger results are often attributed to HRM and organizational problems. Thus, the paper recommends the full involvement of experts in Human resources management in all aspects of the pre-merger negotiations, ongoing process and post merger integration.

INTRODUCTION

An emergent and growing field of enquiring has been directed at the cultural dynamics of M&As and the emotional and behavioural response of the employees involved. This literature, with its diverse origins in the psychology, organisational behaviour and human resource management disciplines has sought to explain M&A underperformance in terms of the cumulative

** SHABI, OLAWALE RAHEEM B.sc (Hons) M.sc. (Lagos), Gmcipmn, Lecturer Department Of Industrial Relations And Public Administration, Faculty Of Management Sciences Lagos State University, Ojo Lagos, Nigeria E-mail Shuaibash@yahoo.com*

dysfunctional impact that the event itself, its associated uncertainty and the subsequent process of integration have on individual organisational members[1]. Within this literature, poor culture-fit or lack of cultural compatibility have become much cited, if rather poorly defined, reasons for M&A failure. The relationship between culture and performance continue to intrigue and confuse researchers as studies examining this link in relation to domestic and international M&As have produced rather mixed, and often contradictory results[2]. In M&A situations, the discourse around cultural differences is vehicle by which employee groups assert the distinctiveness of their social identities[3]. Such observations highlight the notion that M&As pose a potential threat to workers' social as well as security needs and the valuable theoretical contribution that social identity theory[4] can make to our understanding of the merger process. In recognition, two empirical research studies[5] investigated the potential antecedents of post-merger identification. These studies draw upon a growing body of research evidence, which has shown in a variety of work contexts that high levels of employees' social identification with the organisation's identity result in increased work effort, higher performance, reduced staff turnover and more frequent engagement in positive organizational citizenship behaviours[6]. Both studies however have clear implications for practice in emphasizing the importance of communication to reinforce the positive utility of the merger and to promote a sense of belonging[7]. The scholar discusses the potential strategic and behavioural challenges of M&As in some regions of the world and their implications for human resource management.

Financial services support employment directly by providing high quality jobs and indirectly through their pivotal role in maintaining credit to other sectors. A well-functioning sectors crucial to a national economy's well-being and to

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1. *Cartwright, Susan & Schoenberg (2006) "Thirty Years of Mergers & Acquisitions Research": Recent Advances and Future Opportunities. British Journal of Management, Vol 17, Issues S1.*
2. *Cartwright, S. (2005). "Mergers and Acquisition". An Update and Appraisal", In: Hodgkinson G. P., And Ford, J. K (eds), International Review of Industrial and Organisational Psychology, 20, Pp. 1 33. John Wiley, Chichester.*
3. *Gertsen, M. C. and A. M. Soderberg (1998) "Foreign Acquisitions in Denmark: Cultural Communicative Dimensions", In Gertsen, M. C. et al (eds), Cultural Dimensions of International M & As. De Guyter, Berlin.*
4. *Tajfel, H. and Turner, J. C (1979) "An Integrative Theory of Intergroup Conflict". In: Austin, W. G. and Warchel, S. (eds), The Social Psychology of Intergroup Relations, Brookds/Cole, Montey CA*
5. *Bartels, J. Douwes, R., De Jong, M and Pruyn, A. (2006) "Organisational Identification During a Merger: Determinants of Employees' Expected Identification with the New Organisation', British Journal of Management., Vol. 17, 551 569.*
6. *Haslam, S. A. and Ellmers, N. (2005) "Social Identity In Industrial and Organisational Psychology: Concepts, Controversies and Contributions', In: Hodgkinson, G. P. and Ford, J.K (eds), International Review of Industrial and Organisational Psychology, 20, Pp. 39-118. John Wiley, Chichester.*
7. *Cooke, F. L. (2006) "Acquisition of State owned Enterprises by MNCs: Driving Forces, Barriers and Implications for HRM", British Journal of Management. Vol. 17, S107-S123.*

international economic growth. The volume and monetary value of M&As reached exceptional levels in 1990s, contributing to the growing trend towards sectoral concentration. While the process is truly global, developed countries are the most affected by the developments. Most research confirms that two-thirds of M&As fail to achieve their objectives for various reasons. The benefit of size and economics of scale are usually nullified by increased complexity and losses related to top-heavy organizations, while the difficulties of adequately blending cultural and other human factors in the integration of the combined enterprise are often underestimated[8]. Those in support of M&As emphasize that they contribute to greater enterprise efficiency, profitability and-by extension increased economy-wide employment, arguing that the examination of their overall impact should not be limited to the level of the individual firm. Critics dispute both efficiency and employment benefits, however, pointing to the immediate job reductions that go hand-in-hand with M&A announcements. They also stress the inevitable decline in sectoral competition and service from greater concentration, leading to reduced credit support to small and medium-sized enterprise' employment generation.

Merger implementation involves tricky management and personnel issues: sales forces must be integrated, management responsibilities redefined, faculties combined and employees fired or relocated. Although a multitude of factors can contribute to a disappointing merger or acquisition, success depends ultimately on the effective use of people. A recent report from the Bureau of Business Research shows that organizational and cultural problems are more likely to derail a merger than are financial factors.

MERGERS AND ACQUISITIONS AND THE NIGERIAN BANKING SECTOR

Around the world, more companies are turning to mergers and acquisitions to enter new global markets, provide expanded services to customers, and improve operating efficiencies. Yet, beyond the hype and the headlines, the fact remains that more than half of all mergers ultimately do not deliver significant value creation[9]. Majority of mergers and acquisitions fail to reach their intended objectives because merging organisations typically overlook the importance of the human resource factor. Thus, to reduce the possibilities of failure in M & As, human capital should be placed at the centre of the process, or at least be given equal attention to that assigned to economic and financial considerations. Mergers & Acquisition are a global phenomenon, with an estimated 4,000 deals taking place every year[10]. However, they are not a recent development; four periods of high merger activity, also known as merger waves, occurred in the United States (1897 1904, 1916 29, 1965 -69 and 1984-89) before the current one that began in the early 1990s.

8. *Ibid.*
9. *Antila, E. M. (2006) "The Role of HR Managers in International Mergers & Acquisitions: A Multiple Case Study", International Journal of HRM, Vol. 17, No. 6, Ppg. 999 1020.*
10. *Ibid.*

In Nigeria, mergers and acquisitions is yet to gain popularity[11]. The cases recorded so far are government policies. For instance, the Nigerian Enterprises Promotion Act 1973 compelled foreign investors to sell some selected companies to Nigerians. And very recently, the Central Bank of Nigeria mandate to banks to recapitalize to the tune of N25 billion minimum capital base, many opted for the mergers and acquisition route, resulting in the reduction of banks from 89 to 25. To meet the capitalization deadline, many of the banks that were incompatible in several ways merged. The result is rising post merger risks and the attendant crises that ensued.

Thus, the current global trend of increasing incidence of mergers / acquisitions, is being imbibed in Nigeria as witnessed in the banking industry and now in insurance industry. It should however be noted that mergers, acquisitions and take overs have become major strategic options in the Nigerian corporate environment in recent years as a response to the economic reform programme of the Federal Government as enunciated in the National Economic Empowerment Development Strategy (NEEDS). Even though M & As have been taking place in Nigeria in the past, the spate rose only in 2005. All over the world, mergers and acquisitions have continued to command considerable appeal as a strategic option for seeking corporate transformation and growth. The observed popularity of M & As in the business world is, however, not necessarily replicated in every country (particularly not in developing countries) for several obvious reasons.

Table One: NIGERIA BANK MERGERS

	GROUP	Merging Banks	COMBINED ASSETS DECEMBER 2005, BILLIONS[#]
1	ACCESS	Access Bank, Marina International Bank and Capital Bank	28.5
2.	AFRIBANK	Afribank and Afribank International (Merchant Banker)	29
3.	DIAMOND BANK	Diamond Bank & Lion Bank	33.25
4.	ECO BANK NIGERIA	Eco Bank Nigeria	OVER 25
5	EQUITORIAL TRUST	Equatorial Trust Bank & Devcom Bank	26.5
6.	FCMB	FCMB, Cop. Development Bank & NAMB Limited	30
7.	FIDELITY BANK	Fidelity Bank, FSB International Bank & Manny Bank	29
8.	FIRST BANK PLC	First Bank of Nigeria, FBN Merchant Bankers, & MBC International Bank	44.62

11. Business Day, August 31st 2006 (www. Document) Available: http: //www. Business day online.com

9.	FIRST INLAND BANK	First Atlantic Bank, Inland, IMB International, & Nub International Banks	28
10.	GUARANTY TRUST	Guaranty Trust Bank	34
11.	IBTC CHARTERED BANK	IBTC, Chartered Bank & Regent Bank	35
12.	INTERCONTINENTAL BANK	Intercontinental Bank, Equity Bank, Global and Gateway Bank	51.7
13.	NIGERIAN INTERNATIONAL BANK	Nigerian International Bank (City Group)	25
14.	OCEANIC BANK	Oceanic Bank and International Trust Bank	31.1
15.	PLATINUM	Platinum Bank & Habib Bank (Bank PHB)	26
16.	SKYE	Prudent Bank, EIB International, Cooperative Bank, Bond Bank & Reliance Bank	37
17.	SPRING BANK	Citizens International Ba nk, Guardian Express Bank, ACB International Bank, Omega Bank, Fountain Trust Bank & Trans International Bank	OVER 25
18.	STANDBIC BANK	STANDBIC Bank	25
19.	STANDARD CHARTERED BANK	Standard Chartered Bank	26
20.	UNITED BANK OF AFRICA	UBA and Standard Trust Bank	50
21.	STERLING BANK	Magnum Trust Bank, NAL Bank, Indo -Nigeria Bank, & Trust Bank of Africa	25
22.	UNION BANK	Union Bank, Union Merchant, Broad Bank and Universal Trust Bank	58
23.	UNITY BANK	Intercity Bank, First Interstate Bank, Tropical Comm ercial Bank, Pacific Bank, Centre Point Bank, NNB International Bank, Bank Of The North, Societe Bancaire and New Africa Bank	30
24.	WEMA BANK	Wema & National Bank	26.2
25.	ZENITH BANK	Zenith	38

Source: Compiled from CBN Press Release (3.1.06). Financial standards (16/1/06) and the Comet (3/1/06).