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Effects of Business Mergers on Employee Loyalty in Selected Companies Listed at the Nairobi Securities Exchange

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I. Introduction

Shanmuagn et al., (2005) described mergers as one of the central techniques that define organizational growth. On the other hand, Hurtt et al., (2000) went further and suggested that growth is the primary reason why organizations merge. Perry and Herd (2004) contend that strategic planning has a critical role to play when organizations decide to merge. Perry and Herd (2004) suggested that in the 1990's many companies shifted their focus from undertaking mergers from a cost saving perspective to using mergers as a strategic vehicle for corporate growth, which the authors regarded as an inherently more difficult challenge.

Harari (2007) listed several reasons given by CEOs as a justification for a merger or an acquisition. These included: purposes of obtaining synergies for economies of scale, for cost savings, to realize increased products and rationalization of distribution channels. Selden and Colvin (2003) highlighted the way companies focus on the potential return on capital. They also suggested that the most common reason why companies buy one another is for the sole purpose of acquiring customers. Selden and Colvin (2003) noted the pressure on various CEOs to use their excess resources in order to increase their earnings by mergers or acquisitions even if that may not be an appropriate strategy for the company. Albizzatti and Sias (2004) proposed that the main reason why a business should get into acquisition should be strategic and not basing on the element of excess resources available. The strategic reasons they identify for acquisitions are: acquire new products, capabilities and skills; extend their geographical reach; consolidate within a more mature industry; and transform the existing industry or create a new industry.

However,Harari (2007) questions why so many mergers fail after CEOs extol their strategic rationale. The reason suggested for failure is the lack of vision by short sighted executives, who take the safe route and buy different competitors to gain market share. Balmer and Dinnie (2000) identify a number of reasons for the failure of mergers which includes organizations laying much emphasis on the short term financial and legal issues and tended to neglect the main strategic direction of the company. In this regard therefore, organizations failed to clarify on the leadership issues affecting their organizations, the lack of communication with the available key stakeholders especially during the acquisition process, poor strategic rationale, mismatch of cultures, difficulties in communicating and leading the organization, poor integration planning and execution, and paying too much for the target company. Of these five causes of merger failure, Gadiesh and Ormiston (2002) believe that having a clear strategic rationale for the merger is the most important problem to overcome, as this rationale will guide both pre and post-merger behavior.Lynch and Lind (2002) also proposed that organizations mergers also fail because of the slow post-merger integration, the culture clashes and the lack of appropriate risk management strategies.

II. Discussion

a) *Organization Culture*

Marks and Mirvis (2011) study on the influence of human resource managing organization culture during merger found that social integration and cultural fit in mergers and acquisitions affect employee loyalty. Badrtalei and Bates (2007) study found thatmerger performance and success as viewed through the prism of employee issues such as organizational change and employee stress, anxiety, uncertainty and the retention of the employees after the acquisitions and this lead to employee resistance, a loss of efficiency due to friction among workers, groups and departments as they all portray different cultures.

A study by Roundy (2010) indicated that changes to pre-merger cultures have an impact on pre-merger identities and this affect the employee loyalty and performance. The study of Saunders, Altinay and Riordan (2009) supports influence of organization culture on mergers by providing evidence that organizational culture is a central construct in understanding the evolution of organizational identities in the face of environmental changes. Stahl and Voigt (2008) found that culture compatibility between merging firms has long been proposed as an important determination of synergies' realization so that the organization can enhance employee's loyalty. Also, the study of Zhu and Jog 92012) found cultural compatibility has important implications for post-merger integration, with similar cultures rendering integration less painful because people share the same values.

Moschieri and Campa (2013) found that cultural adaptation and acculturation process during mergers has four modes through which acculturation takes place: integration, assimilation, separation and enculturation. The model presented drew attention to the concept of cultural adaptation both during and after a merger. The model suggested that the mode of acculturation is dependent upon the characteristics of the merging firms. The model also presented people, cultures and organizational practices as a determinant of a successful merger. In the study of Hameed, Arain, and Farooq (2013) study established the relationship between cultural differences and autonomy removal for nonbanks. The study found that between the two top management teams in the mergers in nonbank settings had a negatively related cultural differences and autonomy removal. This was felt to be due to the new management being unable to use its accustomed social control system, due to differences in culture and lack of shared beliefs and assumptions with the acquired top managers.

Giessner, Viki, Otten, Terry, and Ta¨uber (2006) study found that cultural distance, as applied to organizational culture, suggests that the difficulties and risks associated with cross-cultural contact increase with growing cultural differences between two individuals, groups, or organizations. It has been shown that cultural distance has a profound impact on organizational learning across cultural barriers.

b) *Organization Structure*

Rooney et al., (2010) said that successful merger outcomes are linked closely to the ability of management to integrate members of organizations to thoughtfully address and minimize individuals' concerns about the organizational structure change brought about by mergers. Sanda (2011) found that after merger, organizational structures which include defining new work roles, cultural change and other responsilities affect employees loyalty. The stabilization of employees' new job characteristics may have an enduring effect on their job satisfaction and commitment.

A study by Adembesa (2014) found that new jobs after the merger are sometimes worse than the previous ones and this affect the employee's loyalty. This perception may also cause employees to question the fairness of the procedure and distributive systems that are associated with the new organizational structure created by a merger. The consequence of employees questioning the fairness of their new organizational structure is that they may end up distrusting the actions of those managing the newly merged organization. Once such employee distrust is developed, it may be difficult to re-establish it(Dokotria, Jidongb, & Pamc, 2016). The implication here is that when employees develop negative perceptions about merger-induced organizational changes and also distrust those managing the changes, their job satisfactions and commitments will also be negatively affected (Chun, 2010). This implication, if not adequately understood and handled by change managers during mergers, could prolong employees' anxiety and uncertainty, with negative consequences on their productivity and organizational (Newman & Krzystofiak, 2011).

c) The Level of Communication

Salyachivin (2013) study established the employee perceptions of the adequacy and accuracy of management's communication about the firm's acquisition and asked employees to indicate the sources of information about the acquisition, measures of employee expectations, job security, perception of personal control, organizational commitment, job satisfaction, intent to leave, intent to be absent and job performance. The researcher employed correlation analysis to indicate the degree of correlation between employees' perceptions about management communication and employee attitudes, intentions, and performance indicators. The study also, measured changes in employee attitudes and intentions on related variables such job security, lack of personal control, organizational commitment, job satisfaction, guilt, competitiveness, intention to leave, and performance. The results revealed that employee attitudes and intentions to leave and to be absent had deteriorated after mergers meaning that employees were less satisfied.

Marks and Mirvis (2011) study found that employees of an acquired firm felt inferior to the acquirer because of feelings of loss of autonomy. The results also showed that communication was necessary to make an acquisition work. Also, communication plans and outplacement was effective in dealing with mergers. Rooney et al., (2010) found that communication in a merger/acquisition was important to make it a success because both company share both positive and negative merger experiences. More so, Salyachivin (2013) study indicated that in merger effective communication about career possibilities within a merger or acquisition may significantly strengthen employees' confidence and commitment to the new consolidation. Also, Moschieri and Campa (2013) study on corporate communication and customer feedback from stakeholders, such as sales, public relations executives, finance managers, and other employees was critical for successful merger.

III. Methodology

This study adopted a descriptive research design because it was both evaluative and qualitative aiming at examining the variables in the study and how they relate to the intended objectives and results. The population of the study comprised308 employee workers in three selected companies that had undergone merging and were quoted at the Nairobi Securities Exchange (NSE). These companies were among the 66 companies quoted at NSE exchange which had undergone mergers between the years 2002 - 2011. Simple random sampling and stratified sampling was used for the study. Employees of the chosen organizations listed at the NSE were grouped into three sections which included: top level management, middle level management and lower level management. Primary data was obtained through the use of questionnaires, which had both structured and unstructured questions.

IV. Results and Discussion

a) Effects of organization culture on employees' loyalty

On effects of organization culture on employees loyalty the response are indicated on table 4.4 below.

Table 4. 1: Effects of Organization Culture on Employees' Loyalty

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1) Social integration and cultural fit in mergers and acquisitions may affect loyalty to the organization.	9.6	9.6	9.6	13.5	57.7
2) Interactions between two distinctive organizational cultures enhance stress and tension.	5.8	5.8	3.8	19.2	65.4
3) Organization culture compatibility enables synergies to work.	7.7	5.8	9.6	11.5	65.4
4) The new management cultural differences affects the shared beliefs	5.8	7.7	13.5	25.0	48.1
5) Cross-cultural contact increase difficulties in performance and affected employee's loyalty	7.7	3.8	5.8	13.5	69.2
6) Maintaining separate culture was a desire by some employees.	1.9	5.8	11.5	19.2	61.5

The majority of the respondents indicated that culture barriers of staff from different environment affect employees' loyalty (67.3%). 57.7% respondents indicated that social integration and cultural fit in mergers and acquisitions affected employee's loyalty. More so, 65.4% indicated that they experienced significant stress and tension in interactions as a result of the combination of two distinctive organizational cultures . Further, 65.4% respondents indicated that they strongly agreed that during the merger the organization culture compatibility determine employees' synergies. It can also be noted that 48.1% indicated that after merger the new management cultural differences and autonomy affected the shared beliefs. In addition, 69.2% indicated that after merger they experienced difficulties and risks associated with cross-cultural of the involved organizations. Finally, 61.5% respondents indicated that after merger the employees had a desire to maintain and retain the culture from their organizations.

b) Effects of Organization Structure on Employees' Loyalty

On the issues of organization structure on employees' loyalty, the responses are shown in the table below.

Table 4. 2: Effects of Organization Structure on Employees' Loyalty

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1) The new merged management introduced a different organization structure for both companies.	5.8	7.7	11.5	19.2	55.8
2) The new merged management introduced new work roles and responsibilities in the new organization structure	7.7	7.7	7.7	7.7	69.2
3) New Job characteristics affected job satisfaction as well as commitment.	9.6	7.7	11.5	11.5	59.6
4) The new jobs were worse than the previous ones due to merger and it affect employee's loyalty.	15.4	9.6	0.0	26.9	48.1
5) I question the fairness of their new organizational structure	7.7	7.7	15.4	19.2	50.0
6) My negative perceptions about the new organization structure affected my performance.	9.6	5.8	9.6	19.2	55.8

55.7% respondents indicated that after merger the new merged management introduced a different organization structure for both companies. Also, 69.2% said that after merger new organizational structures defining new work roles, cultural changes were made. Further, 59.6% of the respondents indicated that after merger; the new job characteristics had continuing effect on employee's job satisfaction and commitment. Also, 48.1% indicated that after merger, the new jobs were worse than the previous ones' due to merger and it affected employees' loyalty. In addition, 50.0% indicated that that after merger they questioned the fairness of the new organizational structure. Finally, 55.8% of the respondents indicated that after merger their negative perceptions about merger affected their job satisfactions and commitments.

c) Effects of merger Communication on Employees' Loyalty

The following table presents the effects of merger communication on employees' loyalty.

Table 4. 3: Effects of How Merger was communicated on Employees' Loyalty

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1) The adequacy and accuracy of management's communication during a merger is necessary.	11.5	11.5	11.5	23.1	42.3
2) Effective communication is necessary for informing and for the success of a merger	9.6	1.9	9.6	9.6	69.2
3) Effective communication plans and outplacement is used on dealing with the merger	7.7	7.7	5.8	9.6	69.2
4) Effective communication informs about career possibilities to give strength, confidence and commitment to the new consolidation	3.8	17.3	9.6	19.2	50.0
5) Effective communication informs timely and accurate information about what was going to happen to the organization and your jobs.	0.0	11.5	5.8	21.2	61.5

42.3% of the respondents indicated that adequacy and accuracy of management's communication was very critical to the success of merger. Also, 69.2% said effective communication was necessary for merger to work and to inform employees. More so, 69.2% of the respondents indicated that effective communication plans and outplacement strategies on dealing with the merger should be done to employees. 50.0% said that effective communication informing employees about career possibilities that gave them strength, confidence and commitment to the new consolidation is a very important aspect. Finally, 61.5% of the respondents indicated that effective communication informs timely and accurate information about what was going to happen to the organization and employees' jobs after merger is very important.

V. Conclusion

The study concluded that there were difficulties and risks associated with cross-cultural and employees desired to maintain their separate culture.It can aslo be concluded that management integrated members of organizations to the organizational structure change, new organizational structures defining new work roles, cultural changes were made. The new job characteristics had enduring effect on the employees. More so,it was concluded that organization culture of merged firms affects the employees loyalty this is because culture barriers of staff from different environment affect employees' loyalty. Also, social integration and cultural fit in mergers and acquisitions affected employee's loyalty to the organization, employees experienced significant stress and pressure in interactions as a result of the combination of two distinctive organizational cultures. Organization culture compatibility determine synergies. The new management cultural differences and autonomy affected the shared beliefs, employees experience employee's job satisfaction and commitment. The new jobs were worse than the previous ones' due to merger and it affected employees' loyalty. Employees questioned the fairness of their new organizational structure and employeeshad negative perceptions about merger-induced organizational that affected their job satisfactions and commitments negatively. Finally, it can be concluded that employee perceptions of the adequacy and accuracy of management's communication about the firm's merger affected their loyalty. Communication was necessary to make a merger work and inform employees. There were effective communication plans and outplacement, on dealing with the merger. This was to inform employees about career possibilities that gave them strength, confidence and commitment to the new consolidation.The information was accurate and communicated timely highlighting on what was going to happen to the organization and employees' jobs.

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