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INFLUENCE OF STRATEGIC MERGERS ON ORGANIZATION PERFORMANCE IN FURNITURE RETAIL FIRMS IN NAIROBI COUNTY, KENYA

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ABSTRACT

The intention of the research was to establish the influence of strategic mergers towards organizational performance: The case of furniture retail firms in Nairobi County, Kenya. This study conformed to Synergy theory, This study adopted descriptive research design and targeted 90 employees of furniture retail companies in Nairobi County, Kenya. The study sample size was 73 respondents which were achieved through stratified and random sampling; questionnaires were used in data collection. Cronbach alpha, measures of internal consistency, it was used to ascertain instrument internal reliability. Content validity of the study instrument was realized by seeking the expert opinion of the assigned University supervisor on the content of the questionnaires. Quantitative approaches were used for data analysis whereby Statistical Package for Social Sciences (SPSS version 23.0) was used to run descriptive and inferential statistics. After data analysis the data was analysed descriptively and presented using frequency tables. The study expected a positive relationship between the organizational performance and strategic merger. The results indicated that, collectively strategic merger had positive influence on organization performance. Mergers and acquisitions should be considered as different change processes, mergers demanding flexibility. The study findings may be relevant to players within the furniture sector within the county; it may aid them towards developing and modeling effective approaches in the identification and resolution of concerns within strategic mergers in order to attain the desired results and sustain relevancy within the competitive business environment; laying foundation for future businesses to thrive.

Key Words: *Mergers, Acquisition, Furniture Retail*

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INTRODUCTION

The synergistic effect of mergers and acquisitions includes economies of scale through greater output, avoidance of duplication of facilities and staff services and stronger financial base. The economic benefits as a reason for pursuing a merger or an acquisition include income enhancement, cost reduction and growth (Amedu, 2014). Some of the reasons for mergers and acquisitions are to: purchase a company having competent management; improve earnings per share, inject fresh ideas for better prospects and enhancement of shareholders' wealth, gain access to the financial market, eliminate duplicate and competing facilities, secure scarce raw materials, diversify into other products or markets or to complete a product range, greater asset backing; and enhance economy of scale and corporate growth (Akinsulire, 2012: Amedu, 2014).

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies and the factors affecting mergers change with their changing legal, political, economic and social environments (Gyanwali, 2013). Firms engage in mergers and acquisitions activity for different economic reasons. For example; synergy is commonly used in a merger and acquisitions activity. Synergy has been described as the combination of firms that have a value which is greater than the sum of the values of the separate firms.

Grinblatt, Mark & Titman, Sheridan (2012) identified three different categories of M&A; strategic acquisitions, financial acquisitions and conglomerate acquisitions. Strategic mergers take place between two companies in the same line of business; thus between former competitors (Grinblatt et al., 2012). Financial acquisitions are marked by no operating synergies; instead companies engage in financial acquisitions because the acquirer believes that the target company is undervalued relative to its assets. Another motive for engaging in financial acquisitions is the tax gain sometimes associated with the acquisition (Brealey et al., 2011& Grinblatt et al., 2012). In a conglomerate acquisition no clear potential for operating synergies exist, since the two companies operate in unrelated lines of business (Brealey et al., 2011& Grinblatt et al., 2012). This type of acquisition according to (Brealey et al., 2011& Grinblatt et al., 2012) is often motivated by financial synergies, which enables a company to lower cost of capital there by creating value

Business mergers as well as acquisitions are viewed as strategic synergies which are coordinated calculations where the targeted institution and the buying firm in a joint effort establish a new firm to secure a market edge within the business environment. The word details the acquisition of corporate assets and shares or the process of integrating a number of entities into a single establishment (Ernst & Häcker, 2007). In terms of the basic meaning, the difference among "merger" and "acquisition" doesn't matter greatly as the impact is usually similar; a number of entities previously with different management now functioning as one in order to attain the shared goals.

According to Yuk (2013), business acquisitions or mergers has always been the preferred approach for financially challenged international firms intending to extend coverage into better markets like Brazil, Russia, India, and China; further extending to promising markets in Asia, the Middle East, and Africa. The phenomenon has been used by the international firms to embrace collaborated partnerships and strategic alliances with the intention of penetrating promising economies.

Records from Securities and Exchange Commission of Nigeria show that the first mergers were experienced in the early 1980s and since then they grew drastically in various sectors of the economy such as, furniture, insurance, banking, textile, pharmaceutical, food & beverage, oil & gas and other conglomerates. All merging companies formed were listed in the Nigeria Stock exchange (Ali, 2003). Mergers in Nigeria are regulated by the Investments and Securities Act (ISA) that provide provisions and specific legislations in various sectors of the Nigerian Economy. Tanzania has a legal framework governing mergers and acquisition activity regulated by the Fair Competition Act, 2003. There are concerns that the staffs in the regulating board are very few meaning they have very low capacity to fully investigate and deal with the issues associated with proposed merger activity (Mkono, 2009).

The developments tend to align the external control theory of firms in tackling market competition within a firm's coverage. The "Kenyan market a hard egg to crack 2010" report indicated that Media24 (a company based in South Africa) and trading as East Africa Magazines Limited (EAM), integrated their functions with the Nation Media Group (NMG) in 2005 with the intention of producing South Africa editions like the Drum, True Love and Move locally in Kenya. This partnership existed for just four years as Nation Media Group withdrew from the partnership, poaching some of the workforce and as a result exposing Media24 to vulnerability.

Regionally Kenya is placed in the fourth position behind South Africa, Nigeria and Ghana as among nations offering a conducive business mergers setting within information technology and consumer industry that is as a result of its liberalized market. Estimations placed the local furniture industry at around $496 million in 2013, and further recording a 10% yearly growth rate from 2009 to 2013. The business growth is inspired by strategic synergies, with the growth anticipated to continue changing. In the end, the local furniture industry is projected to expand by 8% from 2013 to 2018. An analysis on product segments show the bulk of the local within the furniture sector in 2013 being upholstered pieces, office and bedroom furniture.

Problem Statement

We are experiencing an influx of international players coming into Kenya looking for opportunities in various industries majorly being the retail sector with supermarkets taking the lead. Strategic alliances and mergers have grown in popularity in recent years as contemporary organizations seek to establish and maintain competitive advantage back in their home country and the new host country. The World Bank estimates (2013) places the Kenyan furniture market value to be around $496 Million, further recording growths of about 10% within a span of 5 years. The figures on the imports reveals an improving market coverage scenario, with growth rates of about 24% from 2009 to 2013 even as furniture exports continue recording low numbers of growth at 10%. Incase interventions aren't taken within the local sector; import will gain dominance and control the market. Within Nairobi, a city with a great potential, the sector has not in any way showed indications for positive growth. An example is it recorded an in- growth rate of 11% p.a, (World Bank, 2013) while the furniture sector is showing little or no significant changes. Another observation is the entry of new investments into the sector intending to create a new niche or alternative selling models (FAO, 2013). Detailed analyses further indicated the major technological stakeholders being from western nations and as a result lack accessibility to loan securities that enable financial institutions to grant them credit (IFC and World Bank, 2013). However, there has been an observation of local informal sector being disadvantaged in accessing clients; that is born out of the clients developing advanced preferences and further mass retailing becoming the preferred approach. Additionally, taking into consideration factors like technological capability and reduced value addition on commodities; the businesses face a reduced probability of developing further unless some measures are adopted. An analysis conducted by KPMG (2009) covering joint units had findings indicating strategic alliances practices greatly being embraced. Firms engaging in joint units indicated a certain reason behind the cause; with major reasons being: securing accessibility to larger economies, costs reduction and risks reduction through the spreading of risk among partnerships and eventually recording better business results (KPMG, 2009).

A review by Ferdinard (2012) examining the effect of strategic alliances towards the results of Tesco Company in Britain, Matata and Oduor (2014) analyzed the impact of strategic alliances towards business results of supermarkets and their associations locally within Kenya. In his publication Kamanja (2015) posited that the implementation of strategic responses boosted the institution efficiency. Additionally, a study by Mokua and Muturi (2015) established a positive co-existence among strategic responses and the business results of pharmaceutical companies. Little or no research has been conducted on strategic mergers on performance in furniture retail firms in Kenya. It is the intention of the research therefore to determine the influence of strategic mergers on organization performance in furniture retail industry in Kenya.

Objective of the Study

The objective of this study was to determine influence of strategic mergers on organizational performance in furniture retail firms in Nairobi County, Kenya.

LITERATURE REVIEW

Theoretical Review

Synergy Theory

Synergistic mergers theory suggests that the bidder firm can achieve efficiency gains by combining an efficient target with their business thereby improving the target's performance. The bidder firms often recognize specific complementarities between their business and that of the target; therefore even though the target is already performing well, it should perform even better when it is combined with its complementary counterpart, the bidder firm. The theory intimates that targets perform well both before and after mergers (Chatterjee, 1986; Altunbas et al, 2008; Hankir et al., 2011).

This means that operating synergies can be achieved in horizontal, vertical, and even conglomerate mergers because the theory makes the assumption that economies of scale are existing in the industry and that before the merger, the firms are operating at levels of activity that fall short of achieving the economies of scale (Chatterjee, 1986;Weston et al, 2003;Altunbaet al, 2008;Hankir et al., 2011). The operational synergies can stem from the combination of operations of separate units; such as, joint sales force and the transfer of knowledge (Hellgren et al. 2011 based on Trautwein, 1990).Hankir et al. (2011) explains in similar terms the possibilities for revenue increases that may result from cross or up-selling and cost reductions due to efficiency gains.

Acquisitions, in general, have been demonstrated to create economic value. The intuitive reason underlying this value creation stems either from an ability to reduce costs of the combined entity, an ability to charge higher prices, or both. Current research in the area attributes these abilities to an opportunity to utilize a specialized resource. This theory will enable the study to articulate the variables in this study that includes acquisition and mergers and their influence on organization performance.

Empirical Review

Strategic Mergers and Organization Performance

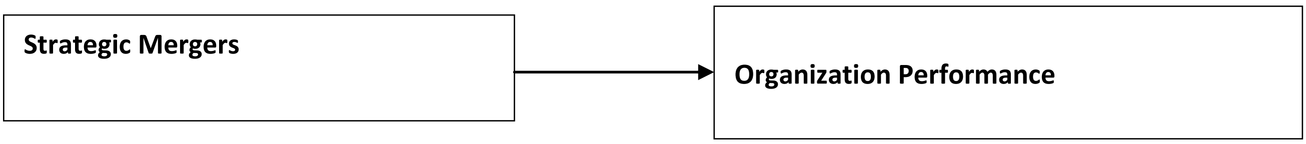
An analysis by Rahman et al. (2014) examining the effect of managerial efficiency towards the operational results of firms in Malaysia. The intention of the analysis was to assess the changes on managerial efficiency as a result of business mergers and acquisitions within the Malaysian corporate institutions. It employed a descriptive study model, using a number of secondary data mined from both economic and leadership publications of the participating companies. Information concerning the efficiency of leadership for a span of 5 years was collected 2002 to 2011. To analyze the connection among managerial efficiency and operating performance, correlation matrix and multiple regression analysis were adopted. The research findings indicated managerial efficiency of the sampled companies decreasing immediately after mergers and acquisitions although improvements were realized as time went by.

A further analysis by Ismail *et al.,* (2014) of post-merger corporate performance in Egypt intended to study the impact of managerial efficiency relatable mergers and acquisitions towards the profits of sampled corporate entities. Sampling identified 12 corporate entities with a history of engaging in mergers. Secondary data from annual publications as well as financial accounts of the 12 companies were utilized for analysis; which was achieved by regression employing Statistical Package for Social Sciences (SPSS). The study results showed that the post-merger and acquisition period managerial efficiency was more improved than the pre-merger and acquisition period. The study concluded that mergers and acquisitions helped the acquiring firms in Egypt enhance their operational efficiency.

A study by Inoti et al. (2014) examining the effect of business acquisitions towards the monetary results of listed acquiring companies within Kenya. Critically, the analysis intended to interrogate the impact of managerial efficiency towards the monetary results of the listed acquiring firms within Kenya. The research employed a descriptive study model and further utilizing purposive sampling approach in determining the 11 listed companies with a history of engaging in acquisitions locally from 2001 to 2010. Important measures were entered and applied to identify the institution's pre and post-acquisition managerial efficiency as well as monetary results even as paired t-test were applied in determining the existence of any major distinction among the means of the two periods for each ratio. The research outcome revealed no major distinction in pre and post-acquisition managerial efficiency and profit ratios of the selected companies. It therefore advanced that managerial efficiency attributable to corporate acquisitions had little to no effect towards the monetary results of the acquiring entity.

Misigah (2013) examined the effect of merger and acquisition in achieving synergy for commercial banks in Kenya. The population of the study comprised of 15 commercial banks which have successfully completed merger and acquisition transactions between the years 2000-2010. The design of this research was a survey. Secondary data was also used to obtain the required information. Documentary secondary data included reports to shareholders, administrative and public records. Comparison and analysis of ratios was used to compare the effect of mergers on growth in assets, profitability and shareholders' value during the premerger period and post-merger period. The Wilcoxon Signed Ranks Test was used to determine the significant difference in growth before and after the merger activity. Results indicated that the main reason why the bank undertook merger was growth in shareholders' value and growth in profitability. The measure of growth that was significant as a result mergers and acquisitions was profitability and achievement of synergy.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2020)

METHODOLOGY

The study adopted descriptive research design. There are a total number of 15 furniture retail companies in Nairobi County. Respondents for the study were selected from the following three management positions namely; sales managers, finance directors, finance managers, and finance officers from each of the respective furniture retail company. In this study purposive sampling was used. The sample size of 73 was determined based on *Yamane's'* formula.

The research instruments used for data collection were questionnaires. The data analysis was done by the help of SPSS version 23 (Statistical Package for Social Scientist). After data analysis the data was analysed descriptively and presented using frequency tables.

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

Response Rate

The target population of the study was 90 employees of furniture retail firms in Nairobi County, Kenya. Out of 73 questionnaires administered, being the sample size of the study, a total of 73 questionnaires were filled and returned, this gave a response rate of 100%.

Descriptive Results

Organization Performance

The study respondents were requested to show their level of agreement with the statements in relation to organization performance. The results are shown in table 1.

Table 1: Descriptive Statistics for Organization Performance

	N	Mean	Std. Deviation
The number of employees has increased over the last five years	73	4.46	.62
Our business has experienced increased annual profits over the last five years	73	4.61	.56
Over the last five years your organization has been able to achieve its goals in relation to market share.	73	4.72	.45
Our organization has improved sales growth over the last 5 years	73	4.72	.44
Aggregated mean and standard deviation		4.62	0.51

Source: Research Data (2021)

The analysis in table 1 shows that the majority who scored the highest mean of 4.72 and a standard deviation of 0.45 agreed that over the last five years their organization has been able to achieve its goals in relation to market share. This was same as those who agreed that their organization has improved sales growth over the last 5 years at a mean of (4.72) and a standard deviation of (0.44).Our business has experienced increased annual profits over the last five years mean (4.61) and a standard devaiation of (0.56). Furthermore respondents agreed that the number of employees had increased over the last five years with a mean of (4.46) and a standard deviation of (0.62).

Influence of Strategic Mergers on Organization Performance

The respondents were requested to show their level of agreement with the statements in relation to strategic mergers. The results are as shown in Table 2.

Table 2: Influence of Strategic Mergers on Organization Performance

	N	Mean	Standard Deviation
Combination of companies has improved business in the furniture industry.	73	4.72	.44
Companies coming together brings consolidation opportunities and organization growth	73	4.67	.47
Combination of companies enable companies gain big market share	73	4.71	.45
Organizational Change management is a common challenge in companies that join forces.	73	4.93	.25
Aggregated mean and standard deviation		4.75	0.40

Source: Research Data (2021)

Strategic mergers have been acknowledged to be one of the factors that influence organization performance in the furniture retail firms. The analysis in table 2 above shows that all the respondents in the category agreed that; Organizational change management is a common challenge in companies that join forces, (M=4.93, SD=0.25), Combination of companies has improved business in the furniture industry (M=4.72, SD=0.44). Combination of companies enable companies gain big market share (M=4.71, SD=0.45).Companies coming together brings consolidation opportunities and organization growth (M=4.67, SD=0.47).

Lately business mergers, which is the integration of two or more business entities into a single unit and acquisitions, which deals with an institution securing business rights of another entity have continued to gain popularity within the business environment and the numbers show these striking situation (Ferreira *et al.,* 2014; Moschieri & Campa, 2014). Ng'ong'a and Deya, (2018) found that horizontal merger, vertical merger, lateral merger and conglomerate merger had a positive impact towards the results of commercial banks in Kenya. It proposed that commercial banks managers to be disciplined in order to ensure that they govern the organization in a good way; they should also encourage development of technology.

An analysis by Rahman et al. (2014) the research findings indicated managerial efficiency of the sampled companies decreasing immediately after mergers and acquisitions although improvements were realized as time went by. A further analysis by Ismail *et al.,* (2014) of post-merger corporate performance in Egypt intended to study the impact of managerial efficiency relatable mergers and acquisitions towards the profits of sampled corporate entities. The study results showed that the post-merger and acquisition period managerial efficiency was more improved than the pre-merger and acquisition period. The study concluded that mergers and acquisitions helped the acquiring firms in Egypt enhance their operational efficiency.

Nigeria, Onaolapo and Ajala (2012) study results showed that the post-merger and acquisition period market share of the sampled banks was larger than during the pre-merger and acquisition period. The study thus recommended that to enhance their market presence, Nigeria banks should be more proactive in mergers and acquisitions processes.

Eliasson (2011) findings pointed at four success factors namely; the entrepreneurship and human capital, the corporate head's knowledge, the experience and selection capability and the inclusion of acquisitions (developed from the urge for growth) in their business models. Amegah (2012) results of the study showed that the accounting performance has increased in some aspect and declined in others after the merger. Sales growth increased during the post-mergers periods since it has the same trend with the pre-mergers period but much higher values in the post-mergers periods. Operating expense and financial leverage have been decreasing while liquidity has been on the rise.

Hypothesis Testing

Table 3: Relationship between Independent Variables

		Organization Performance	Strategic Mergers
Organization Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	72	
Strategic Mergers	Pearson Correlation	.298*	1
	Sig. (2-tailed)	.012	
	N	71	72

Source: Research Data (2021)

The findings in the table 3 indicate that there is a positive correlation between strategic mergers and organization performance in the furniture retail firms at significant 0.05 level, the strength is average, at 29.8 %. The same findings show that there was a positive correlation between strategic alliance and organization performance in the furniture retail firms at significant 0.05 level, the strength is though strong, at 29.1%. The findings continue to signify that there is a positive correlation between strategic communication and organization performance in the furniture retail firms at significant 0.05 level, the strength is though average, at 46.7%. The findings postulate that there is a positive correlation between knowledge transfer and organization performance in the furniture retail firms at significant 0.05 level, the strength is average at 21.4%.

Table 4: Relationship Between Dependent and Independent Variables

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	-.197	1.220		-.162	.872
Strategic mergers	.461	.216	.244	2.133	.037

a. Dependent Variable: Organization performance

Source: Research Data (2021)

Strategic mergers have a positive influence on organization performance, individual significance of the predictor variable was tested using t-test. The findings reveal that strategic mergers were statistically significantly related to organization performance p-value<0.05.

The results in the table 4 established that a unit change in strategic mergers would lead to an increase in organization performance among the furniture retail firms by a factor of .461. The findings reveal that strategic mergers were statistically significantly related to organization performance p-value<0.05. Hence the hypothesis was rejected.

SUMMARY

The intention of the study was to establish the influence of strategic mergers towards organizational performance: The case of furniture retail firms in Nairobi County, Kenya. The study focused on the extent to which strategic merger

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influence organization performance in furniture retail industry in Nairobi County. The findings of the study are summarized below:

The result showed that, strategic mergers influence organization performance ($r=0.298$; $M=4.75$; $P<0.05$). Also, the study revealed that, the variations in organization performance is influenced by strategic mergers. Therefore, the finding confirms that strategic mergers is fundamental for organization performance in furniture retail industry. Mergers, on the other hand, have a more delicate negotiation process in all issues affecting employees. Flexibility is needed to adjust to different situations as the integration process evolves. Onaolapo and Ajala (2012) found that post-merger and acquisition period market share of the sampled banks was larger than during the pre-merger and acquisition period. The study thus recommended that to enhance their market presence, Nigeria banks should be more proactive in mergers and acquisitions processes.

A study by Inoti et al. (2014) revealed no major distinction in pre and post-acquisition managerial efficiency and profit ratios of the selected companies. It therefore advanced that managerial efficiency attributable to corporate acquisitions had little to no effect towards the monetary results of the acquiring entity. Ng'ong'a and Deya, (2018) found that horizontal merger, vertical merger, lateral merger and conglomerate merger had a positive impact towards the results of commercial banks in Kenya. It proposed that commercial banks managers to be disciplined in order to ensure that they govern the organization in a good way; they should also encourage development of technology.

Misigah (2013) documentary secondary data included reports to shareholders, administrative and public records. Comparison and analysis of ratios was used to compare the effect of mergers on growth in assets, profitability and shareholders' value during the premerger period and post-merger period. Results indicated that the main reason why the bank undertook merger was growth in shareholders' value and growth in profitability. The measure of growth that was significant as a result mergers and acquisitions was profitability and achievement of synergy.

CONCLUSION

It can be concluded that strategic mergers has a significant contribution in the attainment of goals in any organization. There are several ways in which a company benefits from merger. Some of the benefits are; equal sharing of resources, it ensures improved organizational production by ensuring the production process is efficient and effective, it also reduces the cost incurred by the company during production process therefore increasing the revenue of the company through provision of a vast range of products to the already existing. By the company taking in horizontal merger it enables it to attain their economies of scale through amalgamation of facilities that are used in production which ensures that the resources are well utilized.

RECOMMENDATIONS

In this study it has been established that strategic mergers plays a great role in impacting organization performance. Mergers and acquisitions should be considered as different change processes, mergers demanding flexibility and low formalization of HRM practices to produce better organizational results. This line of inquiry may help to better understand the puzzle of why M&As sometimes succeed and other times fail.

The management of the institution should also focus on improving the competitiveness of the company as well as their financial performance when entering into a merger and not focus only on their improvement in operations and sustaining their failing operations.

The management need to come up with effective strategy to be applied in managing asset and liabilities in order to avoid the issue of investments that fail to match and also better the quality of assets. The management need to consider the level of transferability and marketability of assets that are being invested in order to ensure that these assets provide the company with liquidity easily.

From the study findings, mergers was found to have a positive significant effect on performance. It is therefore recommended that institutions should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term financial synergies. They should also increase their scope to create high performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders.

Suggestion for Further Studies

This study has focused on influence of strategic mergers towards organizational performance: The case of furniture retail firms in Nairobi County, Kenya. Future studies should be conducted to determine the impact strategic mergers on performance using larger samples and longer time periods. Furthermore, future studies should include sector specific firms.

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