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Horizontal Acquisition and Effectiveness of Manufacturing Firms in Nigeria: A Case of Nigerian Breweries Plc. and Sona Breweries

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ABSTRACT

The study examined the correlation between horizontal acquisition and effectiveness of manufacturing firms in Nigeria with particular reference to Nigerian Breweries Plc. and Sona Breweries. Horizontal acquisitions create value by exploiting cost-based and revenue-based synergies. The study adopted the survey research design. A sample size of 114 was determined from the management staff of Nigerian Breweries Plc Enugu. The data analysis was carried out using Pearson Product Moment Correlation Coefficient (r). Result shows that horizontal acquisition has a significant positive relationship with market share and customer retention of Nigerian Breweries Plc Enugu. It was concluded that horizontal acquisition has a significant positive relationship with effectiveness of Nigerian breweries Plc. Enugu. Based on the findings, it was recommended that brewery firms in Nigeria should make adequate effort to ensure that its customers do not switch over to competitors' products and services.

Keywords: *Acquisition, Market Share, Customer, Retention, Productivity, Effectiveness.*

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INTRODUCTION

Within the context of globalization, deregulation, and intensification of competitiveness, horizontal acquisitions have become the dominant mode of firm growth since the eighties and nineties for both foreign and domestic firms. Horizontal acquisitions allow companies to eliminate competition, reduce their production costs, boost their profits, and grow their businesses. Others include gaining access to new markets, adopting new product lines and brands, and increase their market share. Organizations strive to expand their business operations within their line of business or outside their line of business (Fathollahi et al, 2021).

Horizontal acquisition occurs when one company purchases another company along the same supply chain. For instance, in the banking industry, Access bank merged with Diamond bank, and Standard Trust bank also merged with UBA, though they still retained and operate with the name UBA. Similarly, in the beverage industry, Pepsico, acquired a group of restaurant chains including Pizza Hut and Taco Bell in the 1980s to extend its managerial economies of scope across its distribution system (Hottman and Novak, 2011). Also, Nigerian Breweries Plc. acquired Sona Breweries in 2007.

A company that acquires an existing company in the same industry stands a better chance of increasing its economies of scale, productivity, market share and profitability which are essential ingredients for achieving organizational effectiveness (Hofer and Baba, 2018). Fathollahi et al (2021) argued that a company is more likely to grow its market share and profit margin if it acquires an existing firm in the same industry particularly those that have made name for themselves over the years. Singh and Gupta (2015) opine that horizontal acquisition is more profitable than establishing a new branch in a different location because the acquiring company stands to benefit from the existing customer base and image of the acquired company.

Market share, customer retention, and productivity are used in this study as proxies of organizational effectiveness. Market share is the percentage or proportion of the total available market or market segment that is being served by a company. A company's market share can be ascertained by calculating the sales made by the company at a given period and the figure divide by the total sales of the industry over the same period (Kotler and Armstrong, 2004 in Obialor et al, 2022). Customer retention according to Micallef (2022) is a strategic process of keeping existing customers and not letting them to defect to other organizations for business. Customer Retention is concerned with upholding the relationship established between the organization and the customer (Jambi, 2018). Productivity is an economic measure of efficiency that summarizes the value of outputs relative to the value of inputs used to create them. Organizational productivity is therefore the measure of how well resources are brought together in an organization and utilized for the accomplishment of the desired result. It is the ratio of output to input, hence, the higher the numerical value of this ratio, the greater the productivity (Taylor, 1947 in Gerold and Kelly, 2011).

Horizontal acquisition or integration can be used as a strategy to achieve organizational effectiveness. Every organization, irrespective of the sector it belongs, set out goals which it intends to achieve. The degree to which an organization achieves these set goals is termed “organizational effectiveness” (Micallef, 2022). Vennet (2019) stated that organizational effectiveness is all about doing the right thing, completing task and achieving business goals. Consequently, for an organization to functions smoothly, it requires resources to function efficiently, in order to satisfy its customers as shareholders and produce the desired results. It is against this background that this study is carried out to examines the correlation between horizontal acquisition and effectiveness of manufacturing industries in South=East, Nigeria.

Statement of the Problem

Considering the unpredictable nature of the environment and the desire for growth, some service industries especially the banking industry have been compelled to expand their operations across their supply chain, increase their market share and achieve other organizational effectiveness through horizontal acquisition. For instance, Access bank merged with Diamond bank, and Standard Trust bank also merged with UBA though they still retained and operate with the name UBA. Similarly, the beverage industry, Pepsico, acquired a group of restaurant chains including Pizza Hut and Taco Bell in the 1980s to extend its managerial economies of scope across its distribution system (Zhongming and Jingyun, 2022). Also, Nigerian Breweries Plc. acquired Sona Breweries in 2007, also Consolidated (33) Breweries acquired Life Breweries. Most researches outside Nigeria have precisely focused on merger and acquisition of firms. However, ever since these industries embraced merger and acquisition as an expansion strategy, especially the works done by Rain et al, (2014); Liargovas and Repousis, (2016); Yanan and Basit (2016); Singh and Chaudhry (2019); it is still not clear whether this strategy has helped to achieve organizational effectiveness.

Thus, this present study opines that horizontal acquisition and effectiveness of manufacturing industries in Nigeria is a study of relationships. Hence, the study attempts to be different from all the available empirical studies assessed because, it will cover effectiveness variables such as, market share, customer retention, and productivity in the manufacturing industries and precisely used the correlation analysis for data analyses and interpretations. It is for this reason that it has become necessary to conduct a study in this area within the brewery industries in Nigeria with particular reference to the Nigerian breweries Plc. Enugu State.

Objectives of the Study

The main objective of this study is to examine the correlation between horizontal acquisition and effectiveness of manufacturing industry in Nigeria. The specific objectives are to:

1. Ascertain the relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu.
2. Determine the correlation between horizontal acquisition and customer retention by Nigerian breweries Plc. Enugu.
3. Assess the relationship between horizontal acquisition and productivity of Nigerian breweries Plc. Enugu.

Research Questions

1. What is the relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu?
2. What is the correlation between horizontal acquisition and customer retention by Nigerian breweries Plc. Enugu?
3. What is the relationship between horizontal acquisition and productivity of Nigerian breweries Plc. Enugu?

Hypotheses

$H_0$1: There is no significant relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu.

$H_0$2: Horizontal acquisition has no significant correlation with customer retention by Nigerian breweries Plc. Enugu.

$H_0$3: Horizontal acquisition has no significant relationship with the productivity of Nigerian breweries Plc. Enugu State.

Conceptual Review

Concept of Horizontal Acquisition

Horizontal acquisition occurs when one company purchases another company along the same supply chain. Kithitu et al (2012) defined horizontal acquisition as the purchase of another company by a larger entity. A typical example of horizontal acquisition is the case of Nigerian Bottling Company, a beverage company that acquired Chi Nigeria Limited in 2012. Similarly, a beverage company Pepsico acquired a group of restaurant chains including Pizza Hut and Taco Bell in the 1980s as a growth strategy. Nigerian Breweries Plc. in 2007 also acquired Sona Breweries bringing its brand portfolio to 11 brands (Ahmed and Nadeem, 2015). Companies that buy an existing company within the same supply chain immediately acquire the market share of the company, claims the company's existing customer base and brand image. The new owner will be treated by government as the old one with regards to licensing. Hence, buying a company within the same line of business is the easiest way of expanding economies of scale (Fathollahi et al, 2021).

Apart from the advantages of horizontal acquisition, there are also some disadvantages as buying an existing company would make the new owner's domestic or foreign operations in that particular market to be separate from the rest of his or her brand image (Arasa and Gideon, 2015). Also, buying an existing company that is thriving is quite expensive (Vennet, 2019). Although, buying an established company within the same supply chain is quite expensive, the benefit derived from this strategy is such that the new owner is buying a company with an established name. Ortilieb (2020) argued that buying an existing company within the same line of production enables the new owner to take full control of the target firm.

Organizational Effectiveness

It is not enough, however, just to be efficient. Managers are also concerned with completing activities. In management terms, this refers to effectiveness. Effectiveness means 'doing the right things'' by doing those work tasks that help the organization reach its goals. Whereas efficiency is concerned with the means of getting things done, effectiveness is concerned with the ends, or attainment of organizational goals (Mintzberg 1973 in Robbins et al, 2011). Organizational effectiveness captures organizational performance plus the myriad internal performance outcomes normally associated with more efficient operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers, or customers) (Taylor, 1947, in Gerold and Kelly, 2011). Organizational effectiveness is the degree to which an organization achieves its set goals. Mitchell (2012) stated that an effective organization is one that is thorough and efficient, runs smoothly and function well to produce the desired result to attain business goals. Every organization wants to attain a high degree of effectiveness.

Measures of Organizational Effectiveness

Market Share

Market share is the percentage or proportion of the total available market or market segment that is being served by a company (Anyanwu, 2013). Market share is determined by dividing a brand’s sales volume by the total category sales volume. A company’s market share can be ascertained by calculating the sales made by the company at a given period and divide the figure by the total sales of the industry over the same period.

When a firm brings to market a new technology that its competitors are yet to offer, consumers wishing to own the technology buy it from that company, even if they previously did business with a competitor. Many of those consumers become loyal customers, which adds to the company’s market share and decreases market share for the company from which they switched (Ramirez-Hurtado et al, 2018). One of the surest methods to increase market share is acquiring a competitor, thus, one of the greatest measures of market share is customer retention (Haug and Dahnan, 2014).

As a result of its market penetration, a manufacturing firm has a larger market share than all of its competitors combined. However, the companies still have opportunities to add to their customer base by targeting their competitors' clients and wooing them over to the study manufacturing firms products and services (Zhongming and Jingyun, 2022).

Customer Retention

Customer retention is the core and heart of the relationship marketing. It is important to most of the companies because the cost of acquiring the new customers is more than the cost of retaining the existing one (Lindgreen et al, 2020). Customer retention is an effort made by companies to ensure that its customers do not switch over to competitors' products and services (Micallef, 2022). Singh and Chaudhry (2019) defined customer retention as a strategic process of keeping existing customers and not letting them to defect to other organizations for business. Customer retention is concerned with upholding the relationship established between the organization and the customer. Customer retention is important to a growing company as an indication of literally "withstanding the test of time" when it comes to addressing the needs of existing customers, and not just attracting new ones. When the cost of acquiring a new customer can cost five times as much as maintaining a relationship with an existing one, high retention rates are crucial to keeping your ROI in the green (Deloitte, 2019 in Pantano, 2021).

Customers who find their needs served and their loyalty rewarded are unsurprisingly more likely to leave positive testimonials and provide referrals. This means that customer retention also plays a significant role in a company's reputation. Customer retention is crucial to firms because 5% improvement in customer retention rate can cause an increase in profitability of between 25% and 85% (in terms of net present value), depending on the industry (Micallef, 2022). Yanan and Basit (2016) stated that retained customers demonstrate immunity to competitive pull.

Productivity

Productivity is reaching the higher level of performance with the least expenditure of resources. Organizational productivity is the measure of how well resources are brought together in an organization and utilized for the accomplishment of the desired result. It is the ratio of output to input; the higher the numerical value of this ratio, the greater the productivity (Taylor, 1947 in Gerold and Kelly, 2011). Managers have continued to strategize to increase organizational productivity following the pressure being mounted on them by owners and shareholders of their company (Mitchell, 2012). This failure has continued to trouble managers and making them feel incompetent in their managerial job. Even some owners and shareholders have begun to lose patience and faith in the ability of their managers to drive the company forward in terms of increasing organizational productivity. As the pressure intensifies, it becomes necessary for managers to review their human resource management practices to ascertain whether or not they are in line with international standard (Fathollahi et al, 2021).

Horizontal Acquisition and Effectiveness of Firms

Available literature has showed the relationship between horizontal acquisition strategy and effectiveness of firms. According to Fathollahi et al (2021), horizontal acquisition is a horizontal integration strategy that has the potentials of achieving organizational effectiveness. Calegario et al (2015) noted that instead of starting up a new company in a different location, it is more profitable for a company to buy an existing company within the same supply chain. Anyanwu (2013) agreed that it is better to horizontally acquire an established company and build on its image than to start up a new venture in a new location. Companies often stands a better chance of expanding its market share and achieving organizational effectiveness when it acquires an existing firm in the same industry than to start a new business on their own.

However, Ortilieb (2020) argued that a company that acquires an existing firm in the same industry starts to make sales from day one while those that start their own company from the scratch need to embark on extensive advertising in order to capture some portion of the market for themselves. Gutierrez and Machuca (2017) noted that customers are always skeptical of trying a new product for fear that the product might not satisfy their needs better than the existing product they use to buy. Hofer and Baba (2018) stated that a company that acquires existing company in the same industry stands a better chance of increasing its economies of scale, productivity, market share and profitability which are essential ingredients for achieving organizational effectiveness. Companies is more likely to grow its market share and profit margin if it acquires an existing firm in the same industry particularly those that have made name for themselves over the years. Lindgreen et al (2020) posited that horizontal acquisition is more profitable than establishing a new branch in a different location because the acquiring company stands to benefit from the existing customer base and image of the acquired company.

Theoretical Review

This study adopted the resource-based view which was developed by Barney in 1991. The RBV theory states that all organizations have in their possession several untapped resources with potential that make them superior over competitors and also enables increased performance when properly combined. Resource-based view explains that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantage over its rivals (Wernerfelt 1984). According to

Barney, a strategic resource is an asset that is valuable, rare, difficult to imitate and not substitutable. Resources are defined as those elements, inputs or factors from which the firm performs its activities. These resources are static by nature and as such they do not evolve but rather they wear out after continued use.

The resource-based view allows an organization to leverage upon its inward capabilities which are rare and inimitable to achieve competitive edge over the other organizations. Resource-based view advocates that superior resources and capabilities of an organization that accommodates sustainability of competitive advantage. Capabilities, according to Barney (1991), arise from the combination and coordination of different resources and are embedded in organizational process or routines. Capabilities arise from the system of social interaction which represents a continuous feedback between tactic and explicit knowledge. Hence, the success of any horizontal acquisition strategies depends on how well both parties combine their resources and expertise.

Horizontal acquisitions create value by exploiting cost-based and revenue-based synergies. Synergy exists in an acquisition when the value of the newly-combined firm exceeds the sum of the values of the two merging firms, when acting independently. On the one hand, cost efficiency theories emphasize the role of cost-based synergies that arise when the divestiture of the assets of the merging firms leads to cost savings. The resource-based view of the firm emphasizes the role of revenue-enhancement synergies arising when the redeployment of the resources of the merged firms leads to revenue-enhancing capabilities. In the study of horizontal acquisitions, cost-based synergies have generally received more attention than revenue-based synergies, as horizontal acquisitions have typically been seen as a straightforward mechanism for reducing costs through asset divestiture.

In addition, cost-based synergies and revenue-based synergies have often been seen as two fundamentally different, and to some degree mutually exclusive logics. In this section, however, we aim to provide a more complete picture of how value is created through horizontal acquisitions by investigating the joint effects of cost-based and revenue-based synergies on acquisition performance. We specifically examine how these synergies can be achieved through asset divestiture and resource redeployment. Beyond gains from cost cutting, acquisition performance is also influenced by the ability to enhance revenues by accessing complementary resources. The economic logic of capturing revenue-based synergies is often known as sharing complementary resources (or leveraging core competencies, or mobilizing invisible assets). It takes its theoretical roots in the resource-based view of the firm (Penrose, 1959). We consider two ways of enhancing revenues: increased market coverage and enhanced innovation capability. Horizontal acquisitions can increase market coverage through the geographic extension of the market and through product line extension. Greater market coverage allows the merged firm to sell existing products (once confined to the particular markets of one firm) to a wider body of consumers, thus enhancing revenues. Shared product lines enable the merging firms to increase the variety of product lines, and eventually to cross-sell and bundle products to customers. The value of these bundles to customer may be greater than the value of each product separately. Product line extension can also enhance revenues if the merged firm manages to exploit the strong reputation of a merging business brand, sales network or marketing activities (Capron and Hulland, 1999 in Obialor et al, 2022). Horizontal acquisitions can enhance innovation capability by using the superior innovation capability (proprietary technology, patents, know-how) of one of the merged firms to enhance product features (product innovation capability) or to improve organizational and marketing effectiveness (e.g., time to market, customer satisfaction). Innovation capability can be converted into price premium and/or increased volume, leading to higher revenues.

Empirical Review

Some related empirical studies have been conducted on horizontal acquisition and organizational effectiveness. For instance, Zhang et al (2019) studied the post-acquisition integration of emerging multinational corporations in China. The researchers adopted the cross-sectional survey research design on a structured questionnaire to obtain data from managers of multinational companies in China. The data collected were analyzed using percentage and frequency tables, mean and standard deviation, t-test, Chi-Square, ANOVA and regression analysis. Findings showed that there is significant difference in the marketing and financial performance of multinational companies before and after the adoption of horizontal acquisition. The study revealed that marketing and financial performance of multinational companies has improved significantly since the adoption of horizontal acquisition strategy.

Rain et al (2014) studied the effects of acquisition on financial performance of non-listed banks in Kenya. The study adopted the survey research design on a data collected from top level managers of non-listed banks in Kenya. The researcher used a structured questionnaire as the main instrument for data collection while descriptive statistics such as percentages, mean, standard deviation and regression analysis were used for data analysis. After analyzing the data collected, the researcher discovered that horizontal acquisition has significant effect on the profitability of non-listed banks in Kenya. Fathollahi (2021) researched on the impact of mergers and acquisition on the performance of manufacturing industry in India. Their study employed the descriptive survey research design. The data collected were analyzed using descriptive statistics. Result shows that mergers have significant impact on the performance of the study manufacturing industry in India. Result also revealed that acquisition has significant impact on performance of pharmaceutical industry in India.

METHOD

The study adopts the survey research design and used the Taro Yammeh formula to determine a sample size of 114 from a population of 160 staff of Nigerian breweries Plc. Enugu State. In analyzing data collated, the study adopted the descriptive statistics and Pearson Product Moment Correlation coefficient (PPMC). Product moment correlation coefficient (r) is given as;

$$r = \frac{n\sum xy - \sum x \ \sum y}{\sqrt{[n\sum_x 2 \ - \ \sum_{(x)} 2] \ [n\sum_y 2 - \sum_{(y)}]2}}$$

Where r = Pearson product moment correlation
∑n = numbers of pairs of values
X = independent variable
X = Mean of independent variable
Y = mean of dependent variable

The Decision Rule: If calculated r (rc) ≥ tabled r (rt) – reject H0 and accept H_1
If calculated r (rc) ≤ tabled r (rt) – accept H_o and reject H_1

RESULTS AND DISCUSSION

Table 1: PPMC table for hypothesis 1

Variables	N	R	r^2	t-cal	t-tab	d.f	remark
Horizontal Acquisition and Market Share of Nigerian breweries Plc. Enugu.	114	0.67	0.45	12.34	1.96	11 2	Significant

Decision

Result from table.1 shows that r = 0.67 and t-cal value of 12.34 > t-tab value of 1.96, thus, reject the null hypothesis (H0) that there is no significant relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu, which implies that horizontal Acquisition has a significant relationship with Market Share of Nigerian breweries Plc. Enugu.

Table 2: Summarized PPMC table for hypothesis two

Variables	N	R	r^2	t-cal	t-tab	d.f	remark
Horizontal Acquisition and Customer Retention of Nigerian breweries Plc. Enugu.	114	0.88	0.77	26.88	1.96	112	Significant

Decision

Result from table. 2 shows that r =0.88 and t-cal value of 26.88 > t-tab value of 1.96, thus, reject the null hypothesis (H0) that Horizontal acquisition has no significant correlation with customer retention in Nigerian breweries Plc. Enugu State, which implies that Customer Retention has significant correlation with horizontal acquisition in Nigerian breweries Plc. Enugu.

.**Table 3:** Summarized PPMC table for hypothesis 3

Variables	N	r	r^2	t-cal	t-tab	d.f	remark
Horizontal Acquisition and Productivity of Nigerian breweries Plc. Enugu.	114	0.57	0.32	1.03	1.96	112	Significant

Decision

Result from table 3 shows that r =0.57 and t-cal value of 1.03 < t-tab value of 1.96, hence, accept the null hypothesis (H0) that Horizontal acquisition has no significant relationship with the productivity in Nigerian breweries Plc. Enugu implying that Horizontal acquisition has no significant relationship with the productivity of Nigerian breweries Plc. Enugu.

This study found a significant positive relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu. This finding emerged from the result of the correlation analysis carried out on the two variables in the first hypothesis. The result showed a significant positive relationship between horizontal acquisition and market share of Nigerian breweries Plc. Enugu (r = 0.67**) and this correlation is significant at 0.05 level. Hence, the null hypothesis ($H0_1$) was rejected and the alternate hypothesis was accepted. Thus, there is a significant positive relationship between horizontal acquisition and market share of Nigerian Breweries Plc. Enugu. This finding is supported by studies of Arasa and Gideon (2015) as their research revealed that horizontal acquisition strategy significantly lead to productivity of firms.

This study also found a significant positive correlation between horizontal acquisition and customer retention in Nigerian breweries Plc. Enugu. This finding was a result of the correlation analysis carried out on the two variables in the second hypothesis. The result showed a significant positive correlation between horizontal acquisition and customer retention in Nigerian breweries Plc. Enugu (r = 0.77**) and this correlation is significant at 0.05 level. Based on this result, the null hypothesis ($H0_2$) was rejected and the alternate hypothesis was accepted. This implies that there is a significant positive correlation between horizontal acquisition and customer retention by Nigerian breweries Plc. Enugu. This finding is supported by studies of Singh and Chaudhry (2019) as their studies revealed that a company that acquires an existing company in the same industry would increase its market share and market segment.

A significant but negative relationship was reported between horizontal acquisition and productivity in Nigerian breweries Plc. Enugu. This finding was deduced from the result of the correlation analysis carried out on the two variables in the third hypothesis. The result revealed that horizontal acquisition has a significant negative correlation with productivity in Nigerian breweries Plc. Enugu (r =0 .57**) and this correlation is significant at 0.05 level. Based on this result, the null hypothesis ($H0_3$) was accepted and the alternate hypothesis was rejected. This means that there is a significant negative relationship between horizontal acquisition and productivity in Nigerian breweries Plc. Enugu. This finding is supported by the study of Calegario et al (2015) which reported that horizontal acquisition strategy significantly increased the level of customer retention of firms.

CONCLUSION

This study examined horizontal acquisition and effectiveness of manufacturing firms in Nigeria. The results of this study showed that horizontal acquisition has a significant positive relationship with market share in Nigerian breweries Plc. Enugu State. The study also found a significant relationship between horizontal acquisition and customer retention of Nigerian breweries Plc. Enugu State. The study equally reported a significant negative relationship between horizontal acquisition and productivity of Nigerian breweries Plc. Enugu State. Based on these findings, it is concluded that horizontal acquisition significantly relate to effectiveness of manufacturing firms in Nigeria.

RECOMMENDATIONS

1. Beverage industries should bring to market a new technology that its competitors are yet to offer to enhance organizational effectiveness.
2. Brewery industries should make adequate effort to ensure that its customers do not switch over to competitors' products and services.
3. Brewery firms should ensure it reaches the highest level of performance with the least expenditure of resources to enhance organizational effectiveness.

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