Effect of Merger and Acquisition on Performance of Deposit Money Banks in Nigeria

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Abstract

The paper examined the effects of merger and acquisition on the performance of selected commercial banks in Nigeria with greater emphasis on profit after tax and deposit profile as financial efficiency parameters. For this paper, some of the money deposit banks were selected using convenience and judgmental sample selection methods. Data were collected from the published annual report and accounts of the selected banks and were subsequently analyzed applying regression analysis through statistical package for social sciences. The results showed that post-merger and acquisition period was more financially improved than the pre-merger and acquisition period. Therefore, the study recommended that banks should be more proactive driving for profit for enhanced financial performance to reap the benefit of mergers and acquisition bid in the Nigeria banking sector

Keywords: Banks, Profit after Tax, Deposit Profile, Merger and Acquisition (M & A)

INTRODUCTION

Business organizations once established are expected to survive up to an unforeseeable future. Apparently, the environments (internal and external) in which these businesses operate are not stable and this makes predictability difficult. These environments includes; for internal environment are; value system, physical resources and technological capabilities, human resources, corporate culture, organizational structure, vision, mission and objectives. The external environment includes; economic, international, technological, socio-cultural and legal environment amongst others, the interaction of this environment components within the business organization usually affect such organization corporate performance especially in the area of corporate image, corporate growth and profitability. Consequently, such business organization adjusts and keeps adjusting at every stage to remain relevant within the society. This scenario has called for almost all organization to develop survival strategies. There are numerous numbers of such strategies. The most popular form of business combinations strategies includes; integration, merger, acquisition and consolidation. Companies have been combining in various configurations since the early days of business (Stahl, Mendenhall and Weber, 2005; Indhumathi, Selvam and Babu, 2011). Ajayi (2005) and Augustine (2007) stated that, other programs in the Nigerian banking sector reforms agenda includes: ensuring exchange rate and price stability, managing interest rate for stability and development, macro-economic coordination, improvements of the payment systemand financial sector diversification to avoid a situation of boom that can result to bank distress. This, Walter and Uche (2005) supported. The current reforms framework anchored on against systemic financial crises in the interest of the depositors and secondly, to fast track the growth and development of the national economy.

Nevertheless, it is in record that between 1990 to date, Nigeria witnessed several mergers and acquisitions arrangement. This trend dramatically changed particularly form 1995. In 1997 alone, about 10 mergers and acquisitions bids was recorded whereas, as at 31st December, 2005, the Nigerian banking sector witnessed 25 mergers and acquisitions activities (Okpanachi, 2007). For this, mergers and acquisitions is not a new scheme geared towards business survival but more importantly assists in repositioning business for more efficiency and reliability which it has done to the Nigerian banking sector through strengthening the industry with its position multiplier effects on the economy. Consequently, it is against this background that the researcher attempts to assess the effects of merger and acquisition on the performance of money deposit banks in Nigeria with greater emphasis on g profit after tax and deposits profile. The recent outbreak of bank mergers and acquisitions in Nigeria is attracting much attention, partly because of heightened interest in what motivates firms to merge and how merger and acquisition affects performance or efficiency. However, this paper investigates effects of merger

and acquisition on the performance of banks and explores the sources of any merger-induced changes in performances. It is motivated by the relative dearth of empirical evidence on the impacts of mergers and acquisitions involving Nigerian banks. Thus, the major objective of this study is to assess the effects which Merger and Acquisition Strategies have on the performance of the Deposit Money Banks in Nigeria.

Literature Review

Conceptual Framework

Banking Sector Reform in Nigeria

Banking sector reforms in Nigeria are driven by the need to deepen the financial sector and reposition the Nigeria economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. It also aimed at addressing issues such as governance, risk management and operational inefficiencies, the centre of the reforms is around firming up capitalization. (Ajayi, 2005) Capitalization is an important component of reforms in the Nigeria banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market.

In his maiden address as he resumed office in 2004, the current Governor of Central Bank of Nigeria, Soludo, announced a 13-point reform program for the Nigerian Banks. The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation (Lemo, 2005). Thus, the reforms were to ensure a diversified, strong and reliable banking industry where there is safety of depositors' money and position banks to play active developmental roles in the Nigerian economy. The key elements of the 13-point reform program include: Minimum capital base of N25 billion with a deadline of 31st December, 2005; Consolidation of banking institutions through mergers and acquisitions; Phased withdrawal of public sector funds from banks, beginning from July, 2004 Adoption of a risk-focused and rule-based regulatory framework; Zero tolerance for weak corporate governance, misconduct and lack of transparency; Accelerated completion of the Electronic Financial Analysis Surveillance System (e- FASS); The establishment of an Asset Management Company; Promotion of the enforcement of dormant laws; Revision and updating of relevant laws; Closer collaboration with the EFCC and the establishment of the Financial Intelligence Unit. Of all the reform agenda the issue of increasing shareholders' fund to N25 billion generated so much controversy especially among the stakeholders and the need to comply before 31st December, 2005.

Structure and Size of Banking Industry in Nigeria

Nigeria banking industry has remained narrow and fragile. Bank per million people is very low. It was five banks per million in 1970 and rose to its peak of 26.6 in 1993 and stagnated in this figure even until 2003. It shows that Nigeria is still under banked and this could explain why much of money supply is outside the banking systems. The asset base and numbers of the banks is also not impressive. The reasons for Mergers and Acquisitions According to Muyiwa (2006), the key common reasons that influence positively the decision to undertake a merger or acquisition are:

i. **Profit**: The aim of merger or acquisition should be to make profit. Thus, business combination provides a means of entering a market at a lower cost than would be incurred if the company tried to develop its own resources.
ii. **Desire for Growth**: A company with a view to harnessing the facilities of the other company to achieve the desired growth may enter into merger arrangement.
iii. **Strategic Rationale**: The strategic rationale makes use of the merger or acquisi- tion in achieving a set of strategic objectives, for example a merger to secure control of capacity in a chosen sector.

iv. **A requirement for specialist skills and/or resources**: A company sometimes seeks to merge with or acquire another company because the company is keen to acquire a specific skill or resource owned by the other company, amongst others

Types of Mergers

In its simplest form, vertical integration is the process of manufacturers merging with suppliers or retailers. Major production companies obtain supplies of goods and raw materials from a range of different suppliers. Vertical integration is basically an attempt to reduce the risk associated with suppliers. There are two form of vertical merger; Forward merger**;** this form of merger occurs when a firm merges or take over one of its retail customer. Backward merger; this is the form of merger where a company takes over or merges with a supplier. Mergers and acquisitions can also be used in order to achieve horizontal integration. Horizontal integration occurs where two companies engaged in essentially the same product or service merge to improve their combined value. Conglomeration mergers occur where the merging companies continue to operate in different sectors and industries. Conglomeration can be a useful approach in spreading business risk across a range of different areas**.**

Empirical Discusion

Mergers and acquisitions are a global business terms used in achieving business growth and survival. Merger entails the coming together of two or more firms to become one big firm while acquisitions the takeover or pursuing similar motives (Amedu, 2004: Bello, 2004: Katty, 2005). Accordingly, Soludo (2004) opined that mergers and acquisitions are aimed at achieving cost efficiency through economies of scale and to diversify and expand on the range of business activities for improved performance. Numerous studies have empirically examined whether mergers and acquisition are solutions to bank problems. The studies of Cabral et al (2002), Carletti et al (2002) and Szapary (2001) provided the foundation for a research on the linkage between banks mergers and acquisition and profitability.

Evidence as provided by De-Nicolo (2003) and Caprion (1999) suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Overall, some of these studies provide mixed evidence and many fail to show a clear relationship between mergers and acquisitions and performance. However, Okpanachi (2006) find some evidence of superior post merger period because of the merged firms' enhanced ability to attract loans. They also show increase employee productivity and net asset growth. Walter and Uche (2005) posited that mergers and acquisitions made Nigerian banks more efficient. In his comment, Soludo (2004) said that low capitalization of the banks has made them less able to finance the economy, and more prone to unethical and unprofessional practices. These include poor loan quality of up to 21 per cent of shareholders' funds compared with 1–2 percent in Europe and America; overtrading, abandoning the true function of banking to focus on quick profit ventures such as trading in forex and tilting their funding support in favor of import-export trade instead of manufacturing; reliance on unstable public sector funds for their deposit base; forcing their female marketing staff in unwholesome conduct to meet unjustifiable targets in deposit mobilization and high cost of funds.

Theoretical Framework

Efficiency Theory

Adeyemi, and Adeyemi, (2016), this theory holds that mergers and acquisitions have good potentials for social benefits. They generally involve improving the performance of incumbent management or achieving a form of synergy. These theories will now be considered separately in order to clearly differentiate them and because each by itself, may explain certain classes of mergers.

Differential Managerial Efficiency Theory

This is the most general theory of mergers and acquisitions that can be formulated. In everyday language, such a theory operates where the management of firm A is more efficient than the management of firm B and if after

firm A acquires firm B, the efficiency of firm B is brought up to the level of efficiency in the acquiring firm. Differential efficiency would most likely be a factor in mergers between firms in related industries where the need for improvement could be more easily identified thus; it is more likely to be a basis for horizontal mergers. (Adeyemi and Adeyemi; 2016).

Operating Synergy

This theory assumes that economies of scales exist in the industry and that prior to the merger; the firms are operating at levels of activity that fall short of achieving the potentials of economies of scale. It included the concept of complementary capabilities. Operating Synergy may be achieved in horizontal, vertical and even conglomerate mergers. For example, one firm might be strong in research and development (R&D) but weak in marketing while another has a strong marketing department without the R&D capability. Merging both firms will result in operating synergy (Adeyemi, andAdeyemi, 2016).

Financial Synergy

This theory hypothesizes complementariness between merging firms, not in management capabilities, but in the availability of investment opportunities and internal cash flows. A firm in a declining industry will produce large cash flows since there are few attractive investment opportunities. A growing industry has more investment opportunities than cash with which to finance them. These conditions will provide a basis for merging. The merged firm will have a lower cost of capital due to the lower cost of internal funds as well as possible risk reduction, savings in floatation costs and improvements in capital allocation (Adeyemi, andAdeyemi, 2016).

Agency and Managerial Problem

Agency problems may result from a conflict ofinterest between managers and shareholders or between shareholders and debt holders. A number of organizations and market mechanisms serve to discipline self-serving managers and mergers and acquisitions are viewed as the discipline of last resort. Self-serving managers on the other hand views mergers and acquisitions as a manifestation of the agency problem rather than its solution. It suggests that self-serving managers make ill-conceived combinations solely to increase firm size and their own compensations (Adeyemi andAdeyemi; 2016).

The Free Cash Flow Hypothesis

According to Jensen (1986) in Adeyemi, and Adeyemi, (2016) hypothesis states that mergers and acquisitions arise because of large agency costs associated with conflicts between managers and shareholders over the payout of free cash flow that is in excess of investment needs. According to him, shareholders and managers have serious conflicts of interest that can never be resolved perfectly. When these costs are large, mergers and acquisitions can help to reduce them.

This theory “The Free Cash Flow Hypothesis Theory” was adopted by the researcher because; it best explains the concept of Mergers and Acquisition in an Organization. Companies go into M&A partly because of shareholders satisfaction that allows confidence, trust to reinvest, minimization of cost and to maximize profit. One reason often given for a merger or acquisition is that it will increase a firm's market share. Essentially, there appears to be a high degree of correlation between increased market share and increased profitability. This view is closely aligned to the economies of scale argument; since increasing market share usually entails a higher level of production, economies of scale will be achieved. Increasing market share by mergers and acquisitions might entail investigation by the anti-trust authorities because they are seen to result in undue concentration (Adeyemi & Adeyemi; 2016).

METHODOLOGY

The population was all the fifteen (15) banks currently quoted in the official daily list of the Nigerian Stock Exchange (NSE) weekly equities summary as at 31st August, 2011 making up the Nigerian Banking Sector.

The study examined seven commercial banks. These banks are chosen as sample for the study using simple random, convenient and judgment techniques of sample selection. To be selected as a sample, the banks must meet the following criteria: they must retain their identities prior to and after the mergers and acquisitions activities, members of the groups as a result of mergers and acquisition bid must not exceed three and their Managing Directors must never be sacked by the CBN governor under the current reform process. Data were collected from secondary source through compilation and extracts from published data including published audited financial account of sampled banks from 2001-2010, Nigerian Deposit Insurance Corporation Annual Reports, Nigerian Stock Exchange Market Summary and other relevant materials which were duly referenced.

Descriptive statistics was employed to describe effectiveness of merger and acquisition (consolidation) on the performance of banks by using tables, ratios and percentage to measure deposits, profit and sales growth rates (gross-earnings). While formulated hypotheses was tested using inferential statistical techniques of regression analysis of the form.

$Y = a + b X + u$ Where: Y = dependent variable (deposit, profit,) a = intercept parameter (where the regression surface crosses the y-axis). b = Slope parameter (measures the degree of responsiveness of dependent variables to independent variable). x = independent variable (merger and acquisition (consolidation). u = stochastic error term (unexplained variance). Also, Analysis of Variance (ANOVA) was employed to confirm the significance of the contributions with F-test to determine the equality of the two variables. All these were obtained in the Statistical Package for Social Sciences (SPSS).

RESULT AND DISCUSSION

With respect to hypothesis one, the inferential analysis as obtained in Table 1 indicates a positive relationship of 0.812 between M & A and deposit profile of commercial banks. The test further revealed that M&A accounted for 65.9% variations in banks deposits which mean that M&A had 65.9% contribution to bank deposits. In order to confirm the significance of this contribution, the analysis of variance table value of 63 697 at 0.05% level of significance. Thus, the contribution of M&A to bank deposits was not by chance, hence the null-hypothesis was rejected and alternative hypothesis upheld. The implication of this was that merger and acquisition has significant effect on deposit profile of commercial bank. Furthermore, the regression analysis also indicates that M&A accounted for 4.468 of every change in bank deposits.
Model one expresses the average change in bank deposit given the effect of the M&A in the banking sector. This means that given a unit positive effect of M&A, the bank deposit will increase by 4.468.

Table 1 **Model Summary**

Model	**R**	**RSquare**	**AdjustedRSquare**
1	0.812	0.659	0.648

Predictor: (Constant) Merger and Acquisition (M&A)
DependentVariable: Deposit

Table 2 **Coefficient**

Model	**Under standardized coefficient**		**Standardizedcoefficient**		
	Beta	Std error	Beta	T	Sig
1. Constant merger and acquisition deposit	163228.885	55662.819		2.932	0.006
	4.468	0.560	0.812	7.981	0.0000

DependentVariable: Bank Deposit

Table 3 **Anova**

Model	Sumofsquare	Df	Meansquare	F	Sig
1.Regression Residual	3603517828228.026	1	3603517828228.026	63.697	0.0000
	1866905820302.661	33	56572903645.535		
Total	547042364850.680	34			

Predictors: (Constant) Merger and Acquisition **DependentVariable**: Deposit **Source**: Data Analysis, 2012

The findings also has presented in table 4 indicates a relationship of 0.678 between M&A and profits declared by commercial banks. It was further revealed that M&A contributed to profit level by just 45% which implies a low contribution was observed. The R2 further confirmed the test with an F value of 28.006 which was not statistically significant at 5% level. Thus, the performance in respect of profits declared by banks could be said to be by chance when attributed to the M&A. The regression results also revealed that M&A accounted for 2.151 for every change in profit level. The implication of this was that merger and acquisition has significant effect on profitability level of commercial banks. Model two expresses an increase in profit after tax by 2.151units as a result of a unit increase in M&A.

Table 4 **ModelSummary**

Model	R	R **Squared**	**Adjusted R Square**
2	0.678	0.459	0.443

Predictor: (Constant) Merger and Acquisition **DependentVariable**: Profit After Tax

Table 5 Coefficient

Model	**Under Standardized Coefficient**		**Standardized Coefficient**		
	Beta	Std Error	Beta	T	Sig
2.(constant) M&A profit after tax	6307.048	1637.028		3.853	0.001
	2.151	0.406	0.678	5.292	0.000

DependentVariable: Profit after Tax

Table 6 Anova

Model	**SumofSquare**	**Df**	**MeanSquare**	**F**	**Sig**
3. Regression Residual	1690765424.969	1	1690765424.969	28.006	0.000
	198224294.202	33	60370997.612		
Total	3683003846.171	34			

Predictor: (Constant) Merger and Acquisition **DependentVariable**: Profit after Tax Source: Data Analysis, 2012

The result, as shown in table 7, indicates a positive relationship of 0.669 between M&A and the sales of a bank. The result further acknowledges that M&A contributed to the sales volume of commercial banks by 44%. The contribution was further confirmed with an F value of 26.744 which was statistically significantly to the sales

level attained by commercial banks. This shows that merger and acquisition has significant effect on the gross earnings of commercial banks. It was observed that for every change in banks M&A sales changes by 2.970. The model expresses the contribution of M&A on gross earnings of the banks. The regression indicates that given a unit change in the M&A, the gross earnings will increase by 2.970.

CONCLUSION AND RECOMMENDATION

The paper attempted to examine the effects of merger and acquisition on the performance of selected banks in Nigeria. The result showed an enhanced financial performance leading to improved financial efficiency. This was indent with the F-test statistic results of the sewn selected banks as contained in the SPSS output depicted an increase in their combined means for profit and deposit. The result of these findings was buttressed by De-Nicolo et al (2003) which is of opinion that merger and acquisitions in the financial system could impact positively on both the financial and operational efficiency of most banks also Sobowale (2004) found that banks significantly improved their profit efficiency after mergers.

The study concluded that there is an improved performance on the part of selected commercial banks. This in terms of gross earnings, deposit and profit as the calculated F-values are greater than the critical value at 5% level of significant. Also, the study found that the point consolidation periods has a higher performance in gross earnings; deposit has a better performance while profit after tax is comparatively has low but improved performance than the pre-consolidation period. The finding in this paper is quote in agreement with the work of Nicole et al (2003) and Sanni 2009. Therefore, the paper recommends that banks should be more aggressive in financial products marketing to increase financial efficiency for an improved financial position in term of gross earnings, profit after tax and deposit profile in order to reap the benefit of post mergers and acquisition bid in the Nigerian banking sector. Hence, every bank official need to be made a potential marketer, with an understanding that customer enthusiasm and loyalty are founded on a perfect fusion of service delivery and service recovery strategies. Man power training and re-training is a must for all banks. Investment in information technology acquisition, deployment and training to reflect a commitment to leverage new technologies for the benefit of every sophisticated client that are getting wiser on daily basis in Nigeria need not be over-emphasized.

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