

Impact of Merger and Acquisitions on the Financial Performance of Deposit Money Banks in Nigeria

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Abstract

The overall objective of this study is to examine the impact of mergers and acquisitions on the financial performance of some selected deposit money banks in Nigerian from 2002 to 2008. This paper used Returns on Asset (ROA) and Return on Equity (ROE) of the selected banks to measure the financial performance of the banks before and after consolidation. Four Nigerian banks were selected using convenience and judgmental sampling techniques. The study utilized secondary data retrieved from the annual reports and accounts of the studied banks. Data for the study were analyzed using T-test statistics and it was revealed that bank witnessed improved and robust financial performance owing to merger and acquisition leading to more financial efficiency in the Nigerian banks. The paper recommends that banks should be more aggressive in financial products marketing to increase financial performance in order to reap the benefit of post mergers and acquisition bid in the Nigerian banking sector.

Keywords: Impact; Merger; Acquisitions; Financial performance; Deposit; Money banks; Nigeria

Introduction

Various financial sector reforms of the past two decades in Nigeria brought about some changes in terms of the number of institutions, ownership structure as well as depth and breadth of the financial market. The recent reforms introduced in 2004 prompted regulatory induced restructuring and engendered the realignment of banks and banking groups into merger of some, and the acquisition of others to ensure a sound, responsive, competitive and transparent banking system suited to the demands of the Nigerian economy and the challenges of globalisation.

In Nigeria, the ability of the banking industry to play its role has periodically been punctuated by its vulnerability to systemic distress and macro-economic volatility, making policy fine tuning inevitable. In the words of Nnanna [1] as cited by Kama [2], the Nigerian banking industry evolved through four stages. The first stage can best be described as the unguided *laissez faire* phase (1930 to 1959), during which several poorly capitalized and unsupervised indigenous banks failed in their infancy. The second stage was the control regime (1960 to 1985), during which the Central Bank of Nigeria ensured that only "fit and proper" persons were granted banking license subject to the prescribed minimum paid-up capital. The third stage was the post Structural Adjustment Programme (SAP) or de-control regime (1986 – 2004), during which the neo-liberal philosophy of "free entry" was over-stretched and banking licenses were dispensed by the political authorities on the basis of patronage. The emerging fourth stage is the era of consolidation (2004 to a foreseeable future) with major emphasis on recapitalization and proactive regulation based on risk-based or risk focused supervision framework.

The current banking system reform represents the fundamental restructuring needed to address the structural and operational problems of the system in order to create a strong and reliable banking sector which will play active roles in the Nigerian economy. Two major elements of the reform were the requirement for Nigerian Banks to

increase their capital base to a minimum of N25 Billion by the end of December, 2005 and consolidation through mergers and acquisitions [3].

Previous studies on the relationship between banks consolidation and banks performance provide mixed evidence and many failed to show clear and empirical relationship between mergers and acquisitions on one hand and financial performance on the other hand. This study therefore critically examined the impact of mergers and acquisitions on the financial performance of deposit money banks in Nigeria.

Literature Review

The concept of consolidation

Consolidation is viewed as the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size, concentration and efficiency of the remaining entities in the sector [4]. Berger, Demsetz and Strahan are of the opinion that consolidation is mostly motivated by technological innovations, deregulation of financial services, enhancement of intermediation and increased emphasis on shareholder value, privatisation and international competition.

Bello [5] opined that the process of consolidation has been argued to enhance bank efficiency through cost reduction and increase in revenue in the long run. It also reduces industry risk by eliminating weaker banks and acquiring the smaller ones by bigger and stronger banks as well as creates opportunities for greater diversification and financial intermediation. He further stated that the pattern of banking system consolidation could be viewed in two different perspectives,

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market-driven and government led consolidation. The former is more pronounced in the developed countries as a way of broadening competitiveness with added comparative advantage thereby eliminating excess capacity more efficiently, while the latter arises from the need to resolve problems of financial distress in order to avoid systemic crises as well as restructure inefficient banks.

The concept of merger and acquisition

Merger and acquisition are global phenomena which many organizations employed to grow internally, by expanding its operations both globally and domestically. Nigerian banks were not left over to meet required capital base as being specified by Central Bank of Nigeria (CBN) and to improve banks' performance. Merger is different from acquisition. Merger is the combination of two or more businesses that leads to the formation of a new business, but acquisition is the takeover or purchase of one business by other business. Brockington [6] defines a merger which is consonance with Afolabi [7] as the result of a process whereby two or more previously autonomous concerns come under common control.

Merger and acquisition benefit shareholders when the consolidated post-merger firm is more valuable than the simple sum of the two separate pre-merger firms. In line with this, Enyi [8], concluded that the banks consolidation exercise of 2005 as supervised by the Central Bank of Nigeria has yielded basket full of benefits in terms of improved banking environment and renewed customer confidence in the banking industry. Soludo [9], opined that mergers and acquisitions are aimed at achieving cost efficiency through economies of scale, and to diversity and expand on the range of business activities for improved performance. Merger and acquisition is adopted to attain the operating and financial efficiencies. According to the efficiency theory, the main motive of mergers and acquisition is to gain operating and financial synergy.

Corporate financial performance measures

Corporate financial performance is an important moderator used to test hypothesis through the employment of different measurement strategies and establishing whether correlations between different corporate financial performance measures are similar across subgroups, or whether different measures lead to systematically different effect sizes across studies. Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratio analysis, benchmarking, measuring performance against budget or a mix of these methodologies [10]. Much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return. According to Orlitzky et al., [11], the three broad subdivisions of corporate financial performance consist of market-based (investor returns), accounting-based (accounting returns), and perceptual (survey) measures.

Alternatively, accounting-based indicators, such as the firm's return on assets (ROA), return on equity (ROE), or earnings per share (EPS), capture a firm's internal efficiency in some way (Cochran and Wood 2009). Accounting returns are subject to managers' discretionary allocations of funds to different projects and policy choices, and

thus reflect internal decision-making capabilities and managerial performance rather than external market responses to organizational (non-market) actions. Lastly, perceptual measures of financial performance ask survey respondents to provide subjective estimates of, for instance, the firm's 'soundness of financial position', 'wise use of corporate assets', or 'financial goal achievement relative to competitors' [12-14].

This research work will analyze the data collected using the accounting-based (accounting returns) and the market-based (investor returns) financial performance measures in the pre-consolidation and post-consolidation years considered in the research work in order for meaningful conclusions to be drawn.

Review of related empirical studies

The previous studies on the relationship between banks mergers and acquisitions and banks performance provided mixed evidence and many failed to show a clear relationship between mergers and acquisitions and performance. Many researchers [15-17] agreed that banks have been able to significantly improve their profit potential through merger and they agreed that merger and acquisition has helped Nigerian banks to be more efficient in financial intermediation. The studies of Carletti et al., and Szapary provided the foundation for a research on the linkage between banks mergers and acquisitions and profitability.

Joshua [15], discovered that the post-merger and acquisitions period was more financially efficient than the pre-merger and acquisitions period. Olagunju and Obademi [16] also found that there is significant relationship between pre and post mergers and acquisitions on one hand and capital base of commercial banks and level of profitability on the other hand. Walter and Uche [18] posited that mergers and acquisitions made Nigerian banks more efficient.

Elumide [17], also agreed that mergers and acquisitions had improved competitiveness and efficiency of the borrowing and lending operations of Nigeria banking industry. Evidence as provided by Caprion Calomiris and Karenski, and De-Nicolo [19] suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Akpan [20], using chi square to test his stated hypothesis found that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit.

Owolabi and Ogunlalu [21], discovered that it is not all the time that consolidation transforms into good financial performance of bank and it is not only capital that makes for good performance of banks. DeLong and Deyoung and Amel et al., also found that mergers and acquisitions have not had a positive influence on banks performance in term of efficiency. While Beitel et al., found no gain effect due to mergers and acquisitions in banking industry.

Chen Liang [22], examines the impact of merger and acquisition (M&A) announcements on firms' stock performance made by companies listed on the Hong Kong stock exchange. An event study methodology was used using 44 events as the sample size. The study found that M & A announcement effect is significant over the event period and investors can earn abnormal return by trading an acquiring company 2 days before the announcement data.

Onaolapo and Ajala [23] studied The effects of merger and acquisition on the performance of selected Commercial Banks in Nigeria using the regression analysis through statistical package for social sciences and found that post-merger and acquisition period was more financially improved than the pre-merger and acquisition period on the seven selected banks for a period of ten years (2001-2010).

Appah and John [24], conducted research on mergers and acquisitions in the Nigerian banking industry, the findings reveal that the consolidation (M & A) activities in Nigeria did not meet the desired objectives of liquidity, capital adequacy and corporate governance which have resulted to more troubled banks after the consolidation.

Odetayo, Sajuyigbe and Olowe [25], examined the impact of post-merger on Nigerian banks profitability using the multiple regressions and the method of estimation is Ordinary Least Squares (OLS) with aid of STATA software. The result showed that post-merger has not significantly impacted on banks profitability.

Suberu and Aremu [26], conducted a study on Corporate Governance and Merger Activity in the Nigerian Banking Industry using twenty-five (25) successful mergers arising from the regulatory demand for consolidation. The major finding revealed that the Banking Sector is partly responsible for the poor state of the Nigerian Economy through its support for the import dependence nature of the economy rather than financing of sustainable economic development through shareholder values maximization.

Onikoyi [27], carried out a research on mergers and acquisitions and banks performance in Nigeria. Using simply linear regression through review between 2003-2008 on two banks. The result revealed that all the two groups produced in addition to operational and relational synergy, financial gains far more than the synergistic effects. Ratio technique and inferential statistical tools were used to highlight synergistic effects on the merging banks.

Ikpefan [28], carried out an empirical study on post-consolidation effect of mergers and acquisitions on Nigeria deposit money bank. This study was carried out to find out the challenges faced by the banks during and after the exercise, the performance of these banks post-consolidation and if mergers and acquisitions has in anyway affected the banks and if so, in what ways. The panel data regression technique was used in the analysis and we found that M&A's affect banks performance but does not affect banks' cost of equity capital.

Okpanachi [29] conducted a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. This paper used gross earnings, profit after tax and net assets of the selected banks. For this paper, three Nigerian banks were selected using convenience and judgmental sample selection methods using analyzed applying t-test statistics through statistical package for social sciences. It was found that the post mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period.

From the reviewed of literature and empirical studies on the impact of mergers and acquisitions on the performance of banks in Nigeria, scholars appear to have different conclusion. The position of the scholars that posited positive relationship between merger and acquisition; and

bank performance make logical sense because the essence of mergers and acquisition is to improve efficiency in financial intermediation thereby propelling the banks toward profit maximization. It is therefore expected in this study post-merger periods will better in terms of efficiency than the pre-merger periods.

Research Methodology

Research design

The research design used for this study is the ex post facto research design. This design is used where the phenomenon under study has already taken place [30]. Previous data relating to the subject matter will collect to establish the relationship between the phenomena under study.

Population of the study

The population of the study consists of all the twenty five (25) banks that scale through the 2005 consolidation exercise. This includes all the banks that recapitalized through the issuance of common stock, merger and acquisition. All the banks the met the capitalization requirements of the CBN together with their respective status during consolidation are shown in the Table 1.

Sample size and sampling technique

The study used judgemental sampling technique to select four (4) banks from the population. Banks that were selected are those banks that retain their identities prior to and after the merger and acquisition activities. To this end, only four banks satisfied the criterion and were selected as the sample size for the study as shown in Table 2.

Method of data collection and data analysis

Data for the study were quantitatively retrieved from the annual reports and account of the studied banks. Descriptive and T-test statistics were used to analyze the data obtained from from the annual reports and accounts of the sampled banks via SPSS.

Results and Discussion

Descriptive statistics

The natures as well as the phenomena associated with the variables are described below. The Table 3 shows mean values of 0.0196 and 2.1934 for pre and post consolidation ROA with minimum and maximum of 0.000, -0.11 and 0.04, 26.32 respectively. The standard deviation of 0.1165 and 7.59 show that banks vary greatly in their ROA before consolidation and after consolidation.

Also, the pre-consolidation ROE shows a mean value of 1.9316 while post consolidation ROE reveals a mean value of 2.0186. The standard deviation values of 1.67 and 2.319 for the two periods under study show high variation in ROE for the two periods under study.

The Table 4 above reveals that the mean of the pre-merger ROA has increased from 0.0196 to 2.1934 in the post-merger, while the ROE also increased from 1.9316 to 2.0186. One of the reasons for this may be that the increase in capitalization of Nigerian banks which is the aim of the consolidation is yielding the desired results of improving efficiency in banks. All the sampled banks witnessed improved financial performance as a result of merger and acquisitions leading to more financial efficiency. This finding is consistent with the study of Okpanachi [29].

S/N	Bank Name After 2005 Consolidation	Component Members of Consolidated Banks	Mode of Recapitalization
1	Access Bank Plc.	Marina Bank, Capital Bank International, Access Bank	Merger
2	AfriBank Nigeria Plc.	AfriBank Plc., Afrimerchant Bank	Issuance of Shares
3	Diamond Bank Plc.	Diamond Bank, Lion Bank, African International Bank	Merger
4	Ecobank	Ecobank	Parent Organisation
5	ETB Plc.	Equatorial Trust Bank, Devcom	Merger
6	FCMB Plc.	First City Monument Bank, Co-operative Development Bank, Nigerian American Bank, Midas Bank	Merger
7	Fidelity Bank Plc.	Fidelity Bank, FSB, Manny Bank	Merger
8	First Bank (FBN) Plc.	FBN Plc., FBN Merchant Bank, MBC	Acquisition
9	First Inland Bank Plc.	IMB, Inland Bank, First Atlantic Bank, NUB	Merger
10	Guaranty Trust Plc.	GT Bank	Issuance of Shares
11	Intercontinental Bank Plc.	Global Bank, Equity Bank, Gateway Bank, Intercontinental Bank	Acquisition
12	NIB	Nigerian International Bank	Parent Organisation
13	Oceanic Bank Plc.	Oceanic Bank, International Trust Bank	Issuance of Shares
14	Platinum-Habib Bank Plc.	Platinum Bank, Habib Bank	Merger
15	Skye Bank Plc.	Prudent Bank, Bond Bank, Coop Bank, Reliance Bank, EIB	Merger
16	Spring Bank Plc.	Guardian Express Bank, Citizens Bank, Fountain Trust Bank, Omega Bank, Trans International Bank, ACB	Merger
17	Stanbic IBTC Bank Ltd.	Stanbic Bank, Regent Bank, Chartered Bank, IBTC	Merger
18	Standard Chartered Bank Plc.	Standard Chartered Bank Ltd.	Parent Organisation
19	Sterling Bank Plc.	Magnum Trust Bank, NBM Bank, NAL Bank, INMB, Trust Bank of Africa	Merger
20	United Bank for Africa Plc.	Standard Trust Bank, UBA Plc., Chartered Trust Bank	Merger
21	Union Bank Plc.	Union Bank, Union Merchant Bank, Universal Trust Bank, Broad Bank	Acquisition
22	Unity Bank Plc.	New Africa Bank, Tropical Commercial Bank, Centre-Pointe Bank, Bank of the North, NNB, First Interstate Bank, Intercity Bank, Societal Bonaire, Pacific Bank	Merger
23	Wema Bank Plc.	Wema Bank, National Bank	Merger
24	Zenith International Bank Plc.	Zenith International Bank Plc.	Issuance of Shares

Table 1: Population of the study.

Source: Generated from Nigerian Stock Exchange Fact Book, 2012/2013

S/N	Banks
1	Access Bank Plc.
2	United Bank for Africa (UBA) Plc.
3	First Bank of Nigeria (FBN) Plc.
4	Wema Bank Plc.

Table 2: Sample size.

Source: Generated from Nigerian Stock Exchange Fact Book, 2014

	N	Minimum	Maximum	Mean	Std. Deviation
preroa	12	.00	.04	.0196	.01165
postroa	12	-.11	26.32	2.1934	7.59660
preroe	12	-.04	6.22	1.9316	1.67008
postroe	12	-2.32	4.64	2.0186	2.31947
Valid N (listwise)	12				

Table 3: Descriptive statistics of variables.

Source: Generated from the Annual Reports of the Sampled Banks Using SPSS

	ROA		ROE	
	Before Consolidation	After Consolidation	Before Consolidation	After Consolidation
Mean	.0196	2.1934	1.9316	2.0186
Std. Dev.	.01165	7.59660	1.67008	2.31947
N	12	12	12	12
Mean Correlation	.012		-.206	
Df	11		11	
t.stat	-.991		-.096	
Sig. (2-tailed)	.343		.925	

Table 4: T-test paired two samples for means for ROA and ROE.

Source: Computed by the researchers using SPSS

Conclusions and Recommendations

The paper examined 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 owing to merger and acquisition. The result of this study was buttressed by Okpanachi [29] who found and concluded that merger and acquisitions in the financial system have improved significantly the financial performance of most banks in Nigeria. The study concluded that there is an improved performance on the part of selected commercial banks due to merger and acquisition.

Sequels to findings of this study, the following recommendations have been suggested:

- Weaker banks should either merge or be acquired by stronger bigger banks.
- Banks should be more aggressive in financial products marketing to increase financial performance thereby reaping the benefit of post mergers and acquisition exercise.

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