MERGERS AND ACQUISITIONS AND BANKS PERFORMANCE IN NIGERIA

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Abstract
In order to strengthen the competitive and operational capabilities of banks in Nigeria with a view towards returning global and public confidence to the Nigerian banking sector and the economy in general, the Central Bank of Nigeria instituted a banking reform in 2004, which saw most of the then existing 89 banks merging with each other. This paper evaluates the impact of mergers and acquisitions on performance of Banks in Nigeria. To do this, pre-merger and post merger financial statements of two consolidated banks were obtained, adjusted, carefully analyzed and compared. The result revealed that all the two groups produced in addition to operational and relational synergy, financial gains far more than the 2+2=5 synergistic effects. Ratio technique and inferential statistical tools were used to highlight synergistic effects on the merging banks.

Keywords: Consolidation, merger, acquisition, synergy, shareholders

Introduction
The relevance of banks in the economy of any nation cannot be overemphasized. They are the cornerstones of the economy of a country. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balance systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit. Consequently, it is submitted that the economic well being of a nation is a function of advancement and development of her banking industry (Obadan, 1997).

The financial deregulation in Nigeria that started in 1987 and the associated financial innovations have generated an unprecedented degree of competition in the banking industry. The deregulation initially pivoted powerful incentives for the expansion of both size and number of banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions providing financial services led to increased competition amongst various banking institutions, and between banks and non-banking financial intermediaries.

As given in the address of Prof. Charles Soludo, Former CBN Governor in 2004, the economic adjustments in Nigeria had focused on structural and institutional reforms, which include the followings (Soludo, 2005): (i) strengthened the institutional framework for the conduct of monetary policy. (ii) Bank recapitalization/consolidation. (iii) To possibly eliminate or reduce government ownership of any bank (to no more than 10 per cent). (iv) Improved transparency and corporate governance. (v) Zero tolerance to misreporting and data rendition. Anti money laundering regulations (vi) Implementation of based 11 principles and risk-based supervision (vi) Payments system reforms for efficiency especially e-payment (vii) Reforming the Exchange rate management system (adoption of the wholesale) (viii) Restructuring Nigeria Security Printing & Minting Plc. Going by the main focus of the reform, banks recapitalization and consolidation stands out. The main method by which this aspect was achieved, was by directing individual bank to raise their capital base to a minimum of N25 billion or in alternative merge with other banks.

The hypothetical statements for this paper are:

Hypothesis 1:
H₀: There is no relationship between increase in shareholders funds and Total Assets of the banks

Theoretical framework
This study is anchor on the following theories:
The Value-Increasing Theories
According to the value increasing school, mergers occur, broadly, because mergers generate ‘synergies’ between the acquirer and the target, and synergies, in turn, increases the value of the firm (Hitt et al., 2001). The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a ‘friendly’ merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the target firm’s owners would not sell or submit to the acquisition, and if the gains were negative to the bidders’ owners, the bidder would not complete the deal. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Banerjee and Eckard (1998) and Klein (2001) evidence this suggestion. Following Chatterjee (1986), we must, however, distinguish between ‘operative synergies’ – or ‘efficiency gains’ achieved through economies of scale and scope – and ‘allocative synergies’ – or ‘collusive synergies’ resultant from increased market power and an improved ability to extract consumer surplus – when commenting on value creation in mergers and acquisitions.

Most of the recent literature concludes that operating synergies are the more significant source of gain (Devos et al.2008; Houston et al., 2001; Mukherjee et al., 2004), although it does also suggest that market power theory remains a valid merger motive. Increased ‘allocative’ synergies is said to offer the firm positive and significant private benefits (Feinberg, 1985) because, ceteris paribus, firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus. Indeed, a number of studies find increased profits and decreased sales after many mergers (Prager, 1992; Chatterjee, 1986; Kim and Singal, 1993; Sapienza, 2002; Cefis et al., 2008) - a finding which has been interpreted by many as evidence of increasing market power and allocative synergy gains (see e.g., Gugler et al., 2003). From a dynamic point of view too, market power is said to allow for the deterrence of potential future entrants (Motta, 2004; Besanko, 2006; Gugler et al., 2003), which can again afford the firm a significant premium, and so offer another long-term source of gain. In an efficient merger, the theory of corporate control provides a third justification, beyond simply synergistic gains, for why mergers must create value. It suggests that there is always another firm or management team willing to acquire an underperforming firm, to remove those managers who have failed to capitalise on the opportunities to create synergies, and thus to improve the performance of its assets (Weston et al.2004). Managers who offer the highest value to the owners, it suggests, will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets. Hence, inefficient managers will supply the ‘market for corporate control’ (Manne, 1965), and managers that do not maximise profits will not survive, even if the competitive forces on their product and input markets fails to eliminate them. ‘Hostile’ takeover attempts, as the team itself and its governance mechanisms have failed to discipline their managers. Once again the empirical evidence again seems to support this conclusion (Hasbrouck, 1985; Palepu, 1986). From the bidder’s perspective, the theory of corporate control is partially based on efficiency theory, although there are two important differences. First, it does not assume, per se, the existence of synergies between the corporate assets of both firms, but rather between the bidder’s managerial capabilities and the targets assets. Hence, corporate control predicts managerial efficiencies from the re-allocation of under-utilized assets. Second, it implies that the target’s management team is likely to resist takeover attempts, as the team itself and its managerial inefficiency is the main obstacle to an improved utilization of assets. Typical bidders are either private investors – or ‘corporate raiders’ – who bring in more competent management teams, or more efficient firms, as measured by Tobin’s Q, with better growth prospects and superior performance (Weitzel and McCarthy, 2009).

**Consolidation models**

The various consolidation models were named after the country in which they are operated. These include: The Lebanon Model, The Goldman Sachs model, Malaysian Model. The Malaysian and Singaporean model provide great lessons for the Nigerian situation, as these
economies have, at some time faced similar challenges such as import-dependence, foreign-financing of project composing agriculture as the largest contributor to GDP in the banking sectors of these economies, we also see similarities in challenges: high interest rates, liquidity issues and declining asset quality following reforms stimulate by regulators these economies, viable banking industries have emerged, capable of supporting the overall growth of these nations.

Malaysian model
The Malaysian banking sectors reform, which resulted from the Asian financial crises in 1990s generated tremendous public research interest because of the extent of the resilience of the financial system and the economy as a whole in withstanding its impact. To ward off the contagious effects, Malaysian initiated policy measures in April and July of 1997 to curtail banks exposure to the real estate sub-sector and capital markets, and aggressively defended the national currency (ringgit) exchange rate, which it eventually floated. This was followed by the series of other policy interventions in 1998 and 1999, which included institutional blanket guarantee for all bank deposits, establishment of Assessment Company and bank structuring and recapitalization agency, as well as introduction of capital controls. Accordingly, between 1999 and 2001, 54 banking institutions were consolidated into ten banking groups. banking sector financing exposure. In summary, Deloitte (2005) concluded that bank consolidation in Asia is such that competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance.

The results in Nigeria cannot be farther from this, in that, any financial reform that is induced by government, uncertified balance sheets and not market driven is bound to witness some failure.

Banking sector performance
The history of the Nigeria banking system is replete with growth and burst cycles in the number of operating banks and their branches. Usually, growth spurt are experienced when the policy environment present strange business opportunities in the banking sector, or there is a sudden policy shift that makes it easy for ordinary business people to initiate a process that creates access to public funds in the name of bank deposits.

In terms of Assets, the total asset of all the 89 banks operating in Nigeria in 2004 prior to the consolidation was N3.753.28billion (US$28.250billion) and rose to N6400.78billion (US$49.88billion) indicating a growth rate of 70.54.16 per cent within one year after consolidation. The asset size of an average bank which was N42.172billion (US$0.3174 billion) grew geometrically to N267.482billion (US$2.0856billion) within a year after the consolidation exercise, a growth rate of 534.27 percent. This was an impressive performance. However, an assessment of the level of capitalisation of an average bank prior to the exercise indicates an equity base (Net worth) of N7.71 billion (US$0.06168billion) rising to N38.83billion (US$0.31064billion) in 2006, indicating a growth rate of 404 per cent. The leverage ratio measured in terms of equity to total asset also declined from 18.28 per cent 2004 to 14.52 per cent in 2006 for an average bank. This ratio compares favourably with the CBN minimum level of 10 per cent. The post consolidation ratio is also better in terms of its distribution among the banks compared with the pre-consolidation ratio where more than 70 per cent of the equity and assets were concentrated in (the largest five banks) less than 5 per cent of the existing banks.

However, the intermediation activities of an average bank improved significantly by about 1,690 per cent from an average deposit base of N10.48billion (US$0.08384) in 2004 to N188.48billion (US$1.50784) in 2006. The profit efficiency/asset utilization has not been impressive. Although the banks have been able to double their gross earnings from their pre consolidation performance level, their profit and asset utilization efficiencies have declined since the conclusion of the consolidation. For instance, the industry return on equity declined from 35.28 per cent in 2004 to 11.12 per cent in 2006, while return on asset declined from 8.37 per cent to 2.09 per cent over the same period. The asset utilization ratio also declined; while an average bank was able to earn 34 kobo for every N1.0 asset in 2004, this declined to 11kobo in 2006. Thus, while the consolidation has improved the structure of the Nigerian banking
industry in terms of asset size, deposit base and capital adequacy, the profit efficiency has not been impressive. The banks will need to become more efficient in terms of their ability to generate enough return to justify the increase in the equity base as well as the resources put at their disposals by their stakeholders. The lending capacity of the banks improved significantly as a result of the consolidation. As at 2004, an average bank could only lend about N14, 371 billion. Whereas, the consolidation strengthen the bank where a typical bank in Nigeria in 2006 could lend an average of N80.788 billion. This represents a growth of 462.13 percent growth (Somoye, 2008).

Methodology

Design
Both qualitative and quantitative research methods were used for the purpose of this study. This paper is based on exploratory research design. Exploratory research is a type of research that seeks to investigate one or few situations similar to the researcher’s problem (Zikmund, 2003). The results of exploratory research through case studies though may not be useful for decision-making by themselves because of the ‘context dependent’ nature of the outcome (Flyvbjerg, 2004), the strategic choice of case may add to the generalisability of a case study in providing significant insight into a given situation. In addition, exploratory research design will help the researcher to gain insight into a situation that is not very clear and that has not attracted serious investigation and research in the past (Asika, 2004).

Population and sample size
The population of this research study is Nigerian banking industry.

The entire banking industry in Nigeria had 89 banks as at end of 2005. After the consolidation exercises the number of banks in Nigeria came to 25 in January 2006.

UBA plc and Skye Bank plc are selected as sample size for this study. This represents 8% of Nigerian Banking Industry after consolidation exercise.

Data collection methods

This study relied primarily on secondary data from academic journals, text books, magazines, newspapers, companies’ annual reports, and internet sources. Furthermore, it was more objective to analyse data from the published accounts of the company to eliminate personal opinion, this will to a large extent guarantee the validity and reliability of empirical data and further analysis.

Data analysis procedure

In this study, the independent and dependent variables are fit to an equation called a regression equation which the data would express the relationship between variables. The simple linear regression analysis is used to analyze the stated hypothesis. In hypothesis one, the functional relationship was postulated between (shareholders fund) consolidations (X) and (performance) Total Assets of Nigerian banks (Y). The relationship in hypothesis two is between (shareholder fund) consolidation (X) and (performance) Total Asset (Y). To express the model of simple linear regression in equation form is:  

\[ Y = a + bx \]

Where  

\( Y \) = dependent variable  
\( a \) = intercept parameter (where the regression surface crosses the y axis)  
\( b \) = slope of the regression line (it is the rate of change in Y with respect to X)  
\( x \) = Independent variable

Data analysis technique

The statistical technique that will be used is the Pearson Product Moment Correlation Coefficient.

Testing of hypotheses

Hypothesis 1:

\( H_0 \): There is no relationship between increase in shareholders fund and Total Assets of the Skye Bank Plc

\( H_1 \): There is relationship between increase in shareholders fund and Total Assets of the Skye Bank Plc
Table: 1 skye bank plc data (6 years balance sheet summary)

<table>
<thead>
<tr>
<th>YEARS</th>
<th>Post Merger</th>
<th>Pre Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>784,878</td>
<td>446,114</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>691,025</td>
<td>416,939</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>93,853</td>
<td>29,175</td>
</tr>
<tr>
<td>Total liab + s/holder fund</td>
<td>784,878</td>
<td>446,114</td>
</tr>
<tr>
<td>Current assets</td>
<td>356,915</td>
<td>176,022</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>529,645</td>
<td>274,695</td>
</tr>
</tbody>
</table>

Table: 2 skye bank plc data (6 years income statement summary)

<table>
<thead>
<tr>
<th>Years</th>
<th>Post Merger</th>
<th>Pre Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 (=N=m)</td>
<td>2007 (=N=m)</td>
</tr>
<tr>
<td>Gross earnings</td>
<td>74,615</td>
<td>39,367</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>20,425</td>
<td>7,519</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>15,126</td>
<td>5,517</td>
</tr>
<tr>
<td>EPS (kobo)</td>
<td>173</td>
<td>74</td>
</tr>
<tr>
<td>Net asset per shares</td>
<td>810</td>
<td>389</td>
</tr>
</tbody>
</table>

Source: skye bank plc, annual audited financial statements (2006-2008)

Result: Using EVIEW package to analyse the above data, below are the result of testing

Correlation: Correlation of Shareholders fund to Total Assets in Skye Bank is:

r=0.9589, r^2=0.9195, t test=0.9589/0.02013, t calculated=2.132

Decision Rule: t calculated value is greater than t table value therefore reject Null hypothesis and accept alternative hypothesis.

H1: There is relationship between increase in shareholders fund and Total Assets of the banks

Regression analysis

To express the model of simple linear regression in equation form is:

Y = 23397.18 +8.4632x

From the result above the regression model Y = 23397.18 +8.4632x indicate a positive relationship between the dependent (Total Asset) and independent (Shareholders Fund) variables. Thus the b coefficient of 8.4632 indicates that for every one unit change in the dependent variable, the independent is predicted to increase by 8.4632. The coefficient of correlation (r) of 0.9589 shows that there is a strong association between the two variables.

UBA data
Table: 3- (6 years balance sheet summary)

<table>
<thead>
<tr>
<th>Years</th>
<th>Post Merger</th>
<th>Pre Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 (=N=m)</td>
<td>2007 (=N=m)</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,673,333</td>
<td>1,191,042</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,479,873</td>
<td>1,022,964</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>193,460</td>
<td>167,719</td>
</tr>
<tr>
<td>Total liability + shareholder fund</td>
<td>1,673,333</td>
<td>1,190,683</td>
</tr>
<tr>
<td>Current assets</td>
<td>1,075,857</td>
<td>775,943</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,405,885</td>
<td>972,996</td>
</tr>
</tbody>
</table>

Table: 4 UBA plc data (6 years income statement summary)

<table>
<thead>
<tr>
<th>Years</th>
<th>Post Merger</th>
<th>Pre Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 (=N=m)</td>
<td>2007 (=N=m)</td>
</tr>
<tr>
<td>Gross earnings</td>
<td>154,330</td>
<td>109,512</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>54,637</td>
<td>29,525</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>40,002</td>
<td>21,441</td>
</tr>
<tr>
<td>EPS (kobo)</td>
<td>305</td>
<td>261</td>
</tr>
</tbody>
</table>

Source: UBA Plc, annual audited financial statements (2006 -2008)

Hypothesis 2:

H0: There is no relationship between increase in shareholders fund and Total Assets of the UBA Plc
H1: There is relationship between increase in shareholders fund and Total Assets of the UBA Plc

Result: Using EVIEW Stastical package to analyse the above data, below are the result of testing.

Correlation: Correlation of Shareholders fund to Total Assets in UBA is:

\[ r = 0.9465, \quad r^2 = 0.89586, \quad t_{\text{test}} = 0.9465/0.26035, \quad t_{\text{calculated}} = 36.35, \quad t_{\text{table}} = 2.132 \]
Decision Rule: if the calculated value is greater than the table value, reject the Null hypothesis and accept the alternative hypothesis.

\[ H_0: \text{There is no relationship between increase in shareholders fund and Total Assets of the banks} \]

Regression analysis
To express the model of simple linear regression in equation form is:

\[ Y = 181482.46 + 7.1751X \]

From the result above, the regression model indicates a positive relationship between the dependent (Total Asset) and independent (Shareholders) variables. The coefficient of correlation of 0.9465 shows that there is strong association between the two variables.

Discussion and findings

**Skye Bank PLC**
The total assets of the banks grew from N31.990 billion in 2005 to N784.878 billion in 2008. The shareholders fund jumped from N4.447 billion to N93.853 billion in 2008. This is an improvement of 21.10%. Gross Earnings of the bank increased tremendously from N6.159 billion in 2005 to N74.615 billion in 2008. Empirical result of Skye Bank Plc showed that there was a strong relationship between shareholders fund and total assets. The Coefficient correlation between the two variables was 95.89% which means increase in shareholders fund leads to increase in total assets. In other words, the more capital available to the bank’s management, the more assets they will create and the more value they will add to shareholders’ wealth.

**UBA PLC**
UBA Plc total asset moved up from N250.783 billion in 2005 to N1, 673.333 trillion in 2008. Shareholders fund also moved from N19.443 billion in 2005 to N1, 479 billion in 2008. Gross earnings jumped from N6.159 billion in 2005 to N74.615 billion in 2008. The implication of the above is that the post consolidation era the bank is more profitable. Adequate capital was made available to the management. The bank was able to turn around available capital to create high asset portfolio.

Empirical results revealed strong association between dependent and independent variable. The Coefficient Correlation was 94.65%. This can be interpreted as increase in shareholders fund lead to increase in total assets of the banks.

Conclusion
This research has established that bank consolidation in the Nigerian Financial System secured through mergers and acquisitions increases shareholders’ funds, investor’s confidence as well as financial stability and operational efficiency of the consolidated banks. In summary, the research has established that bank consolidation helps in shoring up investment capital, enhances shareholder value, and protects creditors and depositors as well as strengthening banks capacity to attract funds at lower costs enhancing their liquidity positions.

References


**Appendix**

**E view stastical results for skye bank plc**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>23397.18</td>
<td>52013.66</td>
<td>0.449828</td>
<td>0.6761</td>
</tr>
<tr>
<td>SER02</td>
<td>8.463255</td>
<td>1.251152</td>
<td>6.764371</td>
<td>0.0025</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.919609</td>
<td>Mean dependent var</td>
<td>247351.8</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.899511</td>
<td>S.D. dependent var</td>
<td>309979.3</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>98263.39</td>
<td>Akaike info criterion</td>
<td>26.08989</td>
<td></td>
</tr>
</tbody>
</table>
Substituted Coefficients:

\[ Y = 181482.457235 + 7.17506434895 \times X \]

Correlation table

A view statistical results for UBA Plc

Dependent Variable: SER01
Method: Least Squares
Date: 02/04/12   Time: 15:32
Sample: 2003 2008
Included observations: 6

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>181482.5</td>
<td>131102.1</td>
<td>1.384283</td>
<td>0.2385</td>
</tr>
<tr>
<td>SER02</td>
<td>7.175064</td>
<td>1.223477</td>
<td>5.864488</td>
<td>0.0042</td>
</tr>
</tbody>
</table>

R-squared          0.895812   Mean dependent var 735865.0
Adjusted R-squared 0.869765   S.D. dependent var 616562.8
S.E. of regression 222505.5   Akaike info criterion 27.72449
Sum squared resid  1.98E+11   Schwarz criterion 27.65508
Log likelihood     -81.17348   Hannan-Quinn criter. 27.44662
F-statistic        34.39222   Durbin-Watson stat 2.886471
Prob(F-statistic)  0.004221   

Correlation table

\[
\begin{array}{cc}
Y & X \\
Y & 1.000000 & 0.958962 \\
X & 0.958962 & 1.000000 \\
\end{array}
\]