European Journal of Accounting Auditing and Finance Research

Vol.2.No.1, pp.64-79, March 2014

Published by European Centre for Research Training and Development UK (www.ea-journals.org)

MERGER AND ACQUISITION AS CONSOLIDATION INSTRUMENTS FOR CORRECTING THE DEFICIENCIES IN THE BANKING SECTOR (A Case of United Bank for Africa Plc)

OLUWAREMI FEYITIMI

Department of Accounting, Banking & Finance, Osun State University, Osun State, Nigeria

Tel: +2348033995219

ABSTRACT: *Banks' recapitalization is based on a belief that gains can accrue through expense reduction, increased market power, reduced earnings volatility, and scale and scope economies. However, whether or not merger and acquisition scheme, widely employed by banks in Nigeria during the recapitalization exercise between 2004 and 2005, actually assist in realizing the expected gains is the basis of this research work. Thus, the hypothesis that bank merger and acquisition does not affect the banks' performance in Nigeria was tested. The Survey and content analysis method of data collection were adopted in this study. Analysis of the data, which were collected through a self-administrated questionnaire, was done using the simple percentage method, Chi-Square and goodness of fit at one per cent level of significance, while the secondary data were presented using tables and percentages. The results of the analyses showed that merger and acquisition improved banks' efficiency in Nigeria. Some of the recommendations made in this study are that: the emergence of threat posed by mega bank should be checked, priority should be given to the quality of management of banks, good credit policy should be put in place and reviewed regularly and a functional internal control system should be established in order to prevent the incidence of fraud and other anomalies in the banking system.*

KEYWORDS: Recapitalization, Earnings Volatility, Mega Banks, Take-Over Bid, Merger and Acquisition.

INTRODUCTION

The Nigerian banking industry has witnessed a dramatic transformation since the December 31st, 2005 deadline for bank recapitalisation. Overall, the banking sector has experienced steady consolidation through recapitalization, mergers and acquisitions that have resulted in fewer banks holding a greater value of the total assets in the sector (Okpanachi, 2011). Spearheaded by the announcement by the Central Bank of Nigeria on July 6, 2004 about a major reform program that would transform the banking landscape of the country, an unprecedented process of merger and acquisition had taken place in the Nigerian Banking Sector; shrinking the number of banks.

Immediately after the recapitalization deadline ended in December 31st, 2005, the number of operating banks in the country reduced from 89 banks to 25 banks but later reduced further to 23 with the merger of some banks like First Altantic Bank Plc and Inland Bank to form Fin Bank Plc, Stanbic Bank Plc and IBTC to form Stanbic-IBTC bank. The number of operating bank later increased to 24 banks with the entering of Citibank Nigeria Limited. With the recent merger and acquisition of some of the nine rescued banks i.e the merger of Access Bank Plc with Intercontinental Bank Plc; merger of Ecobank Transnational Incorporated with Oceanic Bank Plc; merger of First City Monumental Bank with Fin Bank Plc, the number of banks operating in Nigeria will be reduced further.

However, in August 2011, the CBN revoked the licenses of three of the rescued banks for failing to show ability to recapitalise ahead of the September 30, 2011 deadline, effectively nationalizing Bank PHB, Afribank and Spring Bank. The assets of these banks were transferred to three newly created, nationalised banks: Keystone Bank, Enterprise Bank and Mainstreet Bank. AMCON which took over the banks also injected N680 billion to recapitalise the banks. Unity Bank Plc, one of the bailed out banks has already recapitalised while Wema Bank Plc, the last of the rescued banks, has since scaled down operations to become a regional bank with emphasis in the south west region.

The waves of mergers and acquisitions that had taken place in the Nigerian banking industry raise an important question of whether bank consolidation enhances the financial sector's performance in Nigeria. Hosono et al (2007) argues that consolidation may increase or decrease the performance of a bank. Going by the unfolding events, the post-consolidation performance of all Nigerian banks was badly hit in 2009 by the global financial and economic crisis, which was precipitated in August 2007 by the collapse of the sub-prime lending market in the United States. Nonetheless, Lamido Sanusi (2010) attributed the post-consolidation challenges of Nigerian banking industry to the inability of the industry and the regulators to sustain and monitor the sector's explosive growth which as a result led to risk-build in the system.

Statement of the problem

The recent outbreak of bank mergers in Nigeria is attracting much attention, partly because of heightened interest in what motivates firms to merge and how mergers affect efficiency. However, there are often two distinct views to the rationale behind merger and acquisition. The first held view of mergers, especially those involving mega firms, is that firms are merging just to get bigger and not to get more efficient. Accompanying that notion is the fear that as merging firms grab greater market share, individual freedoms, competition and efficiency are threatened, because bigger is perceived as greater concentration of power.

The second view holds that firm's merge not just to get bigger but also to be more efficient in operations and outputs. It is claimed that mergers enable the banking industry to take advantage of new opportunities created by changes in the technological and regulatory environment. This study shall investigate these two contrasting views by examining the roles played by merger and acquisition in the recapitalization of banks that had taken place in the Nigerian banking sector on the efficiencies of a selected bank.

Objectives of the study

The purpose of this paper is to examine the efficacy of mergers and acquisitions in the Nigerian Banking sector. Thus, this study will also focus on the following micro objectives:

1. To critically evaluate the structural and brand implications of the merger and acquisition option in the post consolidation era.

2. To identify the motives behind corporate merger and acquisition.
3. To investigate the impact of merger and acquisition on bank efficiency.

Research questions

The study would examine the following questions:

1. What are the structural implications of bank merger and acquisition?
2. What are the motives behind bank merger and acquisition?
3. How do merger and acquisition impact on efficiency?

Statement of hypothesis

The hypothesis that would be tested in the course of this research is stated below as:

H_0: Bank merger and acquisition does not affect the banks' performance in Nigeria

H_1: Bank merger and acquisition affects the banks' performance in Nigeria

Scope of the study

Although, a number of bank mergers had taken place since the recapitalisation exercise, the merger between Standard Trust Bank and United Bank for Africa was the least expected and many were of the opinion that the merger was not to meet the December 31st, 2005 deadline of the Central Bank of Nigeria, but fuelled by the need to survive and be a major player in the post-consolidation era in Nigerian banking sector. In carrying out this research work, attention would be focused on the Nigerian Banking Industry with special reference to the merger between United bank for Africa (UBA) and Standard Trust Bank (STB). Besides, the field survey shall be conducted only in Lagos branches of the new United Bank for Africa (UBA) since this is the city where UBA has the largest number of its branches in the world.

LITERATURE REVIEW

Theoretical Perspective

When the term "merger" is being used, it is referring to the integration of two companies where one new company will continue to exist. The term "acquisition" refers to the acquisition of assets by one company from another company. In an acquisition, both companies may continue to exist. However, throughout this study mergers and acquisitions would be loosely referred to as a business transaction where one company acquires another company. The acquiring company will remain in business and the acquired company will be integrated into the acquiring company and thus, the acquired company ceases to exist after the merger as in the case of UBA-STB merger.

According to Okonkwo (2004), a merger (or an amalgamation) occurs when two or more companies transfer their businesses and assets to a new company (or to one of themselves) and in consideration, their members receive shares in the transferee company. He stated that an acquisition occurs when one company acquires sufficient shares in another company so as to give it control of that other company. He noted that an essential difference between a merger and an acquisition is that in a merger, there is no disinvestment of the shareholders of the amalgamating companies while the reverse is the case in an acquisition. Section 590 of the CAMA (repealed) defined "Merger" as "any amalgamation of the undertakings or any part of the undertakings or interests of two or more companies or the undertakings or part of the undertakings of one or more companies and one or more bodies corporate." In the opinion of Lynch (1997) he said that, mergers usually arise when neither company has the scale to acquire the other on its own weaker company; expansion can be created by entrepreneur that is already established through mergers agreement. He can merge with another company producing similar products to form a new strong identity that will be of a greater advantage to both. Gilligan, et al (2002) opined that a banking merger is just the same as the merger of any two companies, except that it involves banks. They noted that it will likely involve one of the following three basic structures: (a) the acquiring bank (the purchaser) acquires the shares of the target bank (the target); (b) the purchaser acquires the business (or part of the business) of the target; or (c) Bank A and Bank B enter into a joint venture or shareholders' agreement whereby Bank A and Bank B become shareholders in a new bank, Bank. They stated that the most significant point in banking mergers is that the banking activities of the participants will almost always be regulated because the institutions use the name "bank", take deposits or transmit money and so the transfer will need to be approved and any new entity licensed as a bank.

Empirical Studies

A large portion of the empirical work examining the benefits of mergers focuses on changes in cost efficiency using available accounting data. Berger and Humphrey (1992) examine mergers occurring in the 1980s that involved banking organizations with at least $1 billion in assets. The results of their paper are based on data aggregated to the holding company level, using frontier methodology and the relative industry rankings of banks participating in mergers. Frontier methodology involves econometrically estimating an efficient cost frontier for a cross-section of banks. For a given institution, the deviation between its actual costs and the minimum cost point on the frontier corresponding to an institution similar to the bank in question measures X-efficiency. The authors find that, on average, mergers led to no significant gains in X-efficiency. Berger and Humphrey also conclude that the amount of market overlap and the difference between acquirer and target X-efficiency did not affect post-merger efficiency gains. In addition to testing X-efficiency, they also analyze return on assets and total costs to assets and reach a similar conclusion: no average gains and no relation between gains and the relative performance of acquirers and targets. Non-interest costs yield significant results, but the findings are opposite of expectations that the operations of an inefficient target purchased by an efficient acquirer should be improved.

Somoye (2008) analysed the published audited accounts of twenty (20) out of twenty five (25) banks that emerged from the consolidation exercise and found that the consolidation programme has not improved the overall performances of banks significantly and also has contributed marginally to the growth of the real sector for sustainable development. Okpanachi (2011) conducted a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria using gross earnings, profit after tax and net assets of the selected banks as indices to determine financial efficiency by comparing the pre-mergers and acquisitions' indices with the post-mergers and acquisitions' indices for the period reviewed. The finding revealed that the post-mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period supports this view. Akhavein, et al (1997) analyse changes in profitability experienced in the same set of large mergers as examined by Berger and Humphrey. They find that banking organizations significantly improved their profit efficiency ranking after mergers. However, rankings based on more traditional ROA and ROE measures that exclude loan loss provisions and taxes from net income did not change significantly following consolidation. DeYoung (1993) also utilizes frontier methodology to examine cost efficiency and reaches similar conclusions as Berger and Humphrey. Cost benefits from mergers did not exist for 348 bank-level mergers taking place in 1986 and 1987. In addition to the lack of average efficiency gains, improvements were unrelated to the difference between acquirer and target efficiency. However, DeYoung does find that when both the acquirer and target were poor performers, mergers resulted in improved cost efficiency. In addition to frontier methodology, the literature contains several papers that solely employ standard corporate finance measures to analyze the effect of mergers on performance. For example, Srinivasan and Wall (1992) examine all commercial bank and bank holding company mergers occurring between 1982 and 1986. They find that mergers did not reduce non-interest expenses. Srinivasan (1992) reaches a similar conclusion. The work of Linder and Crane (1992) is also noteworthy. They analyze the operating performance of 47 bank-level intrastate mergers that took place in New England between 1982 and 1987. Of the 47 mergers in the sample, 25 were consolidations of bank subsidiaries owned by the same holding company. The authors aggregate acquirer and target data one year before the merger and compare it to performance one and two years after consolidation. The performance of merged banks is adjusted by the performance of all non-merging banks in the same state as the merging entities. The results indicate that mergers did not result in improved operating income, as measured by net interest income plus net non-interest income to assets. Several studies find evidence of merger gains, but the results of these studies need be scrutinized carefully. Spindt and Tarhan (1993) find gains in their sample of 192 commercial bank mergers completed in 1986. Non-parametric tests comparing the performance changes of merged banks with a group of matched pairs indicate that mergers led to operating improvements. The results, however, may be due primarily to economies of scale. The existing evidence in the literature suggests that scale economies do exist for institutions holding less than $100 million in assets. Turning to studies of stock market reactions to merger announcements, researchers also generally fail to find total gains from consolidation. Hannan and Wolken (1989) conduct a study of the value-weighted abnormal returns experienced in 43 deals announced between 1982 and 1987. The authors find that, on average, total shareholder value was not significantly affected by the announcement of the deal. The authors do, however, find that one determinant, target capitalization, cross-sectionally influenced expected synergistic gains. Target capital was negatively related to the change in total value. Houston and Ryngaert (1994) examine abnormal returns from four days before the target was initially declared a takeover candidate (by any bank) to the announcement day. In their sample of 153 mergers announced between 1985 and 1991, acquirers suffered a loss in value and targets enjoyed a gain. However, there was no significant aggregate effect on the overall value of the two organizations. The amount of value that was created was highest when acquirers were strong pre-merger performers and when substantial overlap existed. This relationship of value creation with the degree of overlap is consistent with the market expecting mergers best suited for improved efficiency and/or increased market power to experience the greatest level of post-merger benefits. Madura and Wiant (1994) study abnormal returns of acquirers over a lengthy period following the merger announcement. They find that average cumulative abnormal returns of acquirers in a sample of 152 deals taking place between 1983 and 1987 were negative during the 36-month period following the merger announcement. Moreover, abnormal returns were negative in nearly every month. Acquirer losses around the time of the announcement may reflect a loss of wealth from an overly generous acquisition price. Negative abnormal returns in months after the announcement , however, are not likely to be due to the price. They seem more attributable to either the merger achieving fewer benefits than projected, or the market revising downward its expectations for the merger. Recently, several papers incorporate both approaches in the literature. The first of these studies is conducted by Cornett and Tehranian (1992) and examines 30 large holding company mergers occurring between 1982 and 1987. The authors find that profitability, as measured by cash flow returns on the market value of assets, improved significantly after the merger. This finding, however, must be viewed closely for several reasons. First , the market value of assets may be an inappropriate measure for standardizing income. It is defined primarily from the liability side of the balance sheet as the market value of common stock plus the book value of long-term debt and preferred stock less cash. Given the nature of banks as financial intermediaries, it is unclear why deposits are not included in this liability-based definition. The appropriateness of subtracting cash holdings is also debatable. In summary, most studies fail to find a positive relationship between merger activity and gains in either performance or stockholder wealth. This conclusion of no economic benefits holds across a wide variety of methodologies, samples, and levels of analysis, (individual bank or bank holding company). Moreover, there appears to be no relationship between changes in value at announcement and subsequent outcomes.

Brand and Structural Implications of Nigerian Banks Merger

The consolidation process within the Nigerian financial sector had a number of effects and implications. These effects and implications can be broken into 2 broad categories as Brand implications and Structural implications

Brand Implications

Typically, differentiation in the financial sector is determined by financial might and capital base. However, with the consolidation, this differentiation factor gradually became commoditised. This is because more banks, such as Guaranty Trust and Zenith, will possess more financial might bringing them closer to the established banks (e.g. First bank). These series of acquisitions will also ensure that the gap in size (branch network is greatly reduced). In view of this, differentiation in the unfolding financial sector will be greatly impacted upon by the strength of a bank's brand within the market place, and not just the size of its balance sheet. The current situation in the market attests to this. Banks with strong brands (i.e. First bank, Guaranty Trust Bank and Zenith Bank) are attracting a lot of attention and may most likely serve as lead banks in the post-consolidation era. On the other hand, banks with weak brands faced an uphill task. They became devalued and were forced to merge or be acquired by stronger banks. The new entities that had risen from the dust of consolidation will need to deal with brand related issues, if they are to survive in the long term. Some of the most critical issues are as follows:

a) Change of name: The financial sector has witnessed a lot of name changes within the last few months. A number of names that we were familiar with have cease to exist. The name of an organisation is its primary token of identification in the marketplace. Thus, organisations resulting from the consolidation process were faced with two options: a. Adoption of the name of the organisation with the strongest brand name (this is often the case if the situation is an acquisition). b. Adoption of a new name (more common with mergers). Whatever approach taken, the introduction of the name of the new entity must have be done in such a way that the brand equity resident in the names of the organisations involved was not lost but leveraged adequately (because each of the names already has certain associations and implications). Careful consideration must have been given to what the association's new name would evoke in the market. Therefore, it is important that a strategic approach had been applied in the development of the name because of its importance to the brand.

b) Change of logo: In addition to name changes, a number of new logos have been unveiled as the mergers & acquisitions spree lasted. The word logo is derived from the Greek word 'Logos'. The logo of an organisation is its graphical mark of identity in the market. It is therefore important to ensure that like the name, the logo for the entity resulting from a merger or acquisition scenario takes into consideration the brand equity resident in the constituent organisations. Such equity may be in the form of colours or symbols. For example, oil giant, British Petroleum (BP Plc) wanted to revamp its brand after its merger with Amoco in 1998 and the further acquisition of two other oil companies, Arco and Castrol in 1999 & 2000 respectively. It settled for the strongest name in the group of companies i.e. BP. It also maintained BP's colour palette of green and yellow as the corporate colour because it was considered a brand asset and unique in the petroleum sector. Another example is the merger between Citibank and Traveller's Group. The merged firm was named Citigroup. Although Citibank was the smaller of the two, it was the stronger brand. Citigroup incorporated Citibank's corporate colour - blue and a key element of the Traveller's group logo - the red umbrella - into the Citigroup logo. On the other hand, France Telecom's departed from its staid logo and symbols because it wanted to communicate an entirely new concept as it metamorphosed from a state-owned monopoly into a free market competitor. The new logo, an ampersand, symbolised the "bringing together of people and the decision by the company to never go out of style." The merger between UBA and STB has retained the name UBA because of its strong identity over the years while the logo of STB has been adopted as a symbol of innovation and customer focus services for which the bank was known for. In the same vein, some of the other consolidated entities in the banking sector also signified an entirely new concepts and strategic direction through the change of their logos. The design of a logo for an organisation is not primarily a design function but a strategic function. Also, as a result of the new logo, it will be necessary to redesign the corporate function and visual identity materials (letterheads, business cards, identity cards, account opening booklets, cheque books, websites, etc) for the new entity.

c) Brand culture: Perhaps the most important determinant in the progression of the new banks that have emerged from the merger and acquisition process is how well the culture of the various constituent banks can be melded into one unique cultural system. If this is not properly done, the resulting banks will experience cultural clashes among employees. Every organisation has its own distinct way of life and its own way of doing things; this is what culture is all about. It is like an invisible hand that guides the thoughts and actions of employees. If a unique culture is not developed for the new brand, then the battle is over before it begins. It is interesting to note that in most of the mergers that had been witnessed in the Nigerian financial sector; the focus had been on meeting the required minimum capitalization and not the organizational culture. The resulting entity will only progress as far as critical brand issues like culture have been resolved.

d) Brand message: At the end of the merger or acquisition process, a critical brand issue that will arise is "what message will the new entity put out into the market?" It is a safe assumption that each of the institutions that make up the new entity touted a particular message. But now that they are one, what should they be saying? It is critical that the organisation presents a clear and consistent message. This message will determine what the brand will become known for over time. An effective brand message must find its basis in the essence of the brand.

e) Communication: A major consequence of the consolidation of the banking sector will be an increased effort by banks to propagate themselves within the market place. For this to be effective, it must be based on more than just a need to put out information on the new entity. It must be a strategic initiative that communicates the essence of the brand and its strengths and competencies (both quantitative and qualitative). Communication issues are critical and must be tackled properly, or else all the organisations will begin to sound alike.

Structural Implications

In addition to the aforementioned brand expectations, the current consolidation of the banking sector will leave in its wake a number of structural issues. These are issues that have direct impact on staff, customers and the structure of the entire banking sector.

1. Reduced number of banks: One of the major expectations of CBN and a definite outcome of the consolidation within the financial sector and which has been achieved is the reduction of the number of banks within the sector from the 94 to 22 banks as at October 1st 2011. A similar situation occurred in the consolidation of the Malaysian banking sector in the early 90s, where the number of banks reduced to 10 banking groups from 54 local banks.

2. Increased competition: The entities resulting from the consolidation of the Nigerian financial sector are now bigger (in terms of size, capability and financial might) and thus, be able to compete more aggressively in the market. Also, because the number of banks has been drastically reduced, more opportunities may be available to the evolved banking groups.

3. Emergence of the Princes (New contenders): Taking a lead from the above, in addition to increased competitiveness within the sector, the rule of the established banks may be coming to an end and new contenders may arise. Front runners for the crown are Guaranty Trust Bank and Zenith Bank. Each of these banks has been able to acquire billions of Naira through IPOs and public offers. Consider that Guaranty Trust Bank currently has a capitalisation of N34b against First bank's N99b, while Zenith has N90b. When the dust from the spate of mergers settles, additional contenders may yet emerge.

4. Acquisition digestion issues: In a merger scenario, a critical issue is how the constituent organisations integrate their operations and processes. The need to integrate operations effectively will lead to the following: a. Loss of jobs: This will occur from the middle level to executive level due to overlaps and duplication of functions within the system. b. Consolidation of branch locations: In a situation where the resulting entity possesses more than one branch in a particular location, these branches may be coalesced into a singular entity. This will help reduce cost overheads and duplication of functions. That is unless the banks want to use the clustering scenario favoured by Starbucks, Zenith Bank and The Redeemed Christian Church of God. c. Tackling of inefficiencies and bureaucracies: Size creates a certain level of inefficiency and bureaucracy within systems. The new banks will be combinations of three or more banks. Therefore issues of inefficiencies must be tackled.

RESEARCH METHODOLOGY

Sources of data collection.

Both primary and secondary data will be used in the course of this study. The primary data will be collected via survey method, which will make use of a well-structured questionnaire that will be used to gather the opinions of bankers on the consolidation process in Nigerian banking sector. The secondary data for this study will be obtained from the Annual reports and financial statements of United Bank for Africa (UBA) and publications of Central Bank of Nigeria and Bureau of Statistics.

Population of study

The population of this research work would be on all Nigerian Banks that are quoted on the floor of the Nigeria Stock Exchange. Before the announcement of the =N25 Billion recapitalization requirement by the Central Bank of Nigeria in July 2004, there were 89 banks operating in the country. After the recapitalisation exercise, unprecedented process of merger and acquisition that had taken place in the Nigerian banking sector has shrunk the number of banks to 22 banks or banking groups as at October 1st 2011.

Sampling design

Although twenty-four banks emerged after the December 31st, 2005 deadline of the Central Bank, the analysis of the effectiveness of merger and acquisition that had taken place in the banking sub-sector shall be focused on the merger between United Bank for Africa (UBA) and Standard Trust Bank (STB). Despite the fact that the sampling was done randomly where every member of the population were given an equal chance of being selected, the UBA/STB merger was selected because it was the first merger to be given CBN pre-merger consent and it was least expected and as such deserves attention.

Data analysis

The data, which will be collected from the questionnaire, will be analysed using the simple percentage method and chi-square, goodness of fit. The simple percentages will be calculated by dividing the total number of questions answered by the total number of questions and then multiply by 100. The chi-square method will be calculated thus:

$$X^2 = \frac{(O - E)^2}{E}$$

Where X^2 - Chi-square
O - Observed frequencies
E - Expected frequencies

Data presentation and analysis

Chi-square statistical technique was used to test the existence of relationships predicted in the hypothesis. The testing shall be done at one per cent level of significance. Fifty respondents were involved in the execution of the questionnaires. Male respondents represent 34% of the total respondents, while 66% is for female. This explains the simple fact that higher percentages of workers in the banking sector in Nigeria are females. Furthermore, **the** majority of the respondents had University degree i.e 52% followed by Higher National Diploma (HND) holders

36%; then M.sc. and PhD. holders are 10%, OND holders are 2%, while there were no secondary school certificate holders in the respondents. In Nigeria, banks prefer to employ the university graduates to any other applicants. The debate on the preference of banks for university graduates over polytechnic graduates has been on for sometimes now without any significant progress made so far. Also, the majority of the respondents are qualified members of Institute of Chartered Accountants of Nigeria i.e 44%, while 38% of the respondents are professional bankers. 12% of the respondents are MBA holders while those that are certified auditors and Information system analysts are 4% and 2% respectively. The result shows that mostly of the workers in the Nigerian banking industry are professionals and as such one would expect quality service and information from them. The prevailing stiff competition and nature of the business could be cited as being responsible for the high level of professionalism that is on display in the industry. Going by the length of service of the respondents, half of the respondents have spent between 5 and 10years in the industry while 25% of the respondents have spent between 2 and 5 years and those that have spent below 2years are 22%. It is evident here that good numbers of the respondents are experienced staff in the industry.

TEST OF HYPOTHESIS

The hypothesis that would be tested is stated below as:

H_0: That bank merger and acquisition does not improve banks' efficiency in Nigeria

H_1: That bank merger and acquisition improves banks' efficiency in Nigeria

Table showing the responses of respondents on the questions that are related to the hypothesis.

No.	Questions	No. of Respondents	Yes	No	Don't Know
1.	Has the consolidation process impacted on your bank's performance?	50	48	1	1
2.	Did the merger and acquisition affect the bank's efficiency?	50	47	3	0
3.	Do you think bank merger and acquisition improves customer service delivery in your bank?	50	12	35	3

Source: Field Survey 2013

Using the chi-square (X^2) test, we can now test the hypothesis

QUESTIONS	Q1	Q2	Q3	TOTAL
YES	48(e11)	47(e12)	12(e13)	107
NO	1(e21)	3(e22)	35(e23)	39
DON'T KNOW	1(e31)	0(e32)	3(e33)	4
TOTAL	50	50	50	150

H_0 : $X^2 = 0$
H_a : $X^2 \neq 0$
Level of significance (X) = 1% = 0.01
Degree of freedom (d.f.)(r-1)(c-1) = (3-1)(3-1).
= 2 x 2 = 4

From the table 0.01 d.f. 4 = 13.28

$e11 = \frac{107 \times 50}{150} = \frac{5350}{150} = 35.67$

$e12 = \frac{107 \times 50}{150} = \frac{5350}{150} = 35.67$

$e13 = \frac{107 \times 50}{150} = \frac{5350}{150} = 35.67$

$e21 = \frac{39 \times 50}{150} = \frac{1950}{150} = 13$

$e22 = \frac{39 \times 50}{150} = \frac{1950}{150} = 13$

$e23 = \frac{39 \times 50}{150} = \frac{1950}{150} = 13$

$e31 = \frac{4 \times 50}{150} = \frac{200}{150} = 1.33$

$e32 = \frac{4 \times 50}{150} = \frac{200}{150} = 1.33$

$e33 = \frac{4 \times 50}{150} = \frac{200}{150} = 1.33$

Oi	**Ei**	**Oi - Ei**	**$(Oi – Ei)^2$**	**$(Oi - Ei)^2/Ei$**
48	35.67	12.33	152.028	4.262
47	35.67	11.33	128.368	3.598
12	35.67	-23.67	560.268	15.706
1	13	-12	144	11.076
3	13	-10	100	7.692
35	13	22	484	37.230
1	1.33	-0.33	0.108	0.081
0	1.33	-1.33	1.768	1.329
3	1.33	1.67	2.788	2.096
				83.07

$X^2c = \frac{(Oi – Ei)^2}{Ei} = 83.07$

X^2t = 0.01 d.f. 4 = 13.28
$X^2c > X^2t$ (83.07 > 13.28); So reject H_0

Interpretation of result

The result obtained from the chi-square (X^2) test shows that chi-square calculated is greater than chi-square tabulated therefore we shall reject the null hypothesis and accept the alternative hypothesis. This implies that bank merger and acquisition improves banks' efficiency in Nigeria. A look at the responses to the questions that relate to the hypothesis would further reveal that bank merger and acquisition has improved the efficiency of the banks. Improvement of bank efficiency was one of the reasons given by the Central Bank of Nigeria for embarking on the consolidation process. For some Nigerian banks to have begun to improve their efficiency, it shows that the exercise has begun to yield the desired fruits. It is hoped that more benefits would be reaped from the bank merger and acquisition in the future.

4.2 Post-merger financial performance of United Bank for Africa (UBA)

INDICATORS	**2010 =N'm**	**2009 =N'm**	**2008 =N'm**	**2007 =N'm**	**2006 =N'm**
1. Net Operating income	113,996	165,547	114,530	74,575	61,200
Net Operating income growth (%)	-31.13	44.54	53.57	21.85	177.97
2. Profit attributable to Shareholders	2,167	12,889	40,002	19,831	11,468
Profit attributable to Shareholders growth (%)	-83.18	-67.77	101.71	72.92	146.46
3. Earnings per share – kobo	8	60	305	241	186
Earnings per share growth (%)	-86.66	-80.32	26.55	29.56	-25.3
4. Dividend per share	0.10	0.75	0.25	1.20	1.00
Dividend per share growth (%)	-86.66	200	-79.16	20	66.66

Source: Extract from United Bank for Africa Plc's Annual Reports and Accounts of various years.

Table above presents the key financial performance indicators of United Bank for Africa Plc after its merger with Standard Trust Bank in 2005. A close study of the growth rate of the indicators reveals that overall performance of the bank has been improving since the merger took place. However, there were some disappointing years. For instance, the earnings per share fell in 2006, immediately after the consolidation exercise. This may be as a result of substantial increase in the number of shareholders of the bank due to its recapitalisation. In 2008, the dividend per share also fell by about 79%. A striking observation made in the summarised financial performance indicators in the table above is that all the financial indicators fell in 2009 with the exception of net operating income and dividend per share which increased by 44% and 200% respectively. The reason for this poor performance could not be too far from the global financial and economic crisis, which was precipitated in August 2007 by the collapse of the sub-prime lending market in the United States. Even the increase in the dividend per share in 2009 was a deliberate action of the management to compensate the shareholders.

SUMMARY OF FINDINGS

The major findings of the study are:

i. The result of the hypothesis tested and subsequent analysis of financial data indicated that merger and acquisition had improved banks' efficiency in Nigeria. The key financial performance indicators also revealed that the overall performance of the bank has been improving since its merger with Standard Trust Bank. This shows the bank consolidation program was a great success by this standard.

ii. It was also found that the bank merger could be the lasting solution to the problem of bank distress in Nigeria. Majority of the respondents opined agreed that bank merger would reduce the incidence of bank distress in Nigeria. So, one could reliably say that the dark days of bank distress and failure is over.

iii. On the issue of sustainability of the gains of the bank merger, it was gathered that there is need for strict monitoring of the banks even after the consolidation exercise by the relevant regulatory authorities.

iv. Furthermore, it was noted that the bank merger has not profited the Small and Medium scale enterprises. The data analysis revealed that the Small and Medium Scale Enterprises financing has not been increased by the banks that survived the consolidation process. Although, there are indications that this may increase later, there is need for the Central Bank of Nigeria (the Apex Bank) to intervene and do something about the development.

v. Lastly, the analysis revealed that the threat of uncontrollable mega banks is the greatest threat to bank merger. As such the Central Bank and other relevant regulatory authorities must design measures to ensure that these banks do not hold the entire economy to ransom.

CONCLUSION AND RECOMMENDATIONS

Experience from the developed economies has shown that the development of a sound financial system requires the collaborative efforts of the government, the monetary authorities, the operators in the industry and the general public. Macroeconomic stability is required for the financial system to evolve and play its expected roles. Furthermore, the monetary authorities must improve their supervisory capacity and pursue policies that would enhance the safety, soundness and efficiency of the financial services industry. It was in the light of the above that the banking system reform program was introduced and pursued with vigor in Nigeria. It is gladdening that despite the initial criticisms and fears that greeted the introduction of the program, there is now tremendous support both locally and internationally. Nonetheless, the pains and strains the policy has imposed on banks, it is hoped that the mega or stronger institutions that have emerged would ensure the installation of sound corporate governance and effective risk management systems among the banks. These would ensure that the financial institutions in Nigeria are healthy, stronger and globally competitive to play developmental roles in the economy and reinforce the confidence of all stakeholders in the banking system.

In order to ensure that dividend of bank consolidation, which manifested in form of merger and acquisition, is fully realized in the industry and economy at large the following recommendation are pertinent:

i) Control of threats of mega banks - The post consolidation mega institutions, would perhaps pose the greatest challenge in the areas of corporate governance, supervision, ICT integration, and so on. The Central bank should immediately put in place, a regulatory framework that would guarantee the best practice in the board and top management of banks. The framework, which should cover the roles of and relationship between board and management, separate responsibilities of the Chairman and Chief Executive Officer as well as the composition and roles of relevant board committees would need to be enforced faithfully to avoid a major crack in a mega bank which might result in a systemic distress.

ii) Quality of board and management- The board of directors constitutes the highest policy making organ of a bank and what happens at the board level impacts fundamentally on the operations and performance of the bank. There is no doubt that the appointment of credible and informed people to the board of a bank is a step towards preventing distress. The directors so appointed must live above board, avoid insider abuse and take sound policy decisions for their banks to stay afloat in the face of economic storm. Prior to approving appointment of directors, the CBN should critically assess their past records, level of integrity and background to prevent running down such banks when they come on board.

iii) Good credit policy- The risk of bad loan constitutes the greatest threat to the existence of a banking institution. To avoid bad loan situation the Central bank and banks' management should develop a clear and applicable credit policies as well as operating manuals. A good credit policy will address issues concerning risk acceptance criteria, loan approval limits, collateral securities, loan reviews and machinery of debt recovery. The policy should be reviewed from time to time in order to match the ruling realities.

iv) Liquidity management competence- High competence level in the liquidity management function is key in supporting bank consolidation. Liquidity management refers to day-to-day decisions and actions on funds of a bank such that funds are not unnecessarily tied down and yet there is adequate fund to pay maturing obligations. It therefore goes to say that liquidity management is a sensitive issue, which every bank must take seriously. If the bank does not honour such order for reason of lack of cash, a signal is registered in mind of the customer that there is a problem. If such problem persists, the customer is already made to conclude that the bank is distress and may cause serious panic that would affect other sectors.

v) Internal control and fraud management- Internal controls have been defined in terms of "systems and procedures established in order to provide reasonable assurance of effective and efficient operations, reliable financial information, reporting and compliance with laws and regulations" (Oloyede 1999). The essential purpose is to safeguard the financial integrity of the firm and protection against fraud. The need for internal control is most pronounced in the banking industry. According to Oloyede, (1999), experience has shown that lack of sound internal control or circumvention of it contributes to bank failure. In order to avoid distress therefore, a bank must establish a functional internal control system, which must be followed in carrying out transactions. Exercising discipline in this area by management will not only prevent costly errors but also prevent frauds to a high degree.

vi) Concentration on core business activities- An ex-Central Bank of Nigeria governor, Prof. Charles Soludo noted that most banks significantly deviate from their core businesses into areas of operation they were not equipped for. There were cases of banks that engaged in direct trading activities including import and export thus, many lost depositors' money in the process. Operators in the banking industry should be compelled to concentrate efforts and resources on the core banking activities. More attention should paid to developing new products as means of beating competition without necessarily delving into areas of business for which they are ill-prepared.

REFERENCES

Akhavein, J.; Berger, A. and Humphrey, D. (1997) "The Effects of Megamergers on Efficiency and Prices: Evidence from a Bank Profit Function". *Review of Industrial Organization*, Vol. 12.

Berger, A.; Hancock, D. and Humphrey, D. (1993) "Bank Efficiency Derived from the Profit Function". *Journal of Banking and Finance*, Vol. 17, pp. 317-47.

Berger, A. and Humphrey, D. (1994) "Bank Scale Economies, Mergers Concentration and Efficiency: The U.S. Experience". *Wharton Financial Institutions Center, University of Pennsylvania Working Paper*, pp. 94-25.

Berger, A. and Humphrey, D. (1991) "The Dominance of Inefficiencies over Scale and Product Mix Economies in Banking". *Journal of Monetary Economics*, Vol. 28, pp. 117-48.

Berger, A. and Humphrey, D. (1992) "Megamergers in Banking and the Use of Cost Efficiency as an Antitrust Defense". *The Antitrust Bulletin*, Vol. 37, pp. 541-600.

Berger, A.; Hunter, W. C. and Timme, S. G. (1993) "The Efficiency of Financial Institutions: A Review and Preview of Research Past, Present and Future". *Journal of Banking and Finance*, Vol. 17, pp. 221-249.

Central Bank of Nigeria (2006), Press Release, January. Abuja.

Cornett, M. M. and Tehranian, H. (1992) "Changes in Corporate Performance Associated with Bank Acquisitions". *Journal of Financial Economics*, Vol. 31, pp.211-234.

DeYoung, R. (1993) "Determinants of Cost Efficiences in Bank Mergers". Office of the Comptroller of the Currency Working Paper, No. 93-1.

Gilligan, P.; Banks, J. and Timblick, A. (2002) "Bank mergers and restructuring in Asia". Lovells (www.lovells.com), June.

Houston, J. F. and Ryngaert, M. D. (1994) "The Overall Gaining from Large Bank Mergers". *Journal of Banking and Finance*, Vol. 18, p.1155-1176.

Linder, J. C. and Crane, D. B. (1992) "Bank Mergers: Integration and Profitability". *Journal of Financial Services Research*, Vol. 7, pp.35-55.

Madura, J. and Wiant, K. J. (1994) "Long-Term Valuation Effects of Bank Acquisitions". *Journal of Banking and Finance*, Vol. 18, pp. 1135-1154.

Oloyede, A. (1994) "Banking regulation in Nigeria: an analytical perspective". *Central Bank of Nigeria Economic and Financial Review*, Vol. 32, No. 3, pp. 279-291.

Okonkwo, C. O. (2004) Legal Framework for Mergers and Acquisitions. A paper present at the retreat on Mergers and Acquisitions in the Nigerian Banking Industry organised by Central Bank of Nigeria and West African Institute for Financial and Economic Management (WAIFEM), September, Abuja.

Okpanachi, J. (2011) "Comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria". *Journal of Accounting and Taxation*, Vol. 3, No. 1, pp. 1-7.

Pilloff, S. J. (1996) "Performance Changes and Shareholder Wealth Creation Associated with Mergers of Publicly Traded Banking Institutions". *Journal of Money, Credit and Banking*, Vol. 28, pp. 294-310.

Rhoades, S. A (1993) The Efficiency Effects of Bank Mergers: Rationale for Case Study Approach and Preliminary Findings. Proceedings of a Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago.

Sanusi, J. O. (1994) "Supervision of banking industry in Nigeria – an operator's viewpoint". *Central Bank of Nigeria Economic and Financial Review*, Vol. 32, No. 3, pp. 337-343.

Sanusi, L. S. (2010) Consolidating the gains of The Banking Sector Reforms. Being a lecture delivered to The Sylvester Monye Foundation, Asaba, Delta State, on July 9.

Saunders, A. and Ingo, W. (1994) *Universal Banking For the US*. Oxford University Press.

Soludo, C. C. (2004) Consolidating the Nigerian Banking Industry to meet the development challenges of the 21st Century. Being an address delivered to the special meeting of the bankers' committee, held on July 6, at the CBN headquarter, Abuja.

Somoye, R.O.C. (2008) "The Performances of Commercial Banks in Post-Consolidation Period in Nigeria: An Empirical Review". *European Journal of Economics, Finance and Administrative Sciences*, Issue 14.

Spindt, Paul A. and Vefa Tarham (1993), "The Impact of Mergers on Bank Operating Performance", Working Paper, Tulane University, 1993.

Srinivasan, A. (1992) "Are There Cost Savings from Bank Mergers?" *Federal Reserve Bank of Atlanta Economic Review*, pp. 17-28.

Srinivasan, A. and Wall, L. D. (1992) "Cost Savings Associated with Bank Mergers", *Federal Reserve Bank of Atlanta Working Paper*, No. 92-2.