Effect of Mergers and Acquisition on Financial Performance: Evidence from Nigeria's Banking Sector Consolidation

Ofeimun O. Godwin
Department of Banking and Finance,
College of Business and Management Studies,
Igbinedion University, Okada
Edo State, Nigeria.

Otuya Sunday
Department of Accounting,
Faculty of Humanities Social and Management Sciences,
Edwin Clark University, Kiagbodo
Delta State, Nigeria
Corresponding author: otuya.sunday@gmail.com
ORCID ID: 0000-0002-3987-2442

Olarewanju M. Muhammed
Department of Banking and Finance,
College of Business and Management Studies,
Igbinedion University, Okada
Edo State, Nigeria.

Oluwafemi Onome Philo
Department of Business Administration
Faculty of Management Sciences,
Delta State University, Abraka
Corresponding Author's Name: Sunday Otuya
Email address: otuya.sunday@gmail.com
DOI: 10.56201/ijbfr.v10.no8.2024.pg21.33

Abstract

Bank consolidation has been a common occurrence which is usually aimed at addressing problems of capital adequacy, liquidity, earnings, and poor management. However, in spite of a number of mergers executed, the problems of recapitalization, non-performing loans and management inefficiency still persist. To this end, this study's main goal is to investigate how mergers and acquisitions affect Nigeria's commercial banks' financial performance. Specifically, the study sought to examine whether the capital adequacy, assets quality, managerial efficiency, earnings quality, and liquidity of Nigeria's commercial banks had changed significantly after mergers. The study adopted the quantitative research design. The secondary data used in this study was taken from the annual reports of the chosen banks throughout the course of eight (8) years, 2008 to 2015 for pilot 1 and 2015 to 2022 for pilot 2 based on M&A periods. The degree to which

these indicators' performances changed between the pre- and post-M&A periods was ascertained using the independent sample t-test. The study found a significant positive change in the capital adequacy, managerial efficiency, earning quality, and liquidity position of the merged commercial banks post-merger and no significant change in asset quality of the merged banks post-merger. In conclusion, the study found that mergers and acquisition has a significant positive influence on financial performance of commercial banks in Nigeria, and recommends amongst others that banks should take the post-merger earnings capacity into consideration when executing mergers.

Keywords: *Mergers & Acquisition, Performance, Consolidation, Capital Adequacy, Asset Quality, Earnings Quality, Liquidity.*

JEL Classification: G21; G32; G34

Introduction

Globalisation, economic liberalisation, and technological advancement have all had a significant impact on the banking industry. In order to stay profitable and efficient in the face of rapid environmental change, the banking industry is turning to corporate restructuring, strengthening, and consolidation. The notable growth of Nigeria's banking sector in recent times is evidenced by the growth of banks and bank branches, total deposits, total investments, total loans and advances, and industry profitability. Kazeem et al. (2022) claim that the industry is trending towards high complexity as a result of globalisation. In addition to this intricacy, a number of other issues have been hindering the effectiveness of the banking industry. Distress and ongoing illiquidity are the two key ones. Thus, financial institutions enter into mergers and acquisitions to achieve a variety of goals, including growing operational synergies, gaining market share, or improving efficiency.

It has been established that using mergers and acquisitions as a corporate restructuring exercise can yield a number of financial and economic advantages, including economies of scale, risk diversification, and the capacity to compete with other banks both domestically and globally (Yusuf & Akinsanya, 2017). The Nigerian Deposit Insurance Corporation (NDIC, 2023) also listed a few specific justifications for bank consolidation, which include: (a) to put an end to the industry's ongoing periods of distress; (b) to help the industry become more transparent and competitive; (c) to help the industry fulfil its developmental role in the economy; (d) to fortify the industry's ability to play an active role in the regional and international financial system; and (e) to increase public trust in the banking sector.

Extant literature about with studies on mergers and acquisitions' in the Nigeria's banking sector. However, a recent wave of mergers and acquisitions executed in Nigeria's banking sector has raised the question of whether these M&A transactions improve the performance of the country's banking sector. According to most research (Boloupremo & Ogege, 2019; Kazeem et al., 2022; Okoye et al., 2016; Osifalujo & Olufemi, 2020; Yusuf & Akinsanya, 2017), mergers and acquisitions helped Nigeria's deposit money banks operate better. Therefore, the argument is that issues appear to have lingered after the sector's mergers and acquisitions, and banks have continued to merge and acquire one another.

The performance of Nigeria's banking industry cannot be deemed to be at its best, despite the "successful" implementation of mergers and acquisition programmes. This is because certain unions formed through mergers and acquisitions have not been effective, prompting the Central Bank of Nigeria to step in. With this context in mind, the goal of this study is to determine whether or not the exercise significantly altered the banking sector's performance between the pre and post-merger and acquisition eras in Nigeria.

Aim and Objectives of the Study

The broad aim of this study is to examine the effect of merger and acquisition on financial performance of listed commercial banks in Nigeria. The specific objectives are to:

i. determine whether the capital adequacy of Nigeria's listed commercial banks had changed significantly post-merger;
ii. examine whether the asset quality of Nigeria's listed commercial banks had changed significantly post-merger;
iii. determine whether the management efficiency of Nigeria's listed commercial banks had changed significantly post-merger;
iv. ascertain whether the earning quality of Nigeria’s listed commercial banks had changed significantly post-merger; and
v. investigate whether the liquidity position of Nigeria’s listed commercial banks had changed significantly post-merger.

Research Hypotheses

From the objectives of this study, the following hypotheses are formulated and stated in null form:

H_{01}: There is no significant change in the capital adequacy of the merged banks pre and post-merger.

H_{02}: There is no significant change in the asset quality of the merged banks pre and post-merger.

H_{03}: There is no significant change in the management efficiency of the merged banks pre and post-merger.

H_{04}: There is no significant change in the earning quality of the merged banks pre and post-merger.

H_{05}: There is no significant change in the liquidity position of the merged banks pre and post-merger.

Literature Review

Bank Performance

Jeon and Miller (2006) define bank performance as the output and profitability of a bank. Performance may also be related to a company's profitability, current valuation, or changes in share price. The five elements that make up the CAMEL model—capital adequacy, asset quality, management, earning quality, and liquidity—are used to assess the financial performance of banks. Agarwal et al. (2020) define bank performance using the CAMEL approach. These factors are ranked by the model based on how much of an impact they have on financial performance. The

minimum amount of a bank's capital reserve is measured by capital adequacy. It measures the management efficiency factor to gauge how well the bank's management team can recognize and respond to financial stress, and it uses the asset factor to evaluate the quality of the bank's assets. Additionally, it measures the bank's interest rate and liquidity risk using the liquid assets component and evaluates the bank's long-term survival using the earnings quality factor (Borodin, et al., 2020). This study makes use of the capital adequacy, asset quality, management efficiency, earning quality, and liquidity position of the banks as CAMEL approach components.

Mergers and Acquisition

In international business, the phrases "merger" and "acquisition" are commonly employed as a means of achieving firm expansion and survival. Eunike and Erlina (2024) describe a merger as the "combining of all the business, loans, liabilities, and assets of two or more companies in such a way that only one of them remains." The process through which one business successfully takes control of another's resources or management is known as acquisition (Agarwal et al., 2020). It can also refer to the process of buying out a company's main shareholders.

Acquisitions and mergers have several advantages. The lowest cost of capital arises when two enterprises combine to become one, according to Athma and Bhavani (2017). The combined company's size will make reasonable diversification with the goal of risk mitigation possible. A big corporation is created when two enterprises combine to become one. This bigger business will have monopoly power because big businesses have greater market influence than small businesses. In large-scale production as opposed to small-scale production, unit costs could be cheaper. Since the merger of the two businesses can eliminate competition, sales will increase. Acquisitions and mergers might also have certain drawbacks. When two businesses combine to form a larger company, there will inevitably be a personnel issue as a result of the merger. The challenge of integration stems from the reality that mergers and acquisitions do not end with agreement; instead, the combined business must be structured to function well and maximize profitability. Although it is not always simple since one party must give up something, the terms of the agreement must be established (Sahni & Gambhir, 2018).

Theoretical Framework: Value Increasing Theory

This study is anchored on the value increasing theory. According to the value increasing scale, mergers occur, broadly, because mergers generate “synergies‟ between the acquirer and the target, and synergies, in turn, increase 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 and synergies would be more achievable if the companies involved are engaged in related lines of business. The synergy concept suggests that advantages are created when economies of scale and speed are combined with administrative co-ordination.

Empirical Review

Empirical review on the effect of M&A on corporate performance has yielded mixed results. In a study by Roy (2024), financial synergy estimates are performed using fifty-five potential merger instances from eleven banks, encompassing government, non-government, and speciality banks, using an average of five years' worth of financial data. To address the research topics, the

technique makes use of simulation, sensitivity analysis, trend analysis, scenario analysis, Ordinary Least Squares (OLS), and Mixed Effect Generalised Linear Model (MEGLM). The findings show that among the six examples the central bank put forth, mergers between BKB and RAKUB, EXIM and Padma, NBL, and UCB can produce favourable financial synergy. The findings also demonstrate that the financial synergy is highly impacted by financial parameters such as debt to capital, reinvestment rate, return on capital, cost of debt, and revenues.

Comparing the pre- and post-M&A financial performance of non-financial companies listed on the Indonesia Stock Exchange (IDX) was the goal of the Eunike and Erlina (2024) study. Economic value added (EVA), market value added (MVA), and financial ratios were used to assess performance. A selective sample of 22 enterprises was used, and secondary data from financial statements was evaluated. Simultaneous testing findings revealed no discernible variation in financial performance between pre- and post-M&A. Partial test findings, however, revealed that MVA factors differed significantly in the year of M&A, as well as in the two years prior to, one and two years following, and two years following M&A. Furthermore, there are notable variations in the ROA variable for the two years prior to, one year following, and two years following M&A. M&A, however, typically has a negative impact on the MVA and ROA variables.

Chakraborty and Kattuman (2023) used difference-in-differences and propensity score matching approaches to examine the impact of mergers on firm performance in the post-TRIPS period, contrasting the combined companies with the separate companies. According to their findings, company performance in merged enterprises increased after the mergers. Kazeem et al. (2022) looked at the impact of bank mergers and acquisitions on Nigeria's economic growth both before and after merger sessions in another empirical study. The results also showed that the Pre-M&A era and Post-M&A era were at odds with each other, with the exception of the credit given to the private sector, which showed an unexpected and negligible link with economic growth. In a similar study, Haakantu and Phiri (2022) sought to determine how mergers and acquisitions affected Zambia's commercial banks' financial performance. Following the analysis, the financial performance metrics yielded inconsistent findings. The analysis of the liquidity and profitability parameters revealed no discernible change in the company's financial performance. With a p-value of 0.014, the efficiency ratio demonstrated improvement, but the leverage ratios produced inconsistent findings.

By utilising a sample of 138 M&A deals completed in these two locations between 2014 and 2018, Borodin et al. (2020) additionally investigated the impact of M&A transactions on the financial performance of US and European enterprises. The return on sales (ROS) and characteristics including the equity-to-enterprise value ratio were correlated, according to the study. Additionally, the study looked at how the financial crisis and M&A parties' industry-relatedness affected the combined company's performance. The majority of the companies under study, both in the United States and Europe, were profitable and stayed that way even after mergers and acquisitions. Notwithstanding the positive results observed for the variables under investigation, the examination of sample average values reveals a noteworthy decline in ROS in both regions. Concurrently, the EBIT/Total Revenue ratio changed by an average of –6.8% in the USA and –5.3% in the European Union.

Osifalujo and Olufemi (2020) also looked into the effects of mergers and acquisitions on the performance of Nigeria's deposit money banks; their findings showed that Access Bank Plc performed better than other banks during both the pre- and post-merger periods; capital structure has a significant effect on Access Bank Plc's profit after taxes in the post-merger and acquisition period, while asset profile and total deposit have no discernible effect on the bank's profit after taxes in Nigeria; additionally, Access Bank Plc's earnings after taxes was not significantly impacted by asset profile or total deposit in the capital structure prior to the merger and acquisition. Overall, the study concludes that deposit money banks in Nigeria are affected by mergers and acquisitions significantly.
M&A activity's effect on the financial performance of the Nigerian financial system was studied by Bouloupremo and Ogege (2019). Specifically, a number of financial indicators, including asset profile, credit risk, capital structure, liquidity, size, and cost control ratios, were taken out of the audited financial reports of the chosen banks between 2000 and 2010 in order to compare the ex-ante and ex-post performance of the chosen financial institutions with their mergers and acquisitions. As per the analysis results, credit risks performed better after the merger; nonetheless, their relationship with the pre-merger performance of the chosen financial institution was not statistically significant and was negative. When it came to the performance of the chosen financial institutions after the merger, asset profile was shown to be substantial and positively correlated, while it was negligible and adversely correlated with the financial performance of the chosen firms before the merger. The capital structure of the chosen companies was shown to be significant and favourably correlated with the pre-merger performance of the firms, but negligible and adversely correlated with the post-merger performance of the firms. A notable and favourable correlation was found between the firms' liquidity and the banks' pre-merger performance. The post-merger financial performance, however, does not appear to have shown any meaningful and positive correlation with the firms' liquidity. Both before and after the merger, the performance of the chosen banks was significantly correlated with their size. While there was no statistically significant association between the cost control variable and the banks' pre-merger performance, it did reveal a statistically significant negative relationship with the banks' post-merger performance.

The evaluation of AudiSaradar Group's financial performance before and after the merger was done by Hiyam and Boutheina (2018). A second, paired sample t-test is used to identify the significant variations in financial performance between the pre- and post-merger periods for Audi-Saradar Group, using ratio analysis to compare performance during the pre-merger period (2000-2003) and the post-merger period (2004-2007). The returns on equity and assets both increased, but not dramatically, according to the results. On the rate of return on shareholders' equity and the return on assets, the merger had no appreciable beneficial effect. Since the merger, earnings per share have grown dramatically. Earnings per share were significantly improved by the transaction. Similar to this, Fabinu et al. (2018) looked at how mergers and acquisitions compared in terms of their impact on the efficiency and profitability of Nigerian banks. As a recapitalization strategy, mergers and acquisitions have shown to be beneficial thus far, according to the report, as they have enhanced bank performance and repositioned them for increased profitability and efficiency globally.

Muchoki and Njuguna (2020) did a study on the implications of acquisitions on non-financial performance of the acquisition of Giro bank Ltd by I&M Bank Ltd. The study adopted a descriptive study with a population of 1030 employees from I&M fourteen banks branches. Primary data was collected through questionnaires and analysed using descriptive analysis. Hassan and Lukman (2020) examine the impact of pre and post M&A on the bank's financial performance in Pakistan during the period (2004-2015). Their results reveal that liquidity, profitability and investment ratios of the banks are positively and significantly increased the performance after M&A. Nevertheless, the solvency ratios indicate negative effects which are mainly based on the fact that after undergoing M&A the acquiring bank has to deal with the greater amount of debt burden as compared to pre-M&A.

Methodology

The study adopted the quantitative research design, as secondary data were used. The population of the study consists of all eight (8) merged/acquired commercial banks in Nigerian covering a period of fifteen (15) years (2008-2022). Due to data availability, five banks were chosen as the purposeful sample of banks that participated in acquisitions during this time. This is divided into two pilots. In pilot 1 are banks that conducted mergers around 2011 which are Ecobank purchasing Oceanic Bank; First City Monument Bank (FCMB) acquiring Fin Bank, and Keystone Bank acquiring Platinum Habib Bank (PHB). In pilot 2 are banks such as Polaris Bank taking over Skye Bank and Access Bank acquiring Diamond Bank around 2018. To ensure even data collection for the pre and post M&A period, the pilots were further divided into two sections. Pilot 1 consisting of Ecobank, FCMB, and Keystone banks had data covering eight years from 2008 to 2015. Pilot 2 had mergers executed around 2018 hence data from 2015 to 2022 were obtained to ensure pre and post M&A periods. To ascertain the bank performance factors of capital adequacy, assets quality, management efficiency, earning quality, and liquidity position as a result of the merger and acquisition, the period was further divided into two: pre and post-merger (4 years pre, and 4years post making it a total of 8years). The study used the sample t-test analysis as the data analytical method.

Measures of Variables

Table 1: Operationalization of Variables

SN	Variable	Acronym	Operationalization of Variable	Source
1	Capital Adequacy	CPA	Capital adequacy was measured as equity capital scaled by shareholders fund	Chakraborty and Kattuman (2023) Onikou (2012)
2	Assets Quality	AQT	Assets quality was measured in terms of the bank liquid assets. This was derived as a ratio of bank debtors scaled by customers deposit	Adesina and Folajimi (2024) Osifalujo and Olufemi (2020)
3	Management efficiency	MGE	Management efficiency is measured as interest and other	Musah et al. (2020)

			banking income scaled by total assets	Otuya and Omoye (2021)
5	Earning quality	EQT	Earning quality is used in this study as how best resources deployed in production are yielding profits for shareholders. It is derived as profit after tax scaled by shareholders fund	Onaolapo and Ajala (2012) Yusuf and Akinsanya, (2017)
5	Liquidity position	LQP	Liquidity was measured as cash plus cash equivalents scaled by current liabilities	Haakantu and Phiri (2022) Ogada and Achoki (2016)

Source: Authors' compilation, 2024.

Presentation of Data Analysis and Discussion of Findings

Test of Hypotheses

Hypothesis One: Capital Adequacy

Table 2: t-test analysis of difference between the capital adequacy of the merged banks pre and post-merger

Indicator	Period	N	Mean	SD	t	df	p	Decision
Capital Adequacy	Pre-Merger	20	0.3311	0.1317	11.236	19	0.000	
	Post-Merger	20	0.4278	0.1084				Significant

Source: Researchers' Elaboration from Data Analysis

Table 4.2 results were used to test hypothesis one. From the t-test statistical estimates, there was a significant difference in the performance indicator of capital adequacy for pre-merger (M=0.3311, SD=1.1317) and post-merger (M=0.4278, SD=0.1084) conditions; t (11.236)=19, p = 0.0000. These results suggest that there is a significant difference in the level of performance in terms of capital adequacy between pre-merger and post-merger periods of listed commercial banks in Nigeria. Consequently, a significant difference existed between the mean performance of capital adequacy for pre-merger and post-merger period. This serves as an empirical evidence to reject the null hypothesis of no significant change in the capital adequacy of the merged banks post-merger. The alternative hypothesis was therefore accepted and upheld which states that there was a significant difference in the performance indicator of capital adequacy for pre-merger.

Hypothesis Two: Asset Quality

Table 3: t-test analysis of difference between the asset quality of the merged banks pre and post-merger

Indicator	Period	N	Mean	SD	t	df	p	Decision
Asset	Pre-Merger	20	0.3429	0.1756	13.517	19	0.430	Not Significant
Quality	Post-Merger	20	0.3278	0.1084				

Source: Researchers' Elaboration from Data Analysis

To test hypothesis two, results of the t-test analysis was used. Table 3 revealed a t value of 13.517 and probability value of 0.430 at 5% level of significance. The probability value is greater than critical value. The results suggest that there was no significant difference in the asset quality for pre-merger period (M=0.3429, SD=0.1756) and post-merger (M=0.3278, SD=0.1084) conditions; t (13.517)=19, p = 0.430. The implication here is that no significant difference exist between the mean asset quality of the merged commercial banks pre- and post-merger. The null hypothesis was therefore upheld. Hence, there was no significant change in the asset quality position of the merged banks post-merger.

Hypothesis Three: Managerial Efficiency

Table 4.4 t-test analysis of difference between the managerial efficiency of the merged banks pre and post-merger

Indicator	Period	N	Mean	SD	t	df	p	Decision
Managerial	Pre-Merger	20	0.1796	0.1341	10.89	19	0.000	Significant
Efficiency	Post-Merger	20	0.3898	0.1600				

Source: Researchers' Elaboration from Data Analysis

To test hypothesis three, a t-test was conducted to compare the level of managerial efficiency of the commercial banks between pre-merger and post-merger periods. There was a significant difference in the managerial efficiency for pre-merger period (M=0.1796, SD=0.1341) and post-merger (M=0.3898, SD=0.1600) conditions; t (10.89)=19, p = 0.000. We therefore have enough evidence to reject the null hypothesis and uphold the alternative which states that there is a significant change in the managerial efficiency of the merged banks post-merger.

Hypothesis Four: Earnings Quality

Table 4: t-test analysis of difference between the earning quality of the merged banks pre and post-merger

Indicator	Period	N	Mean	SD	t	df	p	Decision
Earnings	Pre-Merger	20	0.1390	0.1740	8.19	19	0.000	Significant
Quality	Post-Merger	20	0.4113	0.1815				

Source: Researchers' Elaboration from Data Analysis

To test hypothesis four, a t-test was conducted to compare the level of earnings quality of the commercial banks between pre-merger and post-merger periods. There was a significant difference in the earnings quality for pre-merger period (M=0.1390, SD=0.1740) and post-merger (M=0.4113, SD=0.1815) conditions; t (8.19)=19, p = 0.000. These results provides us with enough

evidence to reject the null hypothesis and uphold the alternative which states that there is a significant change in the earnings quality position of the merged banks post-merger.

Hypothesis Five: Liquidity

Table 5: t-test analysis of difference between the liquidity position of the merged banks pre and post-merger

Indicator	Period	N	Mean	SD	t	df	p	Decision
Liquidity	Pre-Merger	20	0.2772	0.2278	8.540	19	0.000	Significant
	Post-Merger	20	0.4850	0.0968				

Source: Researchers' Elaboration from Data Analysis

To test hypothesis five, results of the t-test analysis was used. Table 4 revealed a t value of 8.540 and probability value of 0.000 at 5% level of significance. The probability value is less than critical value. The results suggest that there was a significant difference in the liquidity position for pre-merger period (M=0.2772, SD=0.2278) and post-merger (M=0.4850, SD=0.0968) conditions; t (8.540)=19, p = 0.0000. The implication here is that a significant difference exist between the mean liquidity position of the merged commercial banks pre- and post-merger. The null hypothesis was therefore rejected. Hence, the alternative hypothesis which state that there was a significant change in the liquidity position of the merged banks post-merger.

Discussion of Findings

The findings of the study are discussed as derived from the testing of each hypothesis as follows:

First, the results from testing of hypothesis one revealed that a significant difference exists between pre- and post-merger periods in terms of capital adequacy of the sampled banks. The implication of the result is that the sampled banks obtained a stronger capitalization which is one of the reasons for initiation of mergers in Nigeria. The result meets our *appriori* expectation. We anticipated that after the mergers are consummated, the capital base of the banks will improve thus strengthening the adequacy of capital of the banks. The result is in tandem with prior studies such as Roy (2024), Haakantu and Phiri (2022), Borodin et al. (2020), and Obuobi et al. (2020) that reported a significant improvement in capital base of organisations after mergers.

Second, the result from the t-test hypothesis testing on the difference between pre and post merger period in terms of asset quality showed a non-significant difference. The results suggest that there was no significant difference in the asset quality for pre-merger period. The implication is that most of the banks that executed mergers during this period did not improve on their assets quality after the mergers. This results did not meet our appriori expectation although previous studies such as Chakraborty and Kattuman (2023), Kazeem et al. (2022), and Osifalujo and Olufemi (2020) reported that banks' assets quality increased after successful mergers.

Third, the performance of managerial efficiency after mergers of the commercial banks in Nigeria was also subjected to empirical test. Results from our t-test analysis showed that a substantial improvement occurred after a successful execution of mergers of the commercial banks sampled in our investigation. This implies that efficiency of managers improved after the mergers validating the synergy hypothesis that ensues from business combinations. The findings meet our appriori expectation and is consistent with prior studies such as Eunike and Erlina (2024), Hiyam and Boutheina (2018), and Muchoki and Njuguna (2020) who reported a significant improvement in management and operational efficiency after business combinations.

Fourth, as regards earnings quality, our analysis also showed that there was a significant difference in the earnings quality for post-merger period. The implication is that after successful mergers, the quality of earnings in terms of return on assets increased substantially. The findings meet our *appriori* expectation. This finding also conform to prior results by Borodin et al. (2020), Busari and Adeniyi (2017), and Chakraborty and Kattuman (2023). However, a study by Muchoki and Njuguna (2020) reported no significant changes in earning quality of firms after mergers in Zambia.

Finally, the results for our t-test results showed a significant difference exist between the mean liquidity position of the merged commercial banks pre- and post-merger. This implies that the liquidity position of the merged banks improved after executing the mergers. This results meets our *appriori* expectations and is consistent with studies by Kazeem et al. (2022), Hiyam and Boutheina (2018), and Osifalujo and Olufemi (2020) that reported in their separate studies that a significant change occurred in the liquidity position of merged companies after a successful business combination and mergers.

Conclusion

The study using results of the financial statement t-statistics showed that there was a significant positive change in performance of merged banks in terms of Capital Adequacy, Managerial Efficiency, Earnings Quality, and Liquidity Position after execution of mergers by the sampled banks. The study also found no significant positive change post-merger in terms of Asset Quality of the listed commercial banks sampled in the study after execution of mergers. Arising from the findings, the study, therefore concludes that mergers and acquisition have a positive influence on financial performance of commercial banks in Nigeria. In line with the findings, the study recommends that attention and focus should be given to capital adequacy in execution of mergers. This has become important in view of the fact that most mergers are carried out to consolidate and ensure that shareholders fund and investors' interests are safe. In addition, future mergers should ensure that the human capital of banks are taken into consideration as they are the vital resources of the company that take all the important decisions.

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