International Journal of Economics and Financial Management Vol. 2 No. 2 2017 ISSN: 2545 - 5966
www.iiardpub.org

An Evaluation of the Economic Characteristics of Banks Involved in the Merger and Acquisitions in Nigeria Post Consolidation Era (1999-2014)

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ABSTRACT

The period 1999-2014 was characterized by banking reforms in the Nigerian economy. These reforms have affected the banking sector in several dimensions. Banks recapitalized, some merged while others managed to survive standing alone. No doubt, there have been changes in the economic characteristics of the banks that emerged from the consolidation exercise.

This work is aimed at determining the economic characteristics of banks involved in the Merger and Acquisitions in Nigeria in the post consolidation era. An economic model was developed and tested using ordinary least squares regression.

Based on the findings, the study concluded that mergers and acquisitions have significant impact on socio-economic characteristics of money deposit banks involved in mergers and acquisition in Nigeria. It was recommended that the expenditure on the acquisition of Information Technology particularly the Automated Teller Machine (ATM) be increased. Equally, it was suggested that banks should embark on aggressive mobilization of funds from the public. While regulatory authorities should intensify efforts towards effective monitoring to ensure greater financial intermediation.

1.0: INTRODUCTION

The consolidation programme of Nigeria banks in December 2005 which raised minimum bank capital from N100 million to N25 billion marked a watershed of the central bank's reform exercise. This became imperative against the backdrop of an impending banking crisis due to high undercapitalization of deposit- taking banks; weakness in the regulatory and supervisory framework; weak management practices; and tolerance of deficiencies in the corporate governance behavior (Uchendu, 2005).

Globally, banking sector reforms have often resulted from deliberate policy response to correct perceived or impending crises and subsequent failures triggered by system weakness in the banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others. Similarly, highly open economies like Nigeria, with weak financial infrastructure, can be vulnerable to banking crises emanating from other countries.

A noticeable syndrome of a critically depressed banking system is its inability to meet financial obligations to stakeholder which in most cases, precipitates runs on other individual banks. This leads to customer engagement in massive credit recalls and withdrawals, thus necessitating Central Bank liquidity support to the affected banks. Other terminal intervention mechanisms are often introduced in the form of consolidation (mergers and acquisitions), recapitalization, establishment of asset management companies to assume control and recovery of banks assets, as well as outright liquidation of non-redeemable banks (Alao, 2002).

1.1: Critical Factors to Successful mergers and acquisitions

For mergers and acquisitions programme to be successful, the two companies involved must have done adequate research and planning, with well-developed objectives, goals and expectations of the programme. Micro, industry and macro environmental factors affecting mergers and acquisitions must be properly researched. It is also important to select the right partners, based on criteria like credibility, reliability and expertise. Selection of the right partner will also reduce the adverse effect of opportunism by parties involved. It is important to get the right people, with requisite knowledge to champion, negotiate, develop, manage and review all the stages of Mergers and Acquisitions.

The difficulty of integrating different risk management systems, accounting and control procedures (Operational risk) must be properly coordinated, while the appropriate organizational structure must be maintained. Change of management system and culture is crucial too. This is due to the fact that, reconciling the different corporate cultures of the two entities, from different countries, often entails the risk of a loss of key employees, clients, and low morale of remaining employee, hence, conflicts and change management are crucial. In addition, there has to be effective and well-coordinated communication among cross-functional, operational and support services, as well as commitment and involvement from the top management (Rhoades, 2000). In addition, remuneration, reward and operational issues must be well specified and coordinated, so as to keep high morale and performance of the remaining employees. Harmonious labour, social and political relations must be upheld, while the IT infrastructure of the two companies must be properly aligned to pave way for smooth operations, cost reduction, customer satisfaction and improved productivity. Lastly, there must be adequate and objective performance evaluation and reward system, while feedback and corrective mechanism on the Mergers and Acquisitions programme must be properly elucidated.

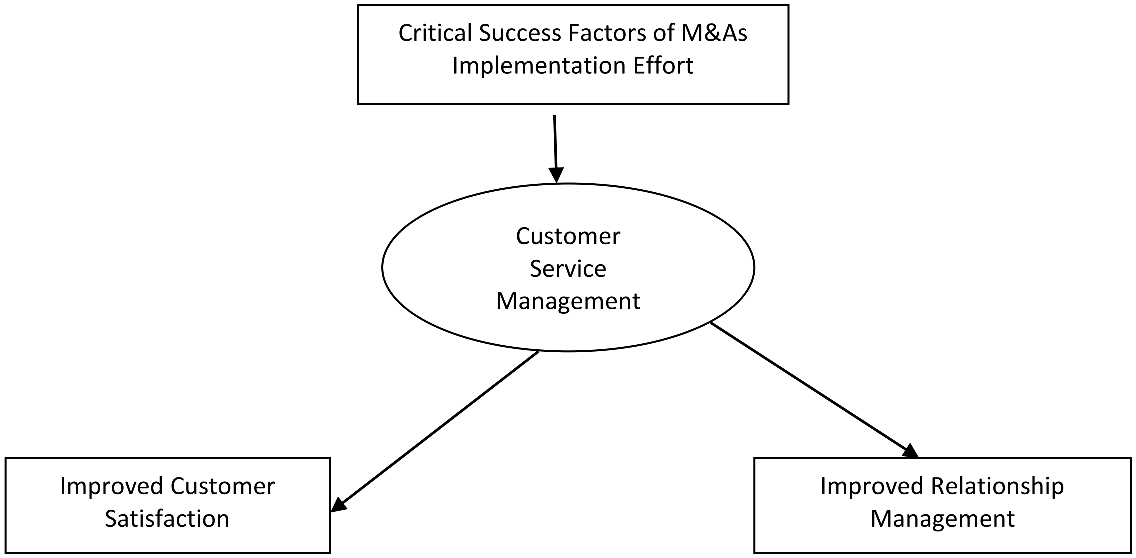

Fig. 1: Impact of Successful Mergers and Acquisitions on Customer Service Management

1.2: Motives of Mergers and Acquisitions

Three motives of mergers and acquisitions have been documented in existing literature (Elumilade 2008). These motives include the synergy motive, the hubris motive and agency motive. Each motive has its own implication in association with the benefits to the participant of the organizations in mergers and acquisitions.

The synergy hypothesis has been widely documented in the existing literature in an attempt to explain the motive of mergers and acquisitions (Becher, 2000). This motive suggests that mergers and acquisitions occur when the combination of the two organizations results in economic gains. The agency hypothesis which account for motives of mergers and acquisitions argue that managers pursue their own interests to engage in takeover activity at the expense of shareholders.

Table 1: Empirical Studies of Mergers and Acquisitions both in the developing and developed economies

Researchers	**Samples and Methods**	**Main Results**
Sylvester (2013) The effects of M & A on corporate growth and profitability evidence from Nigeria.	The methodology used is a survey of companies incorporated in Nigeria under the CAMA (1990), which have undergone a merger or an acquisition process.	The study results support the idea that M & A are not a prima facie solution to the problem of financial distress in corporate organizations. The evidence also showed that M & A provided a temporary solution at all to operating indiscipline.
Asuquo (2013) Empirical Analysis of effects of Bank M &A on small business lending in Nigeria.	Data were collected by cross-section research design and were subsequently analyzed by ordinary least square (OLS) method.	The analyses showed that bank size, financial characteristics and deposit of non-merged banks are positively related to small business lending. While for the merged banks, the reverse is the

		case.
Onaolapo & Ajala (2012) Effects of mergers and acquisitions on the performance of selected commercial banks in Nigeria.	The study employed secondary data obtained from NDIC annual reports. The data were analyzed using both descriptive and analytical techniques.	The result showed that the mean of key profitability ratio such as the yield on earning asset (YEA), return on Equity (ROE) and Return on Asset (ROA) were significant, meaning that there is statistical different between the mean of the bank before 2001 recapitalization and after 2001 recapitalization.
Tim-Kun (2010) An Empirical study of firms' merger motivation & Synergy from Taiwanese Banking industry	The study used the panel data of financial industry by applying logistic regression model to explore the merger motivation and the impacts of variables on merger: using factor analysis to discuss the difference in performance between holding company banks & Ordinary banks after merger.	The empirical results showed that according to the performance scores there are six banks of holding company on the top ten lists. This reveals that the merger between financial institutions have improved merger synergy.
Kaur – Kaur (2010) Effects of M & A of Bank on India on the economy.	The study used time-series cross section data of commercial banks in India for the period, 1990 – 1991 and 2007 – 2008 using non-parametric data development analysis technique.	The findings of the study suggest that over the entire study period average cost efficiency of public sector banks was found to be 73.4 and for private banks is 763%. The findings suggest that merger programme has been successful in India banking industry
Nancy (2009) Determinants of Growth through M & A: An Empirical Analysis.	The study used data on 378 private and listed firms that engaged in 816 mergers and acquisition transactions during 1997 – 2005, and matched this sample with companies that did not pursue any external growth.	The result showed that intangible capital, leverage and firm size significantly affected the decision to grow positively, through mergers and acquisitions whereas the proportion of debt that consists of bank loans and ownership concentration have a negative impact.

Source: Designed by the Author (2014)

METHODOLOGY

Objective: To determine the Economic characteristics of banks involved in the Merger and Acquisitions in Nigeria in the post consolidation era.

Area /Scope of Study:

The population for the study consisted of all licensed Deposit Money Banks operating in Nigeria in the pre and post consolidation period; that span a ten (10) years before and after 2005 mergers and acquisitions exercise. Purposive sampling technique was used for selecting both the respondent banks and bank customers used for the study. This sampling technique was used to get respondents who have practical and theoretical experience in mergers and acquisitions of corporate organizations.

A total of two hundred and fifty (250) respondents were purposively selected comprising: Management staff/Bank managers, Bank customers and financial regulators.

Model specification

The model equation is as specified below:

ROA = $\beta 0+\beta_1$AS+ β_2AQ+ β_3BD+ $\beta_4 PR + \beta_5 EFF + \mu$

Where: AS= Asset Size,AQ= Asset Quality,BD= Bank Deposit,PR= Profitability,
EFF= Efficiency,β= Coefficient of mergers,μ= Error Term

Summary of Variables used in the Study and their Definition

Variables		**Operational Definition**
Asset Size	AS	Ratio of Total Assets to Total net Assets
Asset Quality	AQ	Ratio of Total loans and Advances to Total Assets
Bank Deposit	BD	Ratio of Bank Deposit to Total Assets
Profitability	PR	Overhead expenses as ratio of total income
Efficiency	EFF	Ratio of Operating Expenses to Total income
Bank Deposit	BD	Ratio of bank deposit to total asset

RESULTS AND INTERPRETATION

Table 2: Economic Characteristics of Banks (Dependent Variable- Return on Assets)

Variable	**Coefficient**	**Std. Error**	**t-statistics**	**Prob.**
Constant	5.976895	1.995154	2.995706	0.0031
Asset Size	0.269111	0.101196	2.659305	0.0211
Asset Quality	0.276914	0.106176	2.608065	0.0164
Bank Deposit	0.293974	0.183031	1.336158	0.0144
Profitability	0.182747	0.082307	2.297859	0.0121
Efficiency	0.283096	0.150810	2.15431	0.0105

R-Square	0.774623	Mean dependent var	13.11321
Adjusted R – Square	0.683133	S.D. dependent var	3.125558
S.E. of Regression	0.976455	Sum squared resid	1825.013
F – Statistic	5.333844	Durbin – Watson Stat	1.979750

Economic Characteristics of the Sampled Banks involved in Mergers and Acquisitions in the Nigeria Post Consolidation Era.
Table2 shows the regression analysis for economic characteristics of banks involved in the mergers and acquisitions in Nigeria in the post consolidation era. The result showed that Asset Size, Asset quality, bank deposit, profitability and efficiency with p-values of 0.0211, 0.0164, 0.0144, 0.0121 and 0.0105 are less than the critical value of 0.05. Hence, there is a significant relationship between ROA and Economic characteristics of banks in the post consolidation era.

The R^2 is 68%, and this implies that the independent variables explain about 68% of the change in the dependent variable in the model. The F – statistics and its probability showed that the regression equation was well formulated. This explains that the variables combined (economic characteristics) are statistically significant (F – stat = 5.333844).

Test of Research Hypothesis
H_{01}: Mergers and Acquisition as components of Nigerian banking consolidation programme of 2005 have not influenced economic characteristics of bank.

Hypothesis 1- Mergers and Acquisitions of Nigerian banks have not influenced Economic Characteristics of the banks
Table3: Influence of M&A on economic characteristics of merged banks in Nigeria

	N	**Mean**	**STD. Deviation**	**t-value**	**p-value**	
Economic of Scale	203	3.94	1.00	13.429	.000	Significant
Information Technology	203	2.32	.537	61.593	.114	Significant
Assets Quality	203	4.02	1.092	13.369	.000	Significant
Service Delivery	203	4.00	1.184	12.097	.000	Significant
Profitability	203	3.86	1.179	10.357	.007	Significant
Total Capital	203	3.83	1.161	10.216	.008	Significant
Aggregated Mean	**203**	**3.66**	**1.025**	**20.177**	**.021**	Significant

Source: Field Survey, 2014.
The output result based on the analysis of responses from respondents on the six questions asked to access the influence of mergers and acquisitions on economic characteristics of banks showed

that μ = 3.66 and > 3 indicating that mergers and acquisitions have significant effect on economic characteristics of banks. Therefore the null hypothesis was rejected. The P- value (0.021 < 0.05) for all the sources of influence of mergers and acquisitions on economic characteristics of banks indicated that it is significant. This is in line with the result obtained from the regression analysis (see table 2)

Conclusion

Based on these findings, the study concluded that mergers and acquisitions have significant impact on socio-economic characteristics of money deposit banks involved in mergers and acquisition in Nigeria.

Recommendations

On the basis of finding from this study, the following recommendations are made:

i. There is the need to improve the expenditure on the acquisition of Information Technologyparticularly the Automated Teller Machine (ATM); in line with other operational drives within the Nigerian banking sector.

ii. In order to enhance local bank financial capacity, banks should embark on aggressive mobilization of funds from the public

iii. There is a need for the regulators to intensify more efforts in their banking examination responsibility to ensure thorough cross checking of books and accounts of banks so that corporate governance principles could be strictly adhered to by the banks. Regulatory authority should be firmed in imposing sanctions on erring banks.

Iv The Central Bank of Nigeria (CBN) as a supervisory/regulatory agent should intensify its effort towards effective monitoring in order to ensure greater financial intermediation.

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APPENDIX

Table 4.2: Economic Characteristics of Banks (Dependent Variable- Return on Assets)

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Source: Author's Compilation, 2014.