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A SURVEY OF THE IMPLICATION OF MERGER AND ACQUISITION ON THE NIGERIAN BANKING SECTOR

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Abstract
The paper surveyed the implication of merger and acquisition on the Nigerian Banking Industry using ECO Bank Nig. Plc. as a case study. The aim of the paper was to find out how the merger and acquisition strategy has fared in improving banks' performance and instilling more confidence in the mind of depositors. Both primary and secondary data were used for the study. The primary data were collected through the use of questionnaire while the secondary ones were collected by extraction from the banks' records and the record of the Central Bank of Nigeria (CBN). The primary data were analysed with the use of tables, percentages and the paired sample t –test, while the secondary data were analysed with the use of regression and ANOVA. It was discovered through the test and the hypotheses that the bank surveyed has fared better in terms of service delivery and overall performance after merger and acquisition than before merger and acquisition. It was therefore recommended that the monetary authorities should make the strategy an ongoing phenomenon so as to boost the capital base of the Nigerian banks and to instil confidence in the depositors by guiding against fund diversion among the big players in the Nigerian Banking Industry. This will enhance stability in the system and improve economic development of Nigeria.

Keywords: Merger and Acquisition; Assets; Banking Industry; Profit after tax; capital base

INTRODUCTION

Banks merger and acquisition is an aspect of banking policy that has recently received a great deal of attention in Nigeria. Increased attention is being paid to the calculation of the actual values of the acquired entity, which is of vital importance for determining the purchase price (i.e. assessment of the quality of assets, etc.). The goal of the merger and acquisition is to have a banking system that is part of the global change, that is, strong, competitive and reliable.

According to Soludo (2004), the strengthening and consolidation of the banking system is to ensure a diversified, strong and reliable banking sector which will ensure safety of depositors' money, play active development roles in the Nigerian economy and also become competent and competitive in the regional and global financial system. Besides strengthening the Nigerian Banks, the new capital is intended to stem the systematic distress that has continued to rock the Nigerian financial system.

The current boom in merger, as noted by (Soludo 2004) differs from past merger booms in both the causes and the forms of acquisitions. The current boom is characterised by the larger sizes of the acquisition targets, the accelerated pace of acquisition, and the prevalence of hostile turnover, management buyouts and debt – financed acquisition.

However, the Nigerian banking system today is still fragile and marginal. The fundamental problems of the banks, particularly those classified as unsound have been identified to include: persistent illiquidity, poor assets quality and unprofitability operations.

Therefore the paper is written to examine the implication of merger and acquisition on the Nigerian banking sector using ECO Bank Nig. PLC as a case study.

CONCEPTUAL FRAMEWORK

Meaning of Mergers and Acquisition

According to Sudarsanam (2003), Merger and Acquisition is a process rather than a transaction, which requires insight from a number of disciplines to understand and effectively carry out. The phrase 'mergers and acquisition' (abbreviated M & A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying , selling and combining of different companies that can aidfinance or help a growing company in a given industry to grow rapidly without having to create another business entity (Ojo, 2010; Soludo, 2004).

In Nigeria, for example, the regulation on merger and acquisition began in 2004 when the Central Bank of Nigeria (CBN) Governor, Prof. Charles Soludo unveiled the reform agenda which included an upward review of banks' capital base from N2 billion to N25 billion. The goal of the reform is to help Nigerian banks become strong players in a manner that will ensure longetivity and hence higher returns to shareholders overtime and greater impacts on the Nigerian economy.

According to Elumilade (2010), the Nigerian banking system has undergone remarkable changes over the years in terms of the number of institutions, ownership structure as well as depth and breadth of operations. He observed that these changes have been influenced largely by challenges posed by deregulation of financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform with international standards.

As opined by Ojo and Oloyede (1998), capitalisation is an important component of reforms in the Nigeria banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities. Attaining capitalisation requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market (Ajayi, 2005).

Classifications of Merger

a. Horizontal Merger: This is the merger of two or more companies operating in the same field and in the same stage of process of attaining the commodity or service. In other words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical market. The Nigerian Banks have been involved in this type over the years.
b. Vertical Merger: This is the merger in which one firm supplies its products to the other. A vertical merger results in the consolidation of firms that have actual or potential buyer – seller relationships.
c. Congeneric Merger: This involves firms which have different business operation patterns, though divergent but may be highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation, or technologies of the acquiring firm (Kathy, 2005).
d. Conglomerate Merger: This occurs when unrelated enterprises combine or firms which compete in different product markets and which are situated at different production stages of the same or similar products combine, to enter into different activity or fields in the shortest possible time span and reduce financial risks by portfolio diversification. This takes place when the two firms operate in different industries.

Importance of Merger and Acquisition

Mergers and acquisition are a useful tool to management in business restructuring and repositioning. It is a process that involves using existing resources and opportunities more effectively and ensuring survival of fostering economies of scale (Soludo, 2004)

According to Biodun (2005), the most important forces encouraging consolidation are improvement in information technology, financial deregulation, globalization of financial and real markets, and increased shareholder pressure for financial performance. Another benefit is synergy through which combined companies can often reduce duplicated departments or operations, lowering the costs of the companies' operations relative to the same revenue stream, thus increasing profit.

Problems and Risk in Banks Merger

Optimistic expectation of value in bank merger is one thing but the reality of realized returns is a different story. Therefore, it is mandatory to not only prudently examine the sources of value in a merger but to also watch out for possible pitfalls that can turn the optimism to woeful regrets (Iyiegbuniwe, 1998).

According to Spiegel and Gart (1966), merger creates value by enhancing cashflow through increase in revenue and or decrease in operating costs. However, risks from uncertainty about the realisation of the following sources of enhanced cashflow are worth noting

- Incremental revenue growth;
- Efficiency in Operations;
- Ability to spread fixed costs over a large customer base;
- Cross – scale of products and services not otherwise provided by either of the merging banks; and
- Stability of assets quality.

METHODOLOGY

Data Collection Methods

Both Primary and Secondary data were used for the study. The data were collected from the sampled bank (ECObank Nig. PLC.) out of the 24 banks we have presently in Nigeria. The primary data were collected through the use of questionnaire served on 50 workers where 30 were recovered completed and used for the study.

The secondary data on the other hand were extracted from the annual reports of ECO bank PLC covering 10 years (i.e. 2003 to 2012).

Data Analytical Methods

In the study, both descriptive and inferential statistical tools were employed to analyse the data gathered from the field and records. Tools that make up the descriptive analysis are tables, frequency distributions, and percentages. The inferential statistical tools include regression, F – statistic and paired sample t – test to test for the significance of the built model through the estimated parameters.

Model Specification

Functional relationship between the bank's assets and other variables such as performance (PAT), deposits and loan and advances was established.

This is formulated as:

ASS = f (PAT, Depo, LA)

Where Ass = Total Assets

PAT = (Profit After Tax)

Depo = Deposits

LA = Loan and Advances

In Mathematical term, the model is specified thus:

$ASS = B_0 + B_1PAT + B_2Depo + B_3 LA + E_1$

Where B_0 = intercept

B_1, B_2, B_2 =slopes of the explanatory variables or coefficients of the regression model

E_t = Random error term

On apriori we expect all the independent variables to be positively related to the assets of the bank except Deposits.

ANALYSIS AND FINDINGS

Table 1: Respondents response on whether present performance of ECO bank is better than its performance before the merger and acquisition

Response	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Strongly Disagree	1	3.3	3.3	3.3
Disagree	4	13.3	13.3	16.6
Neutral	8	26.7	26.7	43.3
Agree	15	50.0	50.0	93.3
Strongly Agree	2	6.7	6.7	100.0
Total	30	100.00	100.00	

From table 1, it can be deduced that 50% of the total 30 respondents agreed that the performance of the bank is better than its performance before merger and acquisition. Two respondents strongly agreed and 8 respondents were neutral. Only one respondent and 4 respondents strongly disagreed and disagreed respectively.

Hypothesis 1

H_O: There is no significant difference between the bank performance before and after merger.

The paired sample t – test was used and the result is presented below

Table 2: Test of Hypothesis I

Variable	N	Mean	Standard Deviation	Crit –t	Cal –t	Df	P.
Bank Performance before merger and	30	7.80000	1.74988	2.306	24.414	29	.000
Bank performance after merger		7.80000	1.74988				

The representation above shows that there is a significant difference between bank performance before merger and its performance after merger with Crit –t =2.306, Cal –t = 24.414, df =29 and P<0.01 level of significance. Therefore since the calculated value of t is greater than the table value of t, the null hypotheses is rejected and the alternative hypothesis accepted, meaning that there is a significant difference between the bank performance before and after merger.

Presentation of Secondary Data

Table 2. Eco bank Nig PLC Financial Records (2003 -2012) in N'million

Year	PBT	PAT	Assets	Deposit	Loan &Advance
2003	48,462	30,214	1,523,091	1,153,235	785,983
2004	60,315	40,427	1,910,433	1,465,117	923,661
2005	73,729	50,939	2,199,230	1,532,478	1,022,140
2006	129,299	86,365	3,503,224	2,500,178	1,919,366
2007	190,570	138,936	6,550,224	4,714,327	3,117,036
2008	162,385	111,140	8,306 186	5,798,895	3,754,206
2009	(5,944)	(4,588)	355,662	243,831	189, 719
2010	2,120	1,619	454,239	340,147	237,107
2011	38,841	32,108	7,503,192	5,471,717	2,606,013
2012	64,129	75,285	9,076,342	6,739,107	3,531,199

Hypothesis 2

H_0: Bank's asset is not a function of its profit and loan extended to customers.

The above hypothesis was tested using Least square method taking 'Asset' as dependent variable. Results are presented in table 3.

Table 3: Test of Hypothesis 2

Variable	Coefficient	Std. Error	t- statistic	Prob.
C	-81846.07	49114.86	-1.666422	0.1565
PBT	5.919335	3.155958	1.875606	0.1195
PAT	11.56673	4.431906	2.609877	0.0477
DEPO	-1.174767	0.127100	-9.242830	0.0002
LA	0.497044	0.269859	1.841867	0.1248

R –squared	0.999637	Mean Dependent Var.	4138234.0
Adjusted R – Squared	0.999346	S.D dependent Var.	3378715.0
S.E of Regression	86424.69	Akaike info criterion	25.87879
Sum Squared resid.	3.73E + 10	Schwarz criterion	26.03008
Log Likelihood	-124. 3939	F – Statistic	3437.574
Durbin – Watsonstat.	2.429641	Prob.(F – Statistic)	0.000000

From the analysis above, the profit after tax (PAT) was positively related to the asset of the bank with 11.57 coefficient and was also significant at 5% level. This shows that with merger and acquisition, as the profit after tax rises, the asset of the bank also rises. This concides with the apriori expectation.

A corollary to this can be viewed from the financial records (2003 -2012) as shown. In the year 2010, the Eco bank acquired the Oceanic bank and ECO bank profit sky – rocketed from its net loss of N 4, 588 million in year 2009 to N1, 619 million profit and from that to N32, 108 million and N75, 285 million profits in years 2011 and 2012 respectively. This means that the merger and acquisition has impacted positively on the profit of ECObank Nig PLC.

Deposits from the result was negatively related to the assets of the bank in line with the apriori expectation. This is a result of deposits being liabilities on the part of the bank and hence has not contributed positively to the growth of the bank's assets. The result is also significant at 1% significance level.

Loan and advances indicate a positive relationship with the bank asset. This was not surprising as the loan and advances will bring in interest to the bank which always help to gear up the bank's capital and hence the bank's assets. The result was however not significant in determining the assets.

The R –square from the result shows that profit before tax, profit after tax (PAT), deposits, and Loan and advances account for about 99% in the variations of the bank's assets and this was also confirmed by the Adjusted R – Squared.

The F- Statistic shows a value of 3437.574 with F < 0.01. This indicates that the overall result of the analysis was significant. Therefore, the null hypothesis is rejected and the alternative one accepted, meaning that, Banks asset is a function of the bank's profit and loans extended to customers.

CONCLUSION AND RECOMMENDATIONS

Conclusion reached from the study shows that performance of ECO Bank Plc has been very encouraging after the merger and acquisition with Oceanic Bank. This has been the general trend among other banks in the Nigerian financial system since the merger and acquisition phenomenon in the year 2010. It was clear from the findings that there have been more patronage in ECO bank due to better performance after the merger. Customers now have more access to effective bank services as more availability of funds has led to more infrastructural facilities in the bank.

Based on the above, the paper therefore suggest among other; that:

i. Merger and acquisition strategy should not be a one stop action, rather, it should be a continuous phenomenon so as to ensure solid capital base, continuous growth and survival of the Nigerian banking industry as well as gaining reputation in the international scene.
ii. Since merger and acquisition has improved risk management culture, particularly in developing strong asset quality measures, banks need to generate more long term funds which will help them in funding more long term projects.
iii. The monetary authorities should be alert in monitoring the activities of the active players in the Nigerian banking industry in order to guide against corrupt practices like fund mismanagement and diversion which have bedevilled the industry in the past years. Those found wanting in this area should be exposed and punished accordingly to serve as deterrent to others. This would go a long way to sanitize the Nigerian banking industry, and to instil confidence in the mind of the citizenry and bring financial stability into the Nigeria financial system.

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