Mergers and Acquisitions as Instrument of Corporate Survival and Growth

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ABSTRACT

Essentially, this work was designed to provide a clear understanding of mergers and acquisitions as an instrument for corporate survival and growth using some companies as case studies. It investigated the importance of mergers and acquisitions in companies, its benefits as well as opportunities there from. It also drew attention on the environment where businesses were carried out especially in developing countries like Nigeria where business environment is not friendly coupled with so many risks while operating in such an environment. Existing works done by other authors and scholars through text, journals, etc were consulted. Primary data was also used through questionnaires administered, which helped in sampling the opinions of experts in these areas. It was finally concluded that mergers and acquisitions could be described as “pillar” to company survival and a “saver” from distress if all of its principles are fully applied to meet up with the present trend of globalization.

INTRODUCTION

The last per decades have witnessed the emergence of strong and solid or mega firms through mergers and acquisitions and Nigeria economy has also experienced this global changes. Mergers and acquisitions have received increasing attention in the Nigeria economy over the past few years. Most analysts agreed that it is always the wishes and aspiration of most business promoter to grow their enterprises to a mega level (Eleh, 2005). A lot of companies have generated interest in merger and acquisition because of the benefits of efficient allocation of resources, diversification or risk reduction economics of scales increase in revenue (Synergy) taxes, etc.

An evolution towards an integrated global market and away from individual’s domestic market is taking place. The rapid changes that are taking place in our business environment have led to need for mergers and acquisition of business as these are often one of the fastest ways of achieving growth. Thus, during 269th Banker’s Committee meeting the Central Banks of Nigeria (CBN) advised banks to secretary consider mergers and acquisition as a way of excelling in the globalised financial market (Financial Standard Dec, 2003) and also during the fourth annual monetary policy conference, which was held concerning the consolidation of Nigeria’s Banking Industry. Mr Muyiwa Osho Senior Partner, Akintola Williams Decoitte Lagos advised the operator to take a holistic view of the mergers and acquisition strategy and a cost and integration procedure (Nov. 2004).

Merger and Acquisition are seen or view as a means of economy development and part of adjustment process. This is very important to the economy because it helps companies that could not meet the required demand from going down the pit but survived. Taking a close look at the recapitalization of banking sector in Nigeria, so many banks that could not on their own meet the required demand of the Central Banks of Nigeria (CBN) of 25 billion Naira (₦25, 000, 000, 000) would have gone down, bit merger and acquisition help them to meet the largest mega and larger banks were created through Mergers and Acquisition as a tool for expanding their corporate operation which aimed increasing their long term profitability. This leads to growth and increase shareholders wealth. Mergers and acquisitions have also help some people to retain their employment and create more employment or jobs opportunities through expansions of firms.

However, let us defined mergers and acquisition are often use interchangeable but the truth is that they are slightly difference from each other. Merger can be said coming together of tow or more existing firms to operate under one umbrella. While Acquisition is a business combination approach where the ownership and management of a separate independent operating entity is brought under the control of another management and ownership. To achieve a successful mergers and acquisitions. There is need to follow a clearly defined process that can substantially increase the gains and reduce the pains associated with mergers and acquisition such as:

- A thorough diagnostic review before commenting with merger in order to established a business case and aligns it with clear financial cases and determines strengths in core business.

- Establish an acquisition strategy that focuses on the sources of value include a strategic fit, an operational fit and chemistry fit.
- Determine the maximum cost to achieve that would be paid before commencing with the mergers giving adequate consideration to due diligence and accurate valuation.

OBJECTIVES OF THE STUDY

The basic aims of mergers and acquisition is to ensure that business continue in operation and doing perfectly well that is, to ensure that the business do not pack up. The research objectives are as follows:

1. To ascertain whether mergers and acquisition increase shareholders' wealth,
2. To ascertain whether mergers and acquisition has contributed to the development and growth of the economy.

LITERATURE REVIEW

In Nigeria, mergers and acquisitions become pronounced in the 1980s, when the economy was witnessing a downward move. This move exposed many of the indigenous firms who were dependent on foreign input and it resulted in downsizing and austerity measure policy of government. The companies that could not cope with this trend closed down their businesses. For those that choose to remain, it was row capacity utilization cost of borrowing was high for them and resultant inflation added to weaken the purchasing power of the masses. These circumstances forced the weak companies to consider mergers with stronger ones. For stronger companies, it was an opportunity to have a large share of the market, diversification and thereby increasing profitability.

Since its inception in 1973, the Securities and Exchange Commission has handled 47 mergers and acquisitions proposed with the exception of the recent consolidation in the banking sector. The first attempt on merger was in 1982, which was between United Nigeria Insurance Company Limited and mergers proposal failed. The next was in 1983 which was between AG Leventis (Nig) Limited and Leventis Stores and Lipton Nigeria Ltd took the stage. In 1985 saw John Holt Limited coming together with Bauchi Bottling Company Limited.

Although merger and acquisition are often uttered in the same breath and used synonymously, they mean different things. When one company takes over another and clearly established itself as the new owner, the purchase is called acquisition. From the legal point of view, the target company ceases to exist, the buyer "swallow" the business and the buyer's stock continues to be traded. According to Eleh (2005) in the pure sense of the term, a merger happen when two firms often of about the same size to go forward a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as "Merger of Equals".

In practice, according to Eitemen (2004) actual mergers of equals do not happen very often usually one company will buy another and as part of the deals term. Simple allow the acquired firm to proclaim that action is a merger of equal even it is technically an acquisition. Being bought out often carries negative connotations, therefore by describing the deal as a merger, deal makers and top managers try to make the acquisition more palatable.

Furthermore, a purposeful deal will also be called a merger when the chief executive officers of the companies agree that joining together is in the best interest of them. But when the deal is an acquisition. Therefore, whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced. The real difference lies in how the purchases is communicated to and received by the target company's board of directors, employees and shareholders. Merger reflects better in the books than outright acquisition. The following should be noted as regards merger.

STATUTORY PROCEDURES FOR MERGERS AND ACQUISITION

According to Eleh (2005) the Companies and Allied Matters Act 1990 (ISA) provide the primary legal provision for affecting mergers and acquisition in Nigeria. Specifically, section 100 of the Investment and Securities Act 1990 (ISA) stipulates that any merger and acquisition arrangement reconstruction involving two or more companies which should result in the transfer of all or some of the undertaking via a scheme. When the proposed combination is likely to result in a change in the rights or liabilities of all or some of the shareholders debenture holders or creditors of the company, the scheme should be undertaken in compliance with section 539 of Companies and Allied Matter Act 1990 herein after refer to as CAMA, 1990 and Securities and Exchange rules and regulation on merger and acquisition, section 227 of Securities and Exchange Commission provides that the consenting companies in the companies on the modalities agreed to, for the merger and acquisition detailed below. File with the Securities and Exchange Commission (SEC) a pre merger notice.

a. Letter of intent to merge signed by the merging companies
b. A detailed description of the proposed transaction including all the background studies relating to the merger, acquisition the justification for it.
c. Detailed information about the product lines or operations of the companies.
d. A list of the major competitors in that product market and the market share of each of the companies in the proposed merger.
e. The structure and organization of each of the companies.

f. Revenue information about the operations of the companies.
g. An analysis of the effect of the merger on the relevant market including the post merger market position of the surviving company.
h. The proposed amendment to the Memorandum and Article of Association of the surviving company.
i. The Memorandum and Articles of Association of the companies merging certifies by the Corporate Affairs Commission.
j. The latest financial report of the merging companies when the Securities and Exchange Commission reviews the pre-merger notice and find that the proposed merger or acquisition satisfies all statutory provisions, it will grant provisional approval called approval-in-principle.

RECENT MERGER AND ACQUISITION IN THE BANKING SECTOR

All over the world given the globalize financial and industrial system, size has be done an important ingredient for the survival player in various industries. Take for example, the banking industry; the creation of the world's banking system through mergers and acquisition. According to Professor Charles Soludo, Governor of Central Bank of Nigeria. "This trends of cost saving due to economies of scale enhanced efficiently in resources allocation and risk reduction arising from improved garment" (Business Day, January 23, 2005).

Taking a historical run down on this, mergers and acquisitions in the banking industry is now a globalized phenomenon. The United States of America has over 7, 000 case of mergers and acquisitions. Since 1980, United Kingdom and other European countries are not left out in this trend especially between 1997 – 1998. A merger in France resulted in a new bank having a capital base of $688 billion. For firms to be more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasing globalized business world, mergers and acquisitions have become prominent strategies. In Korea for example, the banking system was left with only 8 commercial banks with about 4, 500 branches after consolidation. Looking at this trend the visualize Nigeria and the world economy in 2025 and 2050 that he sees the world economy no more than 10 – 20 mega banks all over the world.

In the African continents, mergers and acquisitions are taken place in other parts of the world like Asia, Europe sod South America. For example in South African Amalgamated banks of South African (ABSA) has asset base larger than all of Nigeria commercial banks put together. In Malaysia, banks were required to raise their capital base from $70 million to $526 million in a year.

RESEARCH METHODOLOGY

This work was carried out to examine mergers and acquisitions as instrument for corporate survival and growth with survey of two companies: United Nigeria Textiles Plc and Nichemtex Industries Plc, Unipetrol Nigeria Plc and Agip Nigeria Plc.

.**POPULATION AND SAMPLE SIZE OF STUDY**

The population of this study includes all firms and industries operating as a result of mergers and acquisitions in Nigeria A random sampling was used to select two (2) companies from different industries out of the entire firms operating under mergers and acquisitions. Although all these firms operate as a result of mergers and acquisitions, United Nigeria Textiles Plc and Oando Plc were selected due to their widespread activities and uniqueness of their product in the market.

METHOD OF DATA COLLECTION

The data used for this work is secondary data and were extracted from the annual report of the companies under consideration and from the achieve of the Nigeria Stock Exchange that is from the financial statements of United Nigeria Textiles Plc and Oando Plc.

METHOD OF DATA ANALYSIS AND PRESENTATION

The analysis of data in the study took the form of hypothesis testing. In testing this hypothesis of this study, ratio analyses were employed because it helps the researcher to know the relationship between variables. The financial statement of United Nigeria Textiles Plc and Oando Plc were processed by the use of financial ratio. These ratios were computed based on the five year financial summaries of both companies and the decision criteria into consideration in knowing whether mergers/acquisitions were good or bad for these companies was that, if the ratios value was higher in the pre-mergers analysis than the post merger analysis, then it could be that the mergers and acquisitions has not help as instrument for corporate survival and growth, but if the ratios value was higher in the post merger analysis than the pre-merger analysis, then it could be that merger and acquisitions has help as instrument for corporate survival and growth. This analysis was compared with similar firms in the industries to arrived at a conclusion as to whether mergers and acquisitions was good or bad for United Nigeria Textiles Plc and Oando Plc. In the analysis of United Nigeria Textile Plc, the focus was based on the five year pre-merger report (1996 – 2000) and five year post merger reports (2002 – 2006). For that of Unipetrol Nigeria Plc now Oando Plc the report was based on the five years pre-merger (1996 – 2000) and five year post-merger report (2002 – 2006).

In the analysis of United Nigeria Textile Plc, the focus was based on the five year pre-merger report.

DATA PRESENTATION AND ANALYSIS

It is an indisputable fact that presentation and analysis in the most important and major aspect of any research work. Hence, data presentation and analysis were carried out according to the research question of the study and it relates to the research hypothesis.

Therefore, this chapter attempts to classify respondents' attributes and responses to questionnaire tabulation. The statistical techniques employed include tabulation is sample percentage and chi-square to the purpose of extracting relevant information. The questionnaire contains the background information about the respondents.

HYPOTHESES TESTING

The chi-square denoted by the Greek letter X2 will be used here in testing the hypotheses that were stated in chapter one. A chi-square is a simple statistics for the purpose of the research, it is computed as thus:

$$\mathbf{X^2 = \sum \frac{\underline{(0 - e)}}{e}}$$

Where:

$\sum$ = Summation

O = Observed frequency

e = Expected frequency

X^2 = Chi-square

The expected frequency will be calculated as thus:

The significance of obtaining X^2 can be evaluated by consulting a table of critical value of X^2. The critical value indicates the value that obtained X^2 must be equal or exceed to, the significant at the 0.05 levels, the critical value of freedom. The degree of freedom of chi-square is easily calculated as thus:

df = (R – 1) (C – 1)

Where: R = Number of row C = Number of column

If the computed X^2 (chi-square) is greater that the table value, the H_0 (Null hypothesis) is rejected and it means that H_1 (Alternative hypothesis) will be accepted.

Hypothesis I

H_0: Mergers and Acquisitions have not increase shareholders' wealth is the stock of merged and acquired companies.

The chi-square (X^2) test that at 95% confidence interval is employed test the hypothesis level of significance (0) = (3-1) (2-1) = 2. Since the degree of freedom is 2 the critical value using chi-square table is 5.991.

Decision Rule and Conclusion

Since the calculated value of 8.491 is greater than the critical value of 5.991 we reject the H_0 (null hypothesis) and accept H_1 (alternative hypothesis) and conclude that merger and acquisition contributes to corporate survival and growth.

Hypothesis 2

H_0: Merger and Acquisitions have not contributed to the growth and development of the economy.

The chi-square tested at 95% confidence interval is employed to test the hypothesis level of significance. Degree of freedom (df) = (8 – 1) (3 – 1) = 14. The critical value using chi-square is 23.6848 for expected value.

Decision Rule and Conclusion

Since the calculated value of 83.457 is greater than critical value of 23.6845, we reject the H_0 (null hypothesis) and accept H_1 (alternative hypothesis) and conclude that merged and acquisitions have contributed to the growth and survival the economy.

SUMMARY OF FINDINGS

The global trends in corporate governance are mergers and acquisitions as growth and performance strategies Eleh (2005). In a developing country like Nigeria, where doing business have a high degree of risk and our insurances companies are not viable enough to take care of corporate risk, an option could be mergers and acquisitions. It was observed from the study that the ratios after the merger of the companies under studies in the individual years and the average profitability ratios and some of valuation ratio fall, except for some other valuation ratios. Though the trend in the industry showed the same merger and acquisition could be beneficial if all relevant issues are carefully analyses so as to increase investors' wealth, which are determine by the ratios that has been analyzed.

CONCLUSIONS

The result of this research work shows that mergers and acquisition did not improve the financial position of the companies that were studied, though it somehow increase the wealth of shareholders of some companies and decrease some others as well. These were the trend with similar firms that were used for comparison, though some were better off while some were worst off. However, it should be noted that factors such as globalization, privatization and liberalization of the domestic economy could have affected the results obtained. In addition, incompatibility of the merged firm such as the policies, culture of the different firm could also affect the growth of the companies. Also, the financial statement obtain has been useful to demonstrate growth but they have not been able to show items which are not financial in nature such as government policies, actions of major shareholders. The human factors labour turnover, political and economic future of the operating environment, international environment which may affect the companies business.

RECOMMENDATIONS

In order to ensure that the benefits of mergers and acquisitions are reaped, we recommend that companies taking part in mergers and acquisitions should involve all shareholders in the proposed deal. A thorough study should be carried out so as to consider all factors relevant to the success or failure of these corporate strategies. Furthermore, government should encourage declining or distressed companies to engage in merger/acquisition by providing incentives such as tax holiday, loss relief and capital allowance. Above all, government should constantly provide the enabling and conducive environment for mergers and acquisitions to flourish.
Factors relevant to the success or failure of mergers and acquisitions (corporate strategies) include:

1. Do a thorough diagnostic review before commencing with merger in order to establish a business case and align it with clear financial case and determine strength in core businesses.
2. Establish an acquisition strategy that focuses on the sources of value, including a strategic fit, an operational fit and a chemistry fit.
3. Determine the maximum 'cost to achieve" that would be apid before commencing with the merger, giving adequate consideration to due diligence and accurate valuation.
4. Determine the degree of integration and address integration issues, especially management and culture.
5. Clearly quantify all revenues, cost and operational synergies:
   i. Set targets
   ii. Assign responsibility and ownership
   iii. Maintain existing business momentum, operation metrics and commitments
6. Focus on a quick integration process – iterative speed matters
   i. Prioritize integration efforts on clearly defined drivers of value (quick hits)
7. Align organization roles and responsibilities:
   i. Address retention issues
   ii. Consider the importance of culture 'humanize' the merger process and
8. Clearly and frequently communicate to stakeholders (internal and external) the implications and progress of the mergers exercise.

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