Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.13, 2015

Impact of Merger and Acquisition on the Growth of Nigerian Banking Industry

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Abstract:
The banking industry in Nigeria has long been experiencing one reform or the other since inception. These reforms were so, in order to put the sector, which is believed to be a stimulant of economic growth and development, in the right track financially. One of the reforms that is of much interest is the consolidation through mergers and acquisitions with particular reference to the 2004 – 2005 and 2011 – 2012 wave of mergers and acquisitions in the Nigerian banking industry. Although this reform brought with it some positive changes in the nature of improved economies of scales, financial stability and efficiency, certain adverse effects were observed. The aim of this work is to investigate the impact of merger and acquisition on the growth of Nigerian Economy using descriptive study and qualitative data. The paper found that there is long run impact of merger and acquisition on economic growth in Nigeria. The study also recommends that Policy makers should implement a law or statute that will protect the rights and interest of the employees during and after any event of mergers and acquisitions.
Keywords: Merger, acquisition, economic growth, financial system, consolidation.

Introduction

In changing business, financial and economic environment. Corporate mergers, acquisition, takeover etc becomes inevitable. Globally such business combinations have involved various sizes of companies as well as assets and have cut across economic sectors. Banking reform in Nigeria has been an integral part of the country-wide economic reform program undertaken to reposition the Nigerian economy to achieve the objectives of sustained macroeconomic development stability. For the banking sector to be among global players in the international financial market, it must effectively perform its intermediation function (Alade, 2012).

Consolidation is achieved through merger and acquisition. A merger is the combination of two or more separate firms into a single firm. The firm that results from the process could take any of the following identities: acquire target or new identity (Lekan, 2000).

Acquisition on the other hand, takes place where a company takes over the controlling shareholding interest of another company. Usually, at the process, there exist two separate entities or companies. The target company becomes either a division or a subsidiary of the acquiring company (Pandey, 1997).

The process of bank merger and acquisition has been argued to enhance bank efficiency through cost reduction in the long run. It also reduces industry's risk by bigger and stronger banks as well as creates intermediation.

The financial service industry is reconstructing and consolidating at an unprecedented rate around the global particularly in the USA, Western Europe and Asia (Osubo, 2006). Specifically in the period 1997-1998; 2003 bank merger and acquisition occurred in Western Europe, In 1998 a merger in finance resulted in a new bank with capital base of $686 billion, while merger in Germany in the same year created the second the second largest bank in Germany with a capital base of US$546b. In Japan, Bank merger has produced the new Tokoyo Mitsubishi bank over US$700b in assests.

The banking industry is the most vibrant sector in the Nigeria economy. Historically, the industry has developed in four stages: the first stage can best be described as unguided, Laisez faire phase (1930-1959), during which poorly capitalized and unsupervised indigenous banks failed before their twentieth anniversary. The second stage was the control regime (1980-1985), during which the CBN ensured that only "Fit and proper" persons where granted licenses subject to a minimum paid-up capital.

The third stage was the post SAP regime (1986-2004) during which the neo-liberal philosophy of "free entry" was overstretched and banking licenses were dispensed by the political authority on the basis of patronage. The emerging fourth stage is the era of consolidation with emphasis on recapitalization and proactive regulation base on prudential principles.

The process of recapitalization and restructuring of Nigeria commercial banks has been gathering space since the decision was made by CBN on the recapitalization of Nigeria banks from #2b to #25b by December 31st 2005. The scheme as confirmed by the CBN governor is subtle way to compel Nigeria banks to merge so as to strengthen in totality the Nigeria banking system through merge and acquisition. The process would further enable the banking sector to meet up with international standards.

REVIEW OF RELATED LITERATURE

This section reviews numerous literatures that are related to the topic of study.

ACADEMIC REVIEW

Osho (2004), carried out a study on "consolidation through merger/acquisition; where it showed that the general accepted standard of a well-managed and profitable business is growth. From his findings it was discovered that the differential line between the internal and external growth cannot be undermined. He went further to reveal that the potential for generating new ideas and products may be limit thus making internal growth less desirable. Hence, some firm feel that it is cheaper to grow by purchasing an existing business than starting from the cradle. Where this growth is desirable, itis possible to shorten the time require to plough back profit into working capital by acquisition of existing business than starting from the cradle. Ebong (2005) in his work "the banking capital industry and the Nigeria economy: post consolidation; buttressed this fact by an examples that the building of a large steel plant which involves large investment can be achieved through stock exchange more cheaply than if the company buys the facilities themselves.

According to Kama (2006), apart from merger and acquisition being a better option for ailing companies, it can present opportunities to boost economic growth and development in a period of serious economic reorganization and adjustment. He showed that some organizations that find it unbearable to cope with the wind of changes may capsize under the weight of structural adjustment programme and may only get a life line from the respite by being taken over by more buoyant company.

Generally, the term business growth is used to refer to various things such as increase in the total sales volume, an increase in production capacity, an increase in raw materials etc. These factors indicate growth but do not provide a specific meaning of growth. Simply stated, business growth means an increase in the size or scale of operation of a firm usually accompanied by increase in its resources and output (Berger,2003).

Above all, Ozor (2009) describe business growth as an increase in value of an investment. Growth implies expansion of a firm's operation in terms of sales, profit and sales, profit and assets.

A critique look at the above empirical work shows that While Osho (2004) looks at the dividing line between internal and external growth, Kama (2006) highlights the need for merger and acquisition as a wiser option for an ailing company and means of boosting economic growth and development in a period of serious economic reorganization.

THEORETICAL FRAME WORK

The theoretical framework that will guide this study is the synergy theory. Synergy is defined as increase in the value of a company's activities, which result from combining separate operation into a single operation. In order words, it is the interaction of direct agencies or agents such that the total effect is greater than the sum of individual effect (Opera, 1990).

Emekewue (2005), writing on the objective of merger and acquisition stated that " one of the reasons for its occurrence is that such combination may provide synergistic or extra mutually beneficial and re-enforcing advantages". Each of the merging organization may posse special positive characteristics that will be extremely beneficial to the other and to the post-merger entity.

Certainly the use of synergy theory in this study is a suitable one. It is believed that two firms have ability and capacity of achieving more in combination than their individual parts. Frank and Scolfield (1992) stated that these benefits can occur through increased market power, economy of scale, reduction of administrative and overhead cost and in the area of finance, management and technology.

In fact, the synergistic benefits are enormous. For instance the area of increased market power whereby a firm merger with another firm so as to take advantage of marketing synergy.

Finally, in a simple term, synergy means two or more things functioning together to produce a result not independently obtainable. Synergy originated from the Greek word Synergos-meaning "working together". Synergy theory is based on the Gestalt theory proposed by a Gestalt Psychologist called max Wertheimer in 1930, who observed that "the whole is more than the sum of its parts". Todays Gestalt theory equivalent is called "Synergy Theory", espoused by cockerill in 1995.

Types of Mergers

Based on existing literatures, different types of mergers exist. They are horizontal, vertical, conglomerate and concentric mergers.

Vertical:

This is a 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. (Gaughan, 2007)

Conglomerate

A conglomerate merger occurs when unrelated organisations combine or firms which compete in different products market which are situated at different production stages of the same or similar products combine to enter into different activity fields in the shortest possible time span and reduce financial risks by portfolio diversification. (Okonkwo, 2004; Gaughan, 2007)

Concentric
Concentric merger involves firms which have different business operation patterns though divergent but may be highly related in production and distribution technology. (Jimmy, 2008; Alao, 2010)

Horizontal
This merger involves two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service.

Stages in Mergers and Acquisitions
A five stage model provided by Sudarsanam (2003) results to a successful execution of mergers and acquisition which gives rise to a synergistic gain. Theses stages are; corporate strategy development, organizing for acquisitions, deal structuring and negotiation, post-acquisition integration and post – acquisition audit and organisational learning.

The corporate strategy development has to do with optimizing the portfolio of businesses that a firm currently owns and how this portfolio can be changed to serve the interest of the corporation's stakeholders.

Organizing for acquisitions embraces setting up criteria and/or processes that will guide the potential acquisition. It shall also be in line with the strategic objective of the firm

The deal structuring and negotiation stage proves to be a tricky business due to the financial implications which it tends to have for both the acquirer and the acquired that does not possess the necessary experience or professional guidance due to asymmetric information.

Post-acquisition integration involves the combination of distinct organisations into one, resulting in changes in both the target and the acquirer, to deliver the strategic and value expectations that informed the merger (Sudarsanam, 2003)

Post-acquisition audit and organisational learning has to do with long-term plan evaluation, adjustment and capitalizing on success of mergers and acquisitions.

Organising for acquisitions embraces setting up criteria and/or processes that will guide the potential acquisition. It shall also be in line with the strategic objective of the firm

Motives
Many motives behind mergers and acquisition have been laid bare by quite a number of literatures. Riley (2012) divided these motives into three main groups namely; strategic, financial and managerial motives.

Strategic Motive:
This motive is focused on improving and developing the business and it's also linked to competitive advantage. Mergers, in this case, are simply about a firm becoming bigger, acquiring capabilities and competences. The motives to fall under this group will be; establishing global market leadership, accessing emerging markets, acquire patent and manufacturing expertise, exploiting economies of scale, market entry, positioning for further takeovers, increase market share, diversification, consolidation etc.

Financial Motive:
Financial motives have to do with making best use of financial resources for shareholders. It is also concerned with improved financial performance. Mergers, in this case, are designed to achieve a satisfactory role of return for the investment and risk been taken. In other words, the financial returns are most important and it is upon this drive that the deal is made.

Managerial Motive
This is focused on the self-interest of managers and it is not necessary to the best interest of shareholders. This merger is spurred by the personal ambition and convictions of the directors of the firm.

Motis (2007) in his work also divided the motives into two groups namely; motives that increase the wealth of the value of the firm and motives that increase the wealth of the managers. Such motives like enhancement or strengthening of market power, pre-emptive and defensive takeover, disciplinary takeovers, financial cost savings, synergy gains, efficiency gains are found under the group that increases the value of the firm.

In the second group of motives, Motis (2007) portrayed firms as complex organisations in which there is a separation between shareholders (ownership) and managers (control). Conflicts arise between the two as the former being the principal seeks to maximise the firm's value and the latter being the agent seeks to increase their wage or ego. The motives that seek to increase the wealth of the managers may be known as agency motives. Managers, in this case, are searching for gains at the expense of shareholders gains. Such motives like empire building, hubris (proposed by Roll (1986). managers incorrectly believe to be better able to manage other companies. That is, they are overconfident in their managerial abilities and end up overpaying for a target which makes the acquiring firm to lose), risk spreading and diversification fall under this group.

Mergers and Acquisition Events in the Nigerian Banking Industry
The new capitalisation policy of the Nigerian government on banking sector reform had forced many banks to

merge or be acquired which resulted to the formation of mega banks (Ebimobowei and Sophia, 2011).

The industry has no doubt experienced lots of transformations with respect to mergers and acquisition. The two major merger and acquisition ever to be recorded (prior to the mergers and acquisitions wave of 2004 and 2005) in the history of Nigerian banking are the 1894 acquisition of African banking Corporation by the British Bank for West Africa (now First Bank of Nigeria Plc) and Union Bank of Nigeria's acquisition of Citi trust Merchant Bank in 1995.

The number of banks in Nigeria was reduced from 89 to 25 in 2005. The banks either resorted to merger or were acquired by other banks in order to achieve the 25 billion naira recapitalisation drive. It further came down to 24 in December 31, 2005 when a merger occurred between IBTC Chatered Bank Plc and Stanbic Bank of Nigeria Limited.

Another wave of mergers and acquisition was experienced between 2011 and 2012. During this period, 10 banks were indicted by the apex financial institution, the CBN. After some scrutiny, five banks out of the ten were marked to be rescued namely; Oceanic Bank International Plc, FinBank Plc, Intercontinental Bank Plc, Union Bank Plc and Equitorial Bank Limited.

The reform of the rescued banks unleashed tremendous changes in the banking sector. The exercise has also placed the banking system on a new trajectory of growth.

Shareholders of the five rescued banks had endorsed all the mergers and acquisitions agreements signed by their respective banks. With that development, the total number of banks in the country was reduce from 24 to 20, as four of the financial institutions (Access Bank, First City Monument Bank (FCMB), Sterling Bank and Ecobank), that acquired the rescued banks had disclosed plans to completely integrate their operations.

Value propositions of the mergers and acquisitions

The core benefit that has continued to propel mergers and acquisitions as fastest corporate growth strategy lies in the creation of competitive advantages that leverage on the strengths of the combining entities while minimizing their weaknesses. The global economy has in recent time witnessed many voluntary business combinations from otherwise strong companies to further drive growth and returns.

The business combinations by banks would specifically lead to injection of much-needed capital, improved liquidity and competitive positions, economy of scale and synergies, significant cost reduction, more robust banking platforms and product offerings, improved corporate governance and banking best practices, immediate reclamation of eroded shareholders' values while kick-starting the gradual build-up of future shareholders' values.

The interest by foreign banks to invest in the Nigerian banking sector may have been borne out of CBN's re-defined capitalization policy which categorizes banking operations and their capital base in to three: regional banking with a capital base of 10 billion naira; national banking with a capital base of 25 billion naira; and international banking with a capital base of 50 billion naira.

It is also expected that the entire banking industry would now be able to perform its function of financial intermediation effectively as well as facilitate capital formation.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSION

The banking industry serves as source of growth inducement to the economy. In other words, it is very crucial to economic growth. In order to make it remain so, a number of reforms have been introduced into the sector one of such reforms being the consolidation which mergers and acquisitions became the mechanism or vehicle used to achieve that.

Mergers and acquisitions in the Nigerian banking sector were to bring financial sanity in the industry in terms of financial stability, financial growth and efficiency. However, as laudable as this positivity may sound, certain adverse effects were also experienced. Employee behaviours were affected, employment status was deteriorated and the corporate governance overturned.

RECOMMENDATIONS

Based on the above work reviewed, the following recommendations were proffered;

a. Policy makers should implement a law or statute that will protect the rights and interest of the employees during and after any event of mergers and acquisitions.
b. Modest protocols for employment should be structured and implemented. The rationale behind favouring an educational background over another should be addressed and adjusted.
c. Effective legal and supervisory framework for banks' supervision should be put in place to check excesses and then to forestall deterioration in the corporate governance of banks.
d. It is imperative that the stages involved in mergers and acquisitions should be carried out with utmost diligence in order to do away with lapses that may backfire.

e. Employees should also be sensitized on the need for cordial relationships and good cooperation to exist in the work place regardless of whatever backgrounds are involved. Sessions and trainings should be organized to this effect.
f. Sessions to train and retrain existing employees, equipping them to fall in with the demands as against retrenchment should be advocated.

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