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The Impact of Forced Mergers and Acquisitions of Banks On Nigerian Banking Industry

Bukar Umar Bolori
Bangor University, North Wales, United Kingdom.

Abstract: This paper attempts to explore the impact of forced mergers and acquisitions of banks on the Nigerianbanking industry. In 2004 the Central bank of Nigeria projects that one of the factors that would ensure the banking industry more viable and performing is through enhancing their capital base. The Central Bank ordered the raise of banks capital to minimum of ₦25 billion (Nigerian Naira) [£90.5 million GBP] before the end of 2005. At the time it became difficult to most of the banks to meet the target they embarked on mergers and acquisitions. The initial 89 independent banks operating in Nigeria were reduced to 25 through regulatory mergers and acquisitions. The study found that mergers and acquisition in the banking industry in Nigeria did not produce any significant outcome the Industry still bears the old spots of uncertainties, weak and vulnerable to corruption. The study assessed the operational performance of the merged firms (bidder and target banks) and their counterparts (non-merged banks) within the banking industry for the sample period of twelve years, which includes both pre-merger and post-merger periods but excluding the year of acquisition transaction, 2005. The empirical analysis was run on the accounting information, i.e. annual financial reports, of individual banks surrounding the mergers was used to determine performance based on the firm's past and present financial data. This method was considered effective in study of merger and acquisition to determine performance by scholars like Meeks and Meeks 1981; Healy et al., 1992; Ghosh, 2001; Zollo and Singh, 2004.
Keywords: Impact, Banks, Mergers, Acquisitions and Consolidation.

Introduction

The Nigerian Banking sector has suffered problematic times since 1999, when the sector was facing problems of corporate governance as identified by the Central Bank of Nigeria. Since then the CBN started embarking on comprehensive reform agenda to bring the sector on the right track. One of the measures is by imposing an IMF Code of Good Practices on Transparency in Monetary and Financial policies. The policy implies the need to concentrate on developing the human resources capacity and adaptation of modern technology such as computerising the banking system in order to enhance efficiency and effectiveness in fulfilling the modern and international requirement. The overall idea is to ensure effective corporate governance and qualified individuals are appointed into both the top management and boards of the financial institutions. Finally, it requires decisively deal with unethical or profession misconduct would serve sanctions accordingly (CBN, 2002).

Despite the measuresemployed the financial institutions were still characterised by their inability to pay workers' salaries and benefits, very low profit margins or even losses, inability to carry out debts services, retrenchment, low productivity, etc. (Afolabi, 1999; Ikhideand Alawode, (2001). The decadence persisted up to the year 2004. The banks failure was caused by several factors, such as insufficient working capital, poor management, poor regulation, government politics and others (Afolabi, 1999). As part of new measures the Central Bank of Nigeria (CBN) issued an ultimatum, with a time limit 18 months, to all the commercial banks in Nigeria to have a minimum capital requirement of ₦25 billion (Nigerian Naira) [£90.5 million GBP] before the end of 2005. At the time it became apparently clear that is difficult to most of the banks to raise their capital based as imposed by the CBN, the only option available to them is mergers and acquisitions of the banks to meet the target. The situation at the end of 2005 compels the consolidation of most of the banks. The initial 89 independent banks operating in Nigeria were reduced to 25 through regulatory mergers and acquisitions but their number later fell to 24 via market-induced merger and acquisition. There is remarkable expansion of the banks the initial 2,900 branches of the 89 banks became 5,500 branches owned by 24 banks (CBN Annual Report, 2005; Sanusi, 2010). But the findings in this study indicates that the merger and acquisitions did not yield the needed result. In fact, in 2007 the CBN had to bail out some nine banks with₦620 billion (£2.24 GBP). In addition, the executive directors of those banks were withdrawn and replaced with technical expertise.

Concept of mergers and acquisitions

Mergers and acquisitions mean different things in different contexts. The two terms are in many aspects treated as one or interchangeably. Sudarsanam (2003) used merger, acquisition, takeover and buyout as synonyms (i.e. interchangeably) while the terms are sometimes treated as independently different (Gaughan, 2007). Mergers and acquisitions act a popular means of growth for firms (Huyghebaert and Luypaert, 2010; Sudarsanam, 1995). This definition focuses not only on corporate growth, but also on alternatives to growth by internal or organic capital investment, although companies sometimes prefer external means of growth through acquisitions to internal growth. While Sudarsanam (2010: 1) suggests M&As as a process 'where two companies are combined to achieve certain strategic and business objectives'. The objectives are not only significant to the companies alone but also to many other constituencies, such as workers, managers, competitors, communities and the economy in general. Business strategic objectives are concerned with creating a sustainable competitive advantage for the firm. Therefore, their success or failure has great consequences for shareholders and lenders as well as the above constituencies.

Pattern of Acquisitions

Studies showed that there are two main forms of mergers and acquisitions (Altunbas, 2013). The two forms are:

1. Friendly Mergers and Acquisitions: M&As negotiated within a friendly environment. The process begins when the management of one firm contacting the management of the target firm, normally through the investment bankers of each firm. When the M&As deal is made through the management of the concerned firm it is deemed friendly (Sudarsanam 2010).
2. Hostile Mergers and Acquisitions: M&As negotiated within an aggressive environment (Sudarsanam, 1995). Hostile M&As happen when 'tender offers to buy shares made directly to the target company shareholders, often without the support of the target management, generate more wealth for the acquire shareholders than mergers made with management support. In the UK, hostile acquisitions generate larger wealth than friendly mergers' (Sudarsanam 2010: 2).

Causes and Rationale for Mergers and Acquisitions

Mergers and Acquisitions as a phenomenon used to occur in bursts interspersed with relative inactivity and a pattern known as the wave pattern of M&As (Sudarsanam, 2003). There are several factors responsible for mergers and acquisitions depending on the situation that causes it (Altunbas, 2013). The recent high level of financial crisis that leads to general economic crisis that triggers consolidation through mergers and acquisitions is described as a merger and acquisition wave, it is called a "wave" because it comes and goes in different magnitudes and degrees (Weston and Weaver, 2001). The study of Mergers and Acquisitions has been a paramount theme in the business and economic world, more especially to companies' stakeholders and academia. In 2007 alone, over USD $4.5 trillion deals were announced worldwide, which included both national and cross-border mergers and acquisitions. However, in the same period, the number of deals in the financial industry worldwide exceeded 7,000 with a value of more than USD $700 billion (Thomson Finance, 2007: 2). Consolidation in the banking sector has been considered to be globally fundamental (Franco, 2009). The banking industry is an important instrument of enhancingeconomic growth and development in the country (CBN, 2004). Prior to the M&As in 2005, almost all Nigerian commercial banks (n=78, 93%) were characterized by non-performing loans, capital deficiencies, weak management and poor corporate governance which led to ethical misconduct, frauds and eventually distress (CBN, 2004).

Literature Review

An array of studies showed that mergers and acquisitions have a significant impact on corporate businesses, however, few studies were conducted on the impact it has on individuals acquiring shareholders particularly in terms of financial gain. Indeed, although the transformation of M&As is not a straight forward process M&As as a remediation tool has been transformed in recent years (Gaughan, 1991; Marchildon, 1991; Bengtsson and Skarvad, 2001; Buckley 1995). Mergers and acquisitions had both its pros and cons to business environment. The protagonists of Mergers and Acquisitions are a popular means of growth of a business (Huyghebaert and Luypaert, 2010). While Sevenius, (2003) found that M&As increases additional market shares, from a contrary view, M&A serves as a synergy in a business (Walter and Barney, 1990; Khan, 2011; Moffett and Stonehill, 1997). Mergers waves in the aggregate rise when several industries undergo concurrent shocks that make mergers more profitable.

The antagonists are of the view that the efficacy of M&A in consolidating business is still contested. Studies found that the average mergers and acquisitions wave have yielded unprofitable outcomes because they were unable to achieve their desire objectives (Hogarty, 1970; Gadiesh, Ormiston, and Rovit, 2003; Buono and Bowditch, 1989; Schneider, 2003). Sudarsanam (2010) argues that 'mergers and acquisitions more often destroy rather than enhance value for the acquirer shareholders'. However, do M&As really create value? Teply and Starova (2012) are of opinion that Mergers and Acquisitions can create value to the targets rather than the bidders.

Global Practice On M & A

CBN (2004: 3) stated that 'mergers and acquisitions especially in the banking industry is now a global phenomenon. Looking at the United State of America, there had been over 7,000 cases of bank mergers since 1980, while the same trend occurred in the United Kingdom and other European countries. Especially, in the period 1997 to 1998, 203 banks mergers and acquisitions took place in the Euro area. Cross-country mergers are also taking hold. In 1998 a merger in France resulted in a new bank with a capital base of US $688 billion [£410,55 billion GBP], while the merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US $541 billion [322.83 billion GBP]. In many emerging markets including Argentina, Brazil and Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as the repositioning of their operations to cope with the challenges of the increasingly globalised banking systems. In South Korea, for example, the system was left with only 8 commercial banks with about 4,500 branches after consolidation'. In Nigeria, there were 89 banks and the majority of them with a capital base of less than US$ 10 million, and having about 2900 branches. In comparing this to South Korea banks, 8 banks had about 4,500 branches and in South Africa, one bank with a larger asset base of more than entire 89 Nigerian banks worth (Ibid., 2004). In 2007 alone, the number of M&As' deals announced worldwide were 35,982 which accounts for an aggregate deal value of approximately £802.60 GPB billion in the USA and £1,821.82 GPB billion in Europe). (Huyghebaert and Luypaert, 2010

Implementation of M & A in Nigeria

Upon adopting M&As in the Nigerian commercial banking industry in 2005, over three quarters of the banks (n=68, 81%) of the banks consolidated through M&As, a large minority (n=10, 12%) collapsed and a small number (n=6, 7%) of the banks were self-consolidated by reissuing shares (CBN, 2004). Coincidently, while the consolidated banks were in their early phase of recovery, the global financial crisis of 2008 undermined the process, thus, adversely affecting the Nigerian banking industry's performance. Aluko (2008) argued that global financial crises in 2007 has undermined the adopted M&As in the Nigerian banking sector. Given the two intervening forces that impacted the Nigerian banking sector within a short span of time, this research intends to assess these banks' performance in two phases: that is pre and post M&As with particular reference to it consequences on acquiring shareholders.In 2004, the CBN came up with new banking reform policy, which was to be implemented in two main phases:

The first phase is the consolidating and strengthening the Nigerian banking system: This was to create a strong, reliable and diversified banking sphere which would ascertain the safety of deposits, influencing economic development and equally making the sector competent and capable of competing regionally and globally in the financial world. These would influence high returns to the investors and serve as an effective source of finance to businesses in the country. An effective banking system would normally attract foreign capital investments which would eventually influence general development in Nigeria. However, a position would place the country as a good competitive player in the 21st century. The adoption of Mergers and Acquisitions might be necessary for the consolidation and strengthening of Nigerian banks. The recent CBN assessment in 2004, carried out on commercial banks showed that out of 89 banks, 62 were rated as satisfactorily sound, 14 were at marginal level while 11 were rated unsound and 2 rated as totally weak because they did not deliver any return for that period. A further investigation of the banks in both their returns and efficiency reveals that the banking system has 19.2 per cent of total assets, total deposit liabilities of 17.2 per cent while 19.5 per cent of the non-performing assets. The situation was put under supervision.

The Second phase of the Nigerian banking reform attempts to address issues of diversification, including programmes to encourage the emergence of regional and unit or specialised banks (CBN, 2004). The financial crisis, which started as the bursting of the housing bubble in the United States in 2007 later escalated into a global economic crisis as a contagion and affected many countries and sectors extensively, including Nigeria

(Igbatayo, 2011; CBN, 2009; Nanto, K. D., 2009; Ashamu, and Abiola, 2012; World Bank, 2009; Avgouleas, 2008; Merrouche, and Habermeier, 2010; Sanusi, 2010).

However, the distress in the Nigerian banking system was amplified by the contagion as a liquidity crisis and in view of such CBN improvised several measures to deal with the development. Therefore, Central Bank of Nigeria responded to the development by improvising the following measures:

- 10.25 per cent to 9.75 per cent reduction in Monetary Policy Rate (MPR).
- 4.0 per cent to 2.0 per cent reduction in Cash Reserve Requirement (CRR).
- 40 per cent to 30 per cent reduction in the Liquidity Ratio (LR).
- Option issued to the interested banks to restructure their margin loans up till 2009.
- 360 days extension grace of lending facilities was issued to banks.
- Expanded discount window was introduced in order to allow additional instruments.
- Liquidity mopping-up was halted or suspended in 2008.
- A serious emphasis was stressed on the code of corporate Governance promulgated by the CBN in order to promote accountability and transparency in all the banks in the country.
- The CBN reviewed a contingency plan for taxonomic distress in banks.

Table A: The Nigerian commercial banks that survived 2005 restructuring exercise

S/N	BANKS	CONSTITUENT MEMBER
1	Access Bank Nigeria Plc	Access Bank, Marina Int'l Bank and Capital Bank International.
2	Afribank Nigeria Plc	AfribankPlc and Afribank Int'l (Merchant Bankers).
3	Bank PHB Plc	Platinum Bank Limited and Habib Nigeria Bank Limited.
4	Diamond Bank Plc	Diamond Bank, Lion Bank and African International Bank.
5	EcoBank Nigeria Plc	EcoBank Plc.
6	Equitorial Trust Bank Plc	Equitorial Trust Bank Ltd and Devcom Bank Ltd.
7	Fidelity Bank Plc	Fidelity Bank, FSB International Bank and Manny Bank.
8	First Bank of Nigeria Plc	First Bank Plc, MBC International Bank and FBN (Merchant Bankers).
9	First City Monument Bank Plc	First City Monument Bank, Coop Development Bank, Nigeria-American Bank and Midas Bank.
10	First Inland Bank Plc	First Atlantic Bank, Inland Bank (Nigeria) Plc, IMB International BankPlc and NUB International Bank Limited.
11	GT Bank Plc	GT Bank Plc.
12	IBTC-Chartered Bank Plc	IBTC, Chartered Bank Plc and Regent Bank Plc.
13	Intercontinental Bank Plc	Intercontinental Bank Plc, Global Bank Plc, Equity Bank of NigeriaLimited and Gateway Bank of Nigeria Plc.
14	Nigeria International Bank Limited(Citi Group)	Nigeria International Bank limited.
15	Oceanic Bank International Plc	Oceanic Bank International Plc and International Trust Bank.
16	Skye Bank Plc	Prudent Bank Plc, Bond Bank Limited, Reliance Bank Limited,Cooperative Bank Plc and EIB International bank Plc.
17	Spring Bank Plc	Citizens International Bank, ACB International Bank, Guardian ExpressBank, Omega Bank, Trans International Bank andFountain Trust Bank.
18	Stanbic Bank of Nigeria Ltd	Stanbic Bank of Nigeria Limited.
19	Standard Chartered Bank Ltd	Standard Chartered Bank Limited.
20	Sterling Bank Plc	Trust Bank of Africa Limited, NBM Bank Limited, Magnum Trust Bank,NAL Bank Plc and Indo-Nigeria Bank.
21	Union Bank of Nigeria Plc	Union Bank of Nigeria Plc, Union Merchant Bank Limited, Broad Bankof Nigeria Limited and Universal Trust Bank Nigeria Plc.
22	United Bank for Africa Plc	United Bank for Africa Plc, Standard Trust Bank Plc and ContinentalTrust Bank.

23	Unity Bank Plc	Intercity Bank Plc, First Interstate Bank Plc, Tropical Commercial BankPlc, Centre-point Bank Plc, Bank of the North, New African Bank,SocieteBancaire, Pacific Bank and New Nigerian Bank.
24	Wema Bank Plc	Wema Bank Plc and National Bank of Nigeria Limited.
25	Zenith Bank Plc	Zenith Bank Plc.

Source: CBN Annual Report, 2005(4).

NOTE: There are two foreign banks shown below:

1. Stanbic Bank of Nigeria Ltd.
2. Standard Chartered Bank Ltd.

Findings

The Results indicated despite the reform efforts, the Nigerian banking sector system remained fragile, as the measures failed to address their challenges. Problems in nine of the 86 Nigerian banks, for example, could not be solved through liquidation thus as argued by Sanusi (2010), 'if drastic action is not taken, the financial system could collapse'. After a comprehensive analysis of the situation, the CBN in collaboration with the Federal Ministry of Finance (MOF) and Nigerian Deposit insurance Corporation (NDIC) interposed ₦620 billion (£2.24 GBP) into the nine affected banks. In addition, the executive directors of those banks were withdrawn and replaced with technical expertise. All of these are with the goal of curtailing corruption and improving the efficiency and performance in the banking sector. The current study findings indicate that the large and more efficient banks took over the relatively small and underperforming banks. The second major finding was that mergers and acquisitions do not enhance financial efficiency rather they destroy values. The most surprisingfinding to emerge from the study is that M&As do not improve acquiring shareholders values. Evidence from the study concluded that force mergers do not yield a good result. The results also revealed significant dissimilarities in terms of size, capitalisation, credit risk, leverage, liquidity and return on assets between the merging partner (bidders and targets). Similarly, several significant variations existed between the bidders, targets and non-merged banks in forms of size, credit risk, leverage and liquidity. Based on the descriptive statistics, support was found for the hypothesis that mergers and acquisitions do not improve acquiring shareholders values. The evidence from this study suggests that large and efficient banks should halt from targeting small and less efficient banks for acquisitions. Hence, decision- makers should be very cautious in going for M&A as a source of enhancement operational efficiency. The current findings add substantially to a growing body of literature on M&As. It will likewise serve as a base for further studies, especially to the Nigerian banking sector. It also recommends some areas of related further studies based on the findings and limitations.

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