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MERGERS AND ACQUISITION – A TOOL FOR SURVIVAL AND GROWTH IN NIGERIAN BANKING SECTOR: A STUDY OF SELECTED BANKS

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ABSTRACT

This research work was carried out with main purpose of finding out whether mergers and acquisitions are veritable tools for survival and growth of Nigerian banking sector using Access bank and Intercontinental bank merger as a case point. Survey research design was adopted in carrying out this research work and the primary data for this study were obtained through questionnaire and observation while the secondary data were obtained from published journals, textbooks, paper presentations, newspapers, annual reports, central bank of Nigeria statistical bulletin and internet materials. A sample of 13 branches of Access bank in Anambra State out of 366 was selected on purposive basis for ease of access and 65 employees out of about 325 employees of the 13 branches were randomly selected and questionnaires administered accordingly. The returned questionnaires were tabulated and analyzed using simple percentage while t-test was used to test the formulated hypotheses. The study revealed that the merger between Access bank and Intercontinental bank was successfully completed but Access bank profitability, liquidity and capital adequacy ratios dropped in the post consolidation period. Thus Intercontinental bank was rescued through merger and acquisition but the impact was not much felt by the current Access bank group. The study recommends that mergers and acquisitions should not be done out of desperation and should not be seen as the only way out to reinstating ailing banks. It further recommends that monitoring authorities should institute stringent control measures and improve on their supervisory capacity in order to ensure stability in banking sector rather than resorting to merger and acquisition to correct wrongs.

INTRODUCTION

Banks as part of the Nigerian financial system channel scarce resources from surplus economic units to deficit units and they exert a lot of influence on the pattern and trend of economic development through their lending and deposit mobilization activities (Nzotta 2004). Thus banks are the cornerstones and indispensable element of the economy of a country. ." Consequently, it is submitted that the economic well being of a nation is a function of advancement and development of her banking industry (Obadan, 1997). These roles can be performed positively only if it is functioning efficiently.

Similarly, a strong and virile economy depends to a very large extent on a strong, stable and reliable financial system including the banking sector. This explains the frequency with which the Nigerian banking sector has witnessed repeated reforms which aimed at fine-tuning it to meet the challenges for economic stability and developmental goals which are not only limited to domestic savings mobilization and financial intermediation, but also the elimination of inefficiency to enhance financial efficiency.

In Nigeria, the reform process of the banking sector is part and parcel of the government strategic agenda aimed at repositioning and integrating the Nigerian banking sector into the African regional and global financial system.

Over the years, commercial banks have been witnessing a lot of financial crises which result in bank distress. In order to curb this, the Central Bank of Nigeria (CBN) introduced bank consolidation (merger/acquisition) programme and mandated banks to comply before 31st December, 2005. This 2005 consolidation programme sent some of these banks on the move while those that failed to comply with the mandate found themselves on the other side of the coin (failed/liquidated). Hence, merger and acquisition may be considered as an option for survival and growth.

Academic researchers in both developed and developing countries have posted mixed results on the benefits or otherwise of mergers and acquisitions as veritable tools for survival and growth. So the question remains “are mergers and acquisitions veritable tools for survival and growth as claimed by its protagonists?” This study will therefore, try to provide answer to this question in the particular context of the Nigerian Banking industry, using the Access bank/Intercontinental bank merger as a case in point.

OBJECTIVE OF THE STUDY

1. To ascertain if merger and acquisition have significant effect on bank liquidity
2. To ascertain if merger and acquisition significantly increases bank profitability
3. To determine if merger and acquisition have a positive and significant effect on the capital adequacy of banks.

HYPOTHESES OF THE STUDY

1. **Ho:** Merger and acquisitions do not have significant effect on bank liquidity
2. **Ho:** Merger and acquisition do not increase significantly bank profitability
3. **Ho:** Merger and acquisition do not have positive and significant effect on the capital adequacy of bank

SCOPE AND LIMITATIONS OF THE STUDY

The quality of any study involves a wide coverage of activities in the gathering of data. Merger and acquisition have become the most prominent process in the corporate world. Companies engage in mergers and acquisitions for the following reasons: synergy, monopoly, competition, survival, growth, Economies of scale etc.

Mergers and acquisitions can co-exist between financial institutions, non-financial institutions, financial/non-financial institution among others. Almost all Nigerian banks have been engaged in mergers and acquisitions between 2005 to 2011 for one reason or the other.

To carry out a research on all the banks that have been involved in mergers and acquisitions since 2005 and issues relating to them, a lot of time, finance, and other variable are required. However, due to financial, time and other constraints, the researcher limits the study to mergers and acquisitions as tools for survival and growth in Nigerian banking sector with reference to the recent merger that took place between Access bank Plc and Intercontinental Bank Plc.

REVIEW OF RELATED LITERATURE

MERGER DEFINED

The terms merger, acquisition and consolidation are often used interchangeably. However, there are some differences. A merger is the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations) (Jimmy, 2008; Alao, 2010). It can also be defined as the fusing together to submerge than separate identifies into a new company formed to acquire the assets and assume the liabilities of the liquidated company. A merger is viewed as situation where two or more companies combine together to form a larger business organization (Chief Oye Akinsulire 2006).

According to Pandey (2008), a merger is said to occur when two or more companies combine into one company. One or more companies may merge with an existing company or they may merge to form a new company. It is a situation where there is a complete amalgamation of the assets, and liabilities as well as shareholders interest and business of the merging companies.

A merger, according to Gbede Omotayo (2005) is a form of business combination whereby two or more companies join together either with one being voluntarily liquidated by having interest taken over by the other and enlarge surviving of the company. It was defined by the companies and Allied matter Decree 1990 as any amalgamation of the undertaking or any part of the undertaking or interest of two or more companies and one or more bodies corporate.

Also, Hitti, Ireland, and Hoskisson, (1999) defined merger as a transaction in which two firms agree to integrate their operations on a relatively coequal basis because they have resources and capabilities that together may create a stronger competitive advantage. Nancy Hubbard (2001) on the other hand, defined merger as a situation which involve similar-sized entities where both companies´ share are exchanged for shares in a new corporation.

In the same vein, Gaughan (2007) defines merger as a combination of two or more corporations in which only one corporation survives.

On the other hand, B. Coyle, 2000 defines it as the coming together of two companies roughly of equal size, pooling their resources into a single business. The stockholders or owners of both pre-merger companies have a share in the ownership of the merged business and top management of both companies continues to hold senior management positions after the merger.

A merger according to *Investment & Securities Act,* 2007 is the amalgamation of the undertakings or any part of the undertakings or interest of two or more companies or the undertakings or any part of the undertakings or interest of one or more companies and one or more bodies corporate. It entails the transfer of properties and liabilities of one or more companies to another. The transfer is however limited to those rights that can be transferred, and excludes personal contracts such as employment contracts, which has to be specifically provided for.

In the same vein, Gaughan (2007) defines merger as a combination of two or more corporations in which only one corporation survives. He further stated that the acquiring company assumes the assets and liabilities of the merged firm.

ACQUISITION DEFINED

Acquisition on the other hand, usually refers to a purchase of a smaller firm by a larger one. Chief Oye Akinsulire 2006 defines acquisition as where a party gains control over a company by acquired to control the interest by voting share capital. This is also known as take over. It is a fundamental characteristic of merger (either through absorption or consolidation).

Morgan, 1997 defines it as taking over the ownership of another company with a combination of the company's operation and with its own operations.

Jimmy, 2008; Alao, 2010 opined that an acquisition, is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. Sudarsanam (2003) on the other hand, stated that acquisition resembles more of an arm's length transaction with one firm purchasing the assets of the other and the shareholders of the acquired firm ceasing to be owners of the new firm. It is the takeover or purchase of a small firm by a big firm; which are both pursuing similar motives (Gaughan, 1999; Amedu, 2004; Bello, 2004; Katty, 2005).

Acquisition takes place where a company takes over the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes either a division or a subsidiary of the acquiring company (Pandey, 1999:885). Also, Hitti, Ireland, and Hoskisson, (1999)defined acquisition as a transaction in which one firm buys controlling or 100 per cent interest in another firm with the intent of more effectively using a core competence by making the acquired firm a subsidiary business within its portfolio.

In this regard, the term "acquisition" can be interchanged with "takeover". A company may also be acquired by purchasing either the entire issued capital of a company or its business and assets (Boardman, N & de Carle, R, 2007).

NATURE AND SCOPE OF MERGERS AND ACQUISITIONS

Literatures on mergers and acquisitions, consistently discussed four different types of mergers. These are horizontal, vertical, conglomerate and concentric mergers (Okonkwo, 2004; Gaughan, 2007).

Horizontal Merger is the merger of two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service (Gaughan, 2007: 13; Brealey, et al., 2006: 871; Okonkwo, 2004: 3). Horizontal integration is where a firm takes over or merges with a company in the same industry and at the same level in that industry, this is known as horizontal integration e.g. a merger with a direct competitor. In other words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical markets. The purpose of this type of merger is to eliminate a competitor company, to increase market share, buy up surplus capacity or obtain a more profitable firm in order to gain a competitive advantage. Besides such benefits, this type of mergers has the drawbacks of restricting new entrants into the market, thus harming outsiders due to diminishing competition (Gaughan, 2007). Typical examples of horizontal Mergers and Acquisitions are: IBTC-Chartered Bank merger with Stanbic Bank Nigeria Limited, Access Bank's merger with Capital Bank and Marina International Bank, and Platinum Bank Limited merger with Habib Nigeria Bank Limited in Nigeria (Adesida, 2008; CBN, 2005: 45; Ekundayo, 2008); and JP Morgan Chase's acquisition of Bank One (Brealey, et al., 2006: 871).

Vertical merger is a merger in which one firm supplies its products to the other. It results in the consolidation of firms that have actual or potential buyer-seller relationships (Coyle, 2000; Fitzroy, et al., 1998; Gaughan, 2007). This is the combination of two firms which are in the same industry but at different stages in the process of producing and selling of products e.g. if accompany were to take over a supplier of raw materials-*backward vertical integration.*

Conglomerate Merger 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 fields in the shortest possible time span and reduce financial risks by portfolio diversification (Brealey, et al., 2006: 871; Cartwright and Cooper 1992; Gaughan, 2007; Sharma, 2004 Okonkwo, 2004: 4). This is a term used to describe merger between companies, in unrelated lines of business.

Concentric mergers and acquisitions involve 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. (Cartwright and Cooper 1992; Jimmy, 2008; Alao, 2010; Jimmy, 2008; Alao, 2010; Sharma, 2004).

REASONS FOR MERGERS AND ACQUISITIONS

The question why mergers and acquisitions occur has multiple answers.

The often discussed reasons are synergy, agency costs due to self-serving acquirer managers, discipline of target management and managerial timing of high market valuation (Angwin, 2001; Rhodes-Kropf and Viswanathan, 2004; Shleifer and Vishny, 2003; Ayadi and Pujals, 2005; Higgins, 2009).

Alao (2010) opines that mergers and acquisitions represents the most widely used corporate strategy to penetrate into new markets and new geographic regions, gain management expertise and knowledge or allocate capital.

Mergers also help in the diversifications of products which help to reduce risk as well (Pilloff and Santomero, 1996). According to Pilloff and Santomero (1997), there is little empirical evidence of mergers achieving growth or other important performance gains. Their findings undermine a major rationale for mergers and consequently raised doubt about other benefits mergers and acquisitions may provide to businesses. They argue that mergers and acquisition activities can significantly reduce operating costs from the fact that larger firms can be more efficient if redundant facilities are eliminated.

The economic rationale of mergers and acquisitions is based on the belief that the advantages can be obtained through the reduction of expenses and earning volatility and the increase of the market power and economic of scale and scope (Kiymaz, 2004).

Soludo (2004) opined that mergers and acquisitions are aimed at achieving cost efficiency through economies of scale, and to diversity and expand on the range of business activities for improved performance.

Soludo (2004), in a banking committee meeting suggested that the following reasons are meant for banks merger and acquisition in Nigeria, viz:

1. To realize operating economics by eliminating duplication and unhealthy competition,
2. To acquire aggressive and competent management,
3. To eliminate or reduce competition,
4. To diversify, (spread risk),
5. To bolster asset banking in order to improve quality of earnings,
6. For protection against market infringement and unwanted takeover, and
7. To seek rapid growth and improved liquidity and ability to raise new finance through acquisition of a financially stable bank.

A merger or an acquisition is a method that is carefully planned to achieve a synergistic effect (Akinsulire, 2002:329). According to him, the reasons for mergers and acquisitions include to: buy up a company having competent management; improve earnings per share, inject fresh ideas for be access to the financial market, eliminate duplicate and competing facilities, secure scarce raw materials, diversify into other products or markets or to complete a product range, greater asset backing; and enhance economy of scale and corporate growth. The synergistic effect of mergers and acquisitions includes economics of scale through greater output, avoidance of duplication of facilities and staff services and stronger financial base. The economic benefits as rational for pursuing a merger or an acquisition include income enhancement, cost reduction and growth (Amedu, 2004:14).

Synergy is the generic term used in the field of business acquisitions and mergers to cover the economies which can result through integration, often expressed as 2+2=5. It means the sum of the whole is more than the summation of the individual component parts that make up the whole.

The type of economies which can be obtained for example are avoidance of duplication of staff services, economies of scale through greater output, wider technological marketing and financial base, cheaper and wider financial market, etc. (Chief Oye Akinsulire 2006).

According to B Coyle, 2000, there are many reasons for companies wanting to acquire other companies. These reasons include the pursuit of a growth strategy, the defense of hostile action from another would-be acquirer, and financial opportunities.

However, the commonest reason is that the merger will result in substantial trade advantage or greater profits than the combined profits of the two companies working separately. For instance, laying out the reason for the merger between Access Bank Plc and Intercontinental Bank Plc, the group Managing Director of Access Bank on 31st January, 2012 stated as follows –

The business combination leveraged Access Bank's customer base to 5.7 million with a branch network of 309 branches. The statement put the current asset base of the bank at N2.02 trillion, capital adequacy ratio at 18.55 percent, while liquidity ratio stands at 76 percent.

The group managing Director, Aig-Imoukhuede said that the transaction created a formidable Nigerian financial institution positioned among the top four Nigerian financial institutions.

"the merger has repositioned the Nigerian banking sector on African continent as the combined entity has the potential of ranking the bank amongst Africa's top 10 banks" he said. He further said, "The current 5.7 million customers of Access bank would benefit from a product range of both banks". He added that customers would benefit from an expanded network branches along with 1,600 Automated Teller Machine (ATMs) spread across the country (allafria.com)

More generally, motivation for takeovers and mergers may arise from the fact that cost of production would be less in a larger entity combined with enlarged operational capacity and reduction of duplications (the economies of scale). Mergers and acquisitions may enable a company acquire a competitor which poses substantial threat to it, or a company which supplies its raw materials or provides it with market outlets with the aim of assuring, improving these services, or ensuring that these companies are not taken-over by a competitor.

Again, the motivation may be diversification of enterprises with a view to ensuring stability of earnings; and it may be to acquire the much-needed technology or managerial expertise of another company. Large combines have more obvious financial advantages than small companies. There is an enlarged capital base, loan capacity, accelerated growth and increased earnings.

MERGERS AND ACQUISITIONS IN NIGERIA BANKING INDUSTRY

The banking sector plays a germane role in the economic development of a nation. The banking sector in any economy serves as a catalyst for economic growth and development through its financial intermediation function. Banks also provide an efficient payment system and facilitate the implementation of monetary policies. They help to stimulate economic growth by directing funds from the surplus unit of the economy to the deficit unit that need the funds for productive activities.

However if it is repressed, inefficient and incapable of providing timely and quality services, the banking system could become a major hindrance to economic growth and development.

Between 1892 when banking started in Nigeria and 1952 when the legal framework for it was laid out, banking was largely an unregulated activity in Nigeria. Since 1952, there has been significant growth in size and structure of banks. Financial liberalization led to a loosening of the conditions for granting banking license and consequently a sharp rise occurred in the number of banks between 1986 and 1993. By 1992, there were 120 banks with 3,300 branches up from 15 banks with 273 branches in 1970. A CBN stipulation that banks should have branches in major cities with CBN branches as a condition for direct cheque clearance led to a growth in branch expansion rate of 33.5 percent between 2001 and 2003. Banking distress reduced the number to 89 by 2004 (with 26 banks collapsing in 1998 alone). The majority of banks were fragmented, small and marginal players with only about 10 of the banks controlling over 50 percent of total industry assets and deposits.

The history of banking in Nigeria is replete with cases of Mergers and Acquisitions. The first case of Mergers and Acquisitions in Nigerian Banking Industry was the acquisition of African Banking Corporation (ABC) in 1894 by the British Bank for West Africa (now First Bank of Nigeria Plc). It is pertinent to note that the government desire to resolve prevailing banking problems and strengthen the financial sector at the time resulted to this strategy (Uche, 1999).

The evidence of merger amid Nigerian banks was in 1992 between BBWA and Anglo African Bank (Umunnaehila, 2001: 73).Three offers made by BBWA were unsuccessful. Atedo (2005) reports other Mergers and Acquisitions in the Nigerian banking sector to include: Union Bank of Nigeria's acquisition of City Trust Bank Ltd in 1995; acquisition of Meriden Equity Bank of Nigeria Ltd by Nigeria Intercontinental Merchant Bank Ltd in 1996; the acquisition of Magnum Trust Bank Ltd by Guaranty Trust Bank Limited also in 1996; the acquisition of Nigeria-Arab Bank Plc (the then Assurance Bank Plc) by National Insurance Corporation of Nigeria in 1997; and the acquisition of Continental Trust Bank by Standard Trust Bank Plc in 2003. It is, therefore, not out of place to state that the use of Mergers and Acquisitions in the Nigerian banking sector as a restructuring strategy is as old as the history of banking in Nigeria itself.

Despite the great benefit of Mergers and Acquisitions as catalyst for enhancing financial intermediation, Nigerian banks shied away from it but laid emphasis on having branches before CBN regulations July, 2004.

As at mid-2004 when the new CBN Governor was appointed, the industry faced myriad challenges including operating within a slow and structurally impeded system, frequent changes of policies about operations and government deposit management, periodic distress, weak credit regulation, poor management, macroeconomic and political instability, maturity mismatches, insider abuses, fraud and conflict of interest, general insecurity and corruption. Prior to this time, cultural and business model rigidities meant voluntary Mergers and Acquisitions were uncommon with only 11 cases of partial consolidation between 1991 and 2001. The CBN consolidation changed this significantly by raising the capital base from ₦2 billion to ₦25 billion.

Following this, the CBN encouraged banks to enter into mergers and acquisitions (M&A). The CBN also provided a range of incentives to accompany the implementation of the program. For example, a number of committees were instituted, whose terms of reference were expected to assist weaker and problem banks in facilitating their mergers and acquisitions (CBN 2004, 2005). Nzotta (2002) maintain that banks in Nigeria explored the option of mergers and acquisitions in an attempt to meet the capital base of ₦25 billion. Alao (2010) opined that Nigerian banks adopted different strategies to achieve the stipulated minimum capital base of ₦25 billion during the consolidation of banks in 2004 and 2005 which include mergers and acquisitions.

These were some of the antecedents that were used in convincing Nigerians that the merger and acquisition project in the banking sector was a globalised phenomenon.

There was also special assistance that took the form of a special forbearance framework, which took effect on 6 April 2005. The special assistance had two components one of which is a write-off of 80 percent of debt owed CBN by the banks, subject to:

- Recovery of non-performing owner/insider related loans and advances within two months
- Injection of any shortfall in the banks' capitalization to bring it up to a solvency status, also within two months;

The CBN converted the balance of 20 percent of debt to a long term loan of a maximum of 7 years at 3 percent per annum with two years moratorium. The CBN also announced that further forbearance on the balance of 20 percent of the debt could be extended to the new owners after its acquisition and meeting the N25 billion capital base. The idea was to increase attractiveness of the banks concerned and accelerate their merger and acquisition through debt write-off. Fortunately, the incentives were contingent upon recovery of nonperforming loans associated with owners and other insiders of the banks. This way, the CBN wanted to ensure that past mismanagement of banks were not rewarded. In its 2005 accounts, the CBN provided for these incentives by treating the loans to the affected banks as sunk and irrecoverable costs. The provision for the incentives to be contingent upon insider loan recovery led to only 11 banks actually benefitting from the incentive provision. Besides, it started midway into the consolidation program and this may have impacted on the number of banks that benefited ultimately.

In 2007 the number of surviving banks came down to 24 due to the merger between Stanbic bank Ltd and IBTC Chattered bank Plc which became effective on 24th September, 2007, at a shareholders' meeting held on 12th December, 2007 to effect the change of name to Stanbic IBTC bank Plc. Also, as at 1st January 2009, Bank PHB Plc acquired Spring Bank Plc, but each bank is operating differently on the basis of name and identity under BankPHB group over an integration period of less than two years.

As at 5th February 2009, the CBN restored the operational license of Savannah Bank of Nigeria Plc which was closed down on 15th February 2002 as a result of liquidity problem, bringing up the number of Nigerian banks to 25.

In 2009, Africa Report observed that Nigerian Banks have had a rough ride. The Nigerian Stock Exchange, according to it, had lost over 65% of its value since March 2008 and an estimated N8 trillion ($54 billion) had been wiped off bank stocks, which represented two-thirds of total market capitalization. Some banks were badly exposed. Wema Bank, according to the report, had not presented audited accounts since 2007. Unity Bank had not even released its 2007 accounts.

Most of the banks had over-leveraged their balance sheets during the boom cycle and were struck with trillions of naira worth of bad debts without disclosing it to investors. These shortcomings notwithstanding, Africa Report (2009) went ahead to rank the banks into four categories, without disclosing much details.

In the 'Strong' (i.e. banks that are thriving, may be in a position to profit from the (financial) crisis) categories are: Diamond Bank, First Bank, Guaranty Trust Bank and Skye Bank. The second category was 'Satisfactory' (i.e. some of the banks have margin lending issues but all will survive). In this category are: Afribank, Citibank Nigeria, Equatorial Trust Bank, Fidelity Bank, Platinum Habib Bank (Bank PHB), Stanbic IBTC, Standard Chartered Nigeria Bank, United Bank of Africa (UBA) and Zenith. The third category was 'Shaken' (i.e. banks with serious governance issues, need urgent attention). In this category are: Access Bank, Ecobank Nigeria, First City Monument Bank, Intercontinental Bank, Oceanic Bank, Sterling Bank and Union Bank. The fourth category was 'Stressed' (i.e. banks in the ropes, will either sink or be swallowed). In this category were: First Inland Bank, Spring Bank, Unity Bank and Wema Bank. As a result of this, on August 14th, 2009 the CBN declared five Nigerian banks illiquid as a result of inadequate capital ratio due to reckless lending, followed by two others on 2nd October, 2009 which resulted to the immediate sacking of the affected banks' Managing Directors.

As at the end of October 2012, the consolidated banks shrunk further to 21, out of which 3 (Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited) have "bridge banks" status. A "bridge bank" is a temporary bank organized by the regulators to administer the deposits and liabilities of a failed bank. In other words, 4 of the mega banks collapsed and 3 are on the brink of collapse.

2.6 REVIEW OF EMPIRICAL STUDIES

Numerous studies have been carried out on Mergers and Acquisitions.

Singh (1971), in a sample covering the period 1955-1960 found that two-thirds of the seventy-seven companies which acquired other companies in the same industry had lower profits in the year after merger than in the earlier years. Utomi, as quoted by Ahmad (2003) selected a sample of thirty-nine frequent acquirers in the period 1966-1970. For both periods, the average profitability of the sample was lower than that of the control group. Utomi concluded first that companies which had relied heavily on external expansion had a lower profitability in a subsequent period of internal expansions and second, that the profitability could be maintained more readily in companies which demonstrate a slower growth rate, but rely on internal rather than external expansion.

The study of Meek (1977) was based on a sample of 233 large listed companies in the UK, which merged between 1964 and 1974. The merger profitability (the average of the three years profitability prior to the merger) was estimated for the merging companies and was compared with after the merger, having 'standardized' the profitability in relation to the average profitability of the appropriate industrial sector. The outcome of the study shows that apart from the merger year itself, profitability declined on an average and between one-half and two-thirds of the companies experienced a decline in profitability in each year after merger.

Newbould (1970) revealed that after two years, seventeen out of thirty-eight companies in the sample reported no benefits were anticipated within the next five years. Thirty per cent of UK acquisitions were failures, concluded kitching (1974).

On the other hand, Tripe (2000) examined the effect of mergers and acquisitions on the efficiency of the banking industry. The study analysed a small sample of seven to fourteen banks, employed accounting ratios and two Data Envelopment Analysis (DEA) models to explore the efficiency of six banks mergers in New Zealand between 1989 and 1998. They found that the acquiring banks to be generally larger than their existing ones, although they were not consistently more efficient. They found that five or six merged banks had efficiency gains based on the financial ratios while another only achieved a slight improvement in operating expenses to average total income. Based on DEA analysis, they found that only some merged banks were more efficient than the target banks pre-merger. The results suggest that four banks had obvious efficiency gains post merger.

Badreldin and Kalhoefer (2009) examine the effect of Mergers and Acquisitions on banks performance in Egypt that has undergone mergers and acquisitions during 2002–2007, using return on equity. The findings conclude that merger and acquisition have no clear effect on the profitability of banks in the Egyptian banking sector.

In Nigeria, a lot of research has been carried out on mergers and acquisitions. For example, Elumilade (2008) worked on the effect of mergers and acquisitions on banks' operating performance in Nigeria. He found out among other things that the 2006 consolidation of banks in Nigeria led to improved performance of the merged and acquired banks, using the profit generating capacity of the banks. Their performances were better than those that did not merge.

Elumilade (2008) worked on the effect of mergers and acquisitions on banks' operating performance in Nigeria. He found out among other things that the 2006 consolidation of banks in Nigeria led to improved performance of the merged and acquired banks, using the profit generating capacity of the banks. Their performances were better than those that did not merge.

Okpanachi (2011) analyzed the impact of merger and acquisition on financial efficiency of banks in Nigeria, utilized gross earnings, profit after tax and net assets as indices of financial efficiency. The study uses three banks and the data obtained from published annual reports and accounts of the banks were analyzed using the t-test analysis. The banks were found to be more financially efficient in post-merger and acquisition than the pre-merger and acquisition period.

Employing the explorative research method, Ebimobowei and Sophia (2011) reveal that the consolidation activities in Nigeria did not meet the desired objectives of liquidity, capital adequacy and corporate governance which have resulted to more troubled banks after the consolidation. Using the same research method, with a sample of two banks (Access bank and Zenith bank) analyzing with financial ratios, the result of Jimmy (2008) suggests that access bank that pursued merger and acquisition witnessed a faster growth rate and zenith bank that pursued organic growth was able to sustain its quality performance trends. However, one of the banks used as sample size in this study was not a product of merger and acquisition.

Walter and Uche (2005) posited that mergers and acquisitions made Nigerian banks more efficient. They used table to present their data which was analyzed using simple percentage.

2.7 SUMMARY

In a nutshell, merger can be seen as the combination of two or more companies to form one new bigger company while acquisition is the takeover of a company by another company.

Merger can be horizontal, vertical, conglomerate or concentric. Companies engage in mergers and acquisitions for so many reasons such as; increase profitability, adequate liquidity, synergy, increase capital structure, competitive advantage etc.

Mergers and acquisitions has been in existence in Nigeria since 1982 but the hit was noticed in banking sector in 2005, when a lot of banks merged in order to meet up with the Central Bank of Nigeria (CBN) deadline to increase their capital base to 25 billion naira. Since then, there has been incidence of mergers and acquisitions in Nigerian banking sector.

Despite the re-occurring issues of mergers and acquisitions, not much research has been carried out by Nigerians on mergers and acquisitions.

The related literatures on merger and acquisition reviewed were studies which were based on company mergers and acquisition, which cannot be relied upon in accessing activities of banks. Although the studies by Tripe, and Badreldira and Kalhoefer were based on mergers and acquisitions in banking sector, they were focused on banks in other countries other than Nigeria which cannot be considered valid in accessing Nigerian banks.

However, most studies on Nigerian banks focused on the effect of consolidation (through mergers and acquisitions) on Nigerian banks.

It is pertinent to note that, though mergers and acquisitions can be used as alternative to achieve consolidation, yet consolidation is different from mergers and acquisitions. That is to say that consolidation can also be achieved through internal re-organization. On this note, the selected samples may include banks that merger with other and those that did not merger. Also the statistical tools used by the researchers were simple percentage and financial ratios.

Most importantly, none of these papers was specifically designed to examine how mergers and acquisitions as a tool for growth and survival of Nigerian banks. Apparently, there were notable sampling and methodological problems which may have given rise to the mixed findings in reviewed studies.

This paper seeks to close this gap and addresses the methodological inadequacies identified in the earlier empirical studies with the aim of ascertaining an improved empirical position. The researcher will therefore employ a sample of banks that are products of merger and acquisition and the data will be analyzed using a t-test, so as to get clear findings as to whether mergers and acquisitions serves as a tool for survival and growth of Nigerian banks. The use of specific data relating to the banks directly affected guarantees the validity and reliability of the empirical findings.

RESEARCH METHODOLOGY AND DESIGN

This chapter describes the procedure adopted in the study. It deals with a systematic process, procedure or techniques designed in generation, collection, and analysis of data with a view to appraise mergers and acquisitions- a tool for survival and growth in Nigerian banking sector.

RESEARCH DESIGN

Research design means the structuring of investigation aimed at identifying variables and their relationships to one another (Asika. N, 2006). This study will be based on Survey Research Design. The main characteristic of survey design is lack of control of respondents by the researcher. Here the researcher is interested in what is happening to a sample subjects or variable without any attempt to manipulate or control them.

SOURCES OF DATA

The technique adopted in obtaining data for this study relied on primary and secondary sources of data. The primary data for this study were obtained through questionnaire and observation while the secondary data were obtained from published journals, textbooks, paper presentations, newspapers, annual reports, central bank of Nigeria statistical bulletin and internet materials.

POPULATION OF THE STUDY

Population is used to designate the complete set of items that are of interest in any investigation. The items may be people or things that are observed in a given problem situation.

The population of this study consists of 366 branches of Access bank in Nigeria.

SAMPLE SIZE AND SAMPLING TECHNIQUE

13 branches out of 366 were selected on purposive basis for ease of accessibility because the researcher is based in Anambra State. However, 65 employees out of about 325 employees of the 13 branches shall be randomly selected. The questionnaires to be used for the purpose of this analysis shall be carefully administered to the selected employees in such a way that it shall cut across different departments of the selected banks.

METHOD OF DATA ANALYSIS

T-test shall be used to test the hypothesis. The t-test is used to determine the prior and post performance of an activity. In this study, it shall be used to evaluate the effect of Merger and Acquisition on survival and growth of banks in Nigeria pre and post consolidation.

The t- statistic is given by the formula.

$$t = \frac{\sum d}{\sqrt{\dfrac{N\sum d^2 - (\sum d)^2}{N-1}}}$$

Where;

d = the difference between each paired observation

d^2 = the square of the difference between each paired observation

N = the number of paired observation

$\sum$ = the usual sigma notation (summation).

N-1 =the degree of freedom

Decision Rule

If the probability (or significance) of the t calculated is less than 5%, we accept the alternative hypothesis and otherwise, we should accept the null hypothesis.

ANALYSIS OF PRE AND POST MERGER FINANCIAL PERFORMANCE

Formula:

1. Current ratio (CR) = current assets/current liabilities x 100/1
2. Quick ratio (QR) = percentage of (cash and short term investments + account receivables) to current liabilities
3. Return on average asset (ROAA) = percentage of net income to average assets.
4. Return on average equity = percentage of net income to average equity
5. Capital adequacy ratios (CAR) and Liquidity ratio are based on Access Bank reports
6. Average asset or Average equity = current year assets or equity plus previous year assets or equity divided by two (2).

TABLE 1: KEY FINANCIAL INFORMATION (NAIRA IN MILLIONS)

PERIOD	PRE-ACQUISITION PERIOD		PRE-ACQUISITION PERIOD	
Year	2010	2011	2012	2013
Total Asset	804,823.8	1,629,003.2	1,745,471.7	1,835,466.0
Total Equity	175,370.5	192,064.7	241,284.9	244,482.1
Total Current Asset	186,712.2	331,272.9	536,244.3	498,307.1
Total Current Liability	579,849.4	1,337,585.7	1,339,249.9	1,483,635.0
And Short Term Investmen	143,454.7	183,804.3	299,511.1	260,756.4
Receivables	8,720.4	31,609.7	46,774.4	27,307.9
Net Income	11,244.6	14,499.2	39,520.2	36,101.8
Average Equity	171,858.3	183,717.6	216,674.8	242,883.5
Average Asset	749,303.9	1,216,913.5	1,687,237.5	1,790,468.9

Source: Access Bank Reports.

TABLE 2: KEY FINANCIAL RATIOS IN PERCENTAGES

	PRE-ACQUISITION PERIOD		PRE-ACQUISITION PERIOD	
RATIOS	2010	2011	2012	2013
ROAA	1.5	1.19	2.34	2.02
ROAE	6.54	7.89	18.24	14.86
CAR TIER 1	23	21	22	19
CAR TOTAL	24	22	23	20
CR	32	25	40	20
QR	26	37	27	19
LR	37	72	60	57

TABLE 3: T-TEST ON PRE AND POST MERGER AND ACQUISITION LIQUIDITY

Null Hypotheses: Mergers and acquisitions do not have significant effect on bank liquidity

RATIOS	PRE(average)	POST(average)	D	D^2
CR	28.5	30	1.5	2.25
QR	31.5	23	-8	64
LR	54.5	58.5	4	16
N = 3	N-1 = 2	∑	-2.5	82.25
			p = 0.42	t = -0.23

From the above table, the calculated p-value is 42%, which is higher than the 5% level of significance. Therefore the null hypothesis is accepted.

TABLE 4: T-TEST ON PRE AND POST MERGER AND ACQUISITION PROFITABILITY

Null Hypotheses: Mergers and Acquisitions do not increase significantly bank profitability

RATIOS	PRE (average)	POST(average)	D	D^2
ROAA	1.35	2.18	0.83	0.69
ROAE	7.22	16.55	9.33	87.05
N = 2	N-1 = 1	∑	10.16	87.74
		P= 0.22	T =	t = 1.20

From the above table, the calculated p-value is 22%, which is higher than the 5% level of significance. Therefore the null hypothesis is accepted.

TABLE 5: T-TEST ON PRE AND POST MERGER AND ACQUISITION CAPITAL ADEQUACY

Null Hypotheses: Mergers and Acquisitions do not have positive and significant effect on the capital adequacy of banks in Nigeria

RATIOS	PRE(average)	POST(average)	D	D^2
CAR: TIER 1	22	20.5	-1.5	2.25
CAR: TOTAL	23	21.5	-1.5	2.25
N = 2	N-1 = 1	∑	-3	4.5
			p = 0.50	t = 0

From the above table, the calculated p-value is 50%, which is higher than the 5% level of significance. Therefore the null hypothesis is accepted

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

SUMMARY OF FINDINGS

From the information gathered in the course of this research and the tested hypotheses, the following findings were made:

1. The merger and acquisition between Access bank and Intercontinental bank was successful.
2. Both banks were previously involved in 2005 mergers and acquisitions exercise.
3. Access bank current assets/total assets increased after mergers and acquisition but its current assets/total assets increased at a higher rate. This unequal rate of increase resulted to decrease in bank's liquidity in the post consolidation period.
4. Increase in the bank's gross profit after merger and acquisition was attacked by a considerable increase in expenditure, therefore there was no significant increase in net income.
5. There was a slight increase in bank's profitability immediately after merger and acquisition but it declined in the subsequent year.
6. Mergers and acquisitions created no impact on the bank's capital adequacy ratio.
7. Immediately after merger and acquisition, many staff of the defunct intercontinental bank were laid off in a bid to curtail cost.

CONCLUSION

From all indications, series of mergers and acquisitions have been carried out in Nigerian banking industry yet the problem of the industry has not come to an end. In the case of access bank and intercontinental bank, it is evident that in as much as merger and acquisition was used as a rescue operation on Intercontinental bank, the impact is not much felt on the current Access bank group. Thus mergers and acquisitions can be used to rescue ailing banks and protect creditors and depositors yet other interested parties may be negatively affected, and growth and continuity may not be fully guaranteed.

RECOMMENDATIONS

Based on the above stated findings, the researcher would like to make the following recommendations:

1. Mergers and acquisitions should not be done out of desperation and should not be seen as the only way out to reinstating ailing banks.
2. The monitoring authorities should improve in their supervisory capacity and pursue policies that would ensure

safety, soundness and efficiency in Nigerian banks.

3. Central Bank of Nigeria (CBN) should institute stringent control measures on banking operation in order to ensure stability rather than resorting to mergers and acquisitions to correct wrongs.
4. Banks should be innovative in investments and marketing of their products in order to increase their market value and performance.
5. Survival and growth in Nigerian banking industry requires collaborative efforts of Government, monitoring authorities, operators in the industry and the general public.

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