MERGERS AND ACQUISITIONS AS IMPETUS FOR ACHIEVING CUSTOMER-DRIVEN DEVELOPMENT OF THE BANKING SECTOR IN NIGERIA

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ABSTRACT

The aim of this research is to assess the effectiveness of mergers and acquisitions in the drive towards creating a Nigerian banking industry that is customer-focused. The research was carried out using a sample of one hundred and twenty (120) respondents comprising of customers of four banks namely: UBA Plc, Skye Bank Plc, GTBank Plc and Zenith Bank Plc. The four banks consist of two that were merged or acquired and two that were able to raise their capital base without mergers and acquisition. A structured questionnaire was administered on the respondents to elicit information on their perception of the performance of the banking industry after it was restructured in 2005.The analyses show that with an overall mean value of 2.89 for banks that merged or acquired, and 3.12 for banks that did not undergo mergers and acquisition, customers of banks that did not merge appear more satisfied than those of the merged banks. They also show that the mean scores for questions regarding interest on loans and advances are higher than 3. These means suggest that customers somewhat agree that improved capitalization has indeed reduced interest on loans and advances. We conclude therefore that the directives given to the banks by CBN to merge or be acquired in order to increase their capital base may have been rightly given as there is indeed an improvement in banking practices as shown by customers' satisfaction and accessibility to loans and advances. Also, the indirect merger justification of increasing market power has been significantly achieved. Through the mergers and acquisitions, the merged or new banking institutions were better able to compete with similar institutions within their markets both locally and internationally (particularly at the African regional level), and have increased their product sales, and, thus, their gross revenue.

KEYWORDS: Merger, Acquisition, Customer-Driven, Development, Banking-Sector.

INTRODUCTION:

In 2004, the Central Bank of Nigeria (CBN) embarked on the reformation of the Nigerian banking industry. In the words of the then Governor, Prof. Charles Soludo, strengthening and consolidating the banking system constituted the first phase of the reforms designed to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors' money,

play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial systems. The goal of the reforms therefore, was to help banks become stronger players, and ensure longevity and hence higher returns to shareholders over time and greater impacts on the Nigerian economy (Soludo, 2004).

Between 2004 and now, the Nigerian banking sector has undergone remarkable changes in terms of the number of institutions, ownership structure, as well as the depth of operations among the banks. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential guidelines that conform to international standards.

Before CBN decided to embark on the reforms, the banking industry had witnessed series of turbulent times. In particular, the decade 1995 to 2005 was traumatic for the Nigerian banking industry; with the magnitude of distress reaching an unprecedented level, thereby making it an issue of concern not only to the regulatory institutions but also the policy analysts and the general public. Thus the need for a drastic overhaul of the industry was quite apparent (Elumilade, 2010). Despite these spates of distresses, banks were unwilling to take steps towards mitigating the trend especially in the face of global developments. Majority of the then 89 banks, including those that were "marginally" healthy held tight to their positions, perhaps for fear of losing their ownership and control of the banks. It was apparent then that the banks would not voluntarily engage in efforts to consolidate the industry.

Mergers and acquisitions are primarily driven by business motives and/or market forces, and regulatory interventions. Since the essence of the CBN's reforms is to bring greater efficiency not only in the operations of the banks but also their contributory roles to the overall economy, then it is important to examine whether the recent mergers and acquisitions have really impacted positively on both credit allocation and savings mobilization through reduced cost of borrowing and increased returns on savings.

Prior to the reform of the Nigeria banking sector in 2004, there were a lot of problems militating against the Nigerian banks from performing their functions. Some of these problems included insider abuse, loss of confidence by the customers and shareholders, long customer queues in the banking halls due to poor infrastructure and technology, lukewarm attitude of investors towards

investing in the industry among others. The situation of the industry then was aptly captured by Soludo (2004) who declared that "in recent times, many banks appear to have abandoned their essential intermediation role of mobilizing savings and inculcating banking habit at the household and micro enterprise levels. The apathy of banks towards small savers, particularly at the grass-root level, has not only compounded the problems of low domestic savings and high bank lending rates in the country, it has also reduced access to relatively cheap and stable funds that could provide a reliable source of credit to the productive sectors at affordable rates of interest". He went further to state that the structure of the banking system promoted tendencies towards a rather sticky behaviour of deposit rates, particularly at the retail level, such that, while banks' lending rates remained high and positive in real terms, most deposit rates, especially those on savings, are low and negative. In addition, savings mobilization at the grass-root level had been discouraged by the unrealistic requirements, by many banks, for opening accounts with them. As enumerated by Alao (2010), the fundamental problems of the banks, particularly those classified as unsound, have been identified to include: persistent illiquidity, poor assets quality and unprofitable operations. He also stated that the major problems of many Nigerian banks were as follows:

a) Weak corporate governance, evidenced by high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and demarketing of other banks in the industry;

b) Late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness;

c) Gross insider abuses, resulting in huge non-performing insider related credits;

d) Insolvency, as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses;

e) Weak capital base, even for those banks that have met the minimum capital requirement, which currently stands at N1.0 billion or US$ 7.53 million for existing banks and N2.0 billion or US$ 15.06 million for new banks, and compared with the RM 2.0 billion or US$ 526.4 million in Malaysia.

f) Over-dependence on public sector deposits, and neglect of small and medium class savers.

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Thus the need for a drastic overhaul of the industry was quite apparent. To redress the weaknesses in the sub-sector, the Central Bank of Nigeria in collaboration with other institutions such as the Nigeria Deposit Insurance Corporation, Securities and Exchange Commission and the Nigerian Stock Exchange embarked on a comprehensive bank consolidation programme in 2004. By the end of the programme in December 2005, only 25 banks had met the minimum capitalization requirements. Fourteen banks could not raise their capital base or merge with others and were subsequently liquidated.

It is now over six years since the banking industry was consolidated. The marching order handed down to the then 89 banks to merge, acquire, be acquired or risk forced liquidation remains to be evaluated vis-à-vis the objectives of the consolidation exercise which were many and far-reaching.

Proponents of the financial sector consolidation argue that institutions need size to spread and, according to Alabi (1996), growing information technology and processing costs over larger revenue bases. Another key factor is the need for greater market capitalization, with governments and financial sector regulators accepting financial operators' arguments that greater size is crucial to cost-cutting and strong national institutions.

Types of Mergers and Acquisitions- Previous studies on Mergers and Acquisitions consistently discussed three types: Horizontal; Vertical; and Conglomerate mergers. However, Cartwright and Cooper (1992) and other writers mentioned and discussed a fourth type, which is Concentric mergers (Gaughan, 2007; Brealey, et al., 2006; Okonkwo, 2004).

Vertical Merger- Vertical Merger 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 (Coyle, 2000; Fitzroy, et al., 1998; Gaughan, 2007).\

Horizontal Merger- Horizontal Merger is the merger of two or more companies operating in the same field and in the same stage or process of attaining the same commodity or service

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(Gaughan, 2007; Okonkwo, 2004). In other words, a horizontal merger is the combination of firms that are direct rivals selling substitute products within overlapping geographical markets.

Conglomerate Merger- A 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; Cartwright and Cooper 1992; Gaughan, 2007).

Concentric Merger- This involves firms which have different business operation patterns, though divergent, but may be highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation, or technologies of the acquiring firm under concentric M&A (Cartwright and Cooper 1992; Fisher, 2009; Sharma, 2009).

Stages of Merger and Acquisition- Saudarsanam (2003) provides a five-stage model that will result in successful pursuit of synergistic gains from Mergers and Acquisition:

Corporate Strategy Development-

Corporate strategy development is concerned 'with ways of optimising the portfolios of businesses that a firm currently owns, and how this portfolio can be changed to serve the interests of the corporation's stakeholders' (Saudarsanam, 2003: 4).

Organising for Acquisition-

The firm lays down the criteria for potential acquisitions consistent with the strategic objectives and value creation logic of the firm's corporate strategy and business model.

Deal structuring and Negotiation-

According to Saudarsanam (2003), this stage of M&As involves: (a) valuing target companies, taking into account how the acquirer plans to leverage its own assets with those of the target; choice of advisers to the deal; (b) obtaining and evaluating as much intelligence as possible about the target from the target as well as other sources through due diligence; (c) determining the range of negotiation parameters including the walk-away price negotiating warranties and indemnities; negotiating the positions of senior management of both firms in the post-merger

dispensation; and (d) developing the appropriate bid and defence strategies and tactics within the parameters set by the relevant regulatory regimes.

Post-Acquisition Integration-

This stage involves the combination of the 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 (Saudarsanam, 2003).

Motives behind Merger and Acquisition

The dominant rationale used to explain merger and acquisition activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance (Umunnaehila, 2001):

Synergy: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

Increased revenue or market share: This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

Cross-selling: For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.

Economy of scale: For example, managerial economies such as the increased opportunity of managerial specialization. Another example are purchasing economies due to increased order size and associated bulk-buying discounts.

Taxation: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

HISTORY OF BANKS RECAPITALIZATION IN NIGERIA:

The Nigerian banking system has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure as well as depth and breadth of operations (Adegbaju, 2007). The author also observe that these changes have been influenced largely by challenges posed by deregulation of financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform to international standards.

Capitalization is an important component of reforms in the Nigerian banking industry, owing to the fact that a bank with a strong capital base has the ability to absorb losses arising from non-performing liabilities. Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market (Ajayi, 2005). The recapitalization of banks is not a new phenomenon. Right from 1958 after the first banking ordinance in 1952, the colonial government then raised the capital requirement for banks especially the foreign commercial banks from 200,000 pounds to 400,000 pounds. Also, in 1969, capitalization of banks was N1.5million of foreign banks and N600,000 for indigenous commercial banks. In 979 when the merchant banks came on board the Nigerian banking scene, the capital base was N2million (Adegbaju, 2007).

As from 1988, there had been further increase in the capital base, particularly coupled with the liberalization of the financial system and the introduction of Structural Adjustment Programme (SAP) in 1986. In February 1988, the capital base for commercial banks was increased to N5million while that of merchant banks was pegged at N3million. In October that same year, it was jerked up to N10million for commercial banks and N6million for merchant banks. In 1989 there was further increase to N20million for commercial banks and N12million for merchant banks.

Similarly, Ajayi et.al (2005), opined that in recognition of the fact that a well-capitalized bank would strengthen the banking system for effective monetary management, authority increased the minimum paid-up capital of commercial and merchant banks in February 1990 to N50 and N40 million from N20 and N12 million respectively. Distressed banks whose capital fell below recommended amount were expected to comply by 31st March, 1997 or face liquidation. Twenty

six of such banks comprising 13 each of commercial and merchant banks were liquidated in January, 1998. Also, the minimum paid up capital of merchant and commercial banks was raised to a uniform level of N500 million with effect from 1st January, 1999 and by December 1998, all existing banks were to recapitalize. In 2001, when the universal banking was adopted in principle, the capital base was jerked up to N1billion for existing banks and N2 billion for new ones. However, in July 2004 the new governor of the Central Bank of Nigeria (CBN) announced the need for banks to increase their capital base to N25 billion; all banks were expected to comply by December 2005. At the end of the recapitalization exercise, only 25 banks survived out of the then existing 89 banks after mergers and acquisitions among the banks had taken place.

METHODOLOGY:

The data required for this study were obtained from both the primary and secondary sources. The primary data were collected through the use of questionnaire . The secondary data or information was collected from textbooks, journals, internet materials, and other publications that are related to the study.

The sample size for this study is 120 (one hundred and twenty) respondents. This figure was arrived at using the rule of the thumb. In other words there is no scientific basis as to how the figure was arrived at. However, the rule of the thumb is one of the acceptable methods of selecting samples in a survey study. Also, the number of respondents that were selected is regarded as adequate for the study such that the outcome of the data analysis can be generalized.

The 120 (one hundred and twenty) respondents were selected using multi-stage sampling technique. As a result, Lagos was divided into three along the senatorial district for convenience. From each senatorial district, two major areas consisting of urban and suburb areas were selected; bringing the number of areas to six. From the six areas, one branch each of the four banks was selected bringing to twenty-four the number of branches covered. From the twenty-four branches, five (5) respondents were randomly selected; bringing the total number of respondents to one hundred and twenty (120).

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Questionnaire is the research instrument for this study. It consists of three parts. The first part of the questionnaire contains structured questions about the demographic variables of the respondents. The second part however consists of structured questions about the respondents' business operations, especially those aspects that bother on the operation of their accounts. The third part asks questions about the level of satisfaction among the banks' customers. The questionnaires were distributed to the 120 respondents at random.

The techniques that will be used to analyze the data for this study include both descriptive and inferential statistical tools. The descriptive tools include percentages, frequency tables and charts to measure the demographic and other components of the questionnaire. The inferential statistical tools include the chi-square, and Spearman correlation coefficient to test the different hypotheses that were put forward in the study.

RESULTS AND DISCUSSIONS:

The following tables, which were generated through the use of SPSS (Statistical Package for Social Sciences) version 15.0 explain the outcome of the data analyses:

On the banks under study and the distribution of respondents among them it was existed that out of the 112 questionnaires that were returned, 22 (19.6%) were UBA customers, 50 (44.6%) bank with Skye bank, 25 (22.3%) were customers of GTB, while 15 (13.4%) patronize Zenith bank. All the questionnaires returned were valid on this question as the question was also correctly answered by all the respondents. perception of the current level of operation in the banking industry when compared with periods before 2005 when the industry was reformed. Study shows that out of the 112 respondents whose questionnaires were returned, 81 (72.3%) believe the industry is better now than before 2005, 20 (17.9%) believe there is no difference in the industry despite the consolidation, while only 11 (22.3%) opined that the industry is getting worse. This means that in the opinion of the customers, the industry has improved after consolidation. All the questionnaires returned were valid on this question as there were no missing data.

The research findings are summarized as follows:

The operational activities of the bank being a fall-out of the merger process have to some extent improved customers' satisfaction. Other benefits that are derivable from mergers and acquisition through customers' satisfaction include improvements in the banks' profitability, earning per shares, strong capital base, and improved customers services through continuous investment in technology among others

The study further shows that the merger and acquisition of UBA and Skye bank, and the increased capital base of the banks have restored public confidence in the banking industry and may also attract more investors. The study finds that the mean score for the analysis on the accessibility of loans and advances, the means ranged from 2.15 to 3.34. These means, when considered on a scale of 5, are mostly below the mid-point of 3; therefore suggesting that customers still experience a lot of difficulties in obtaining loans and advances from the big banks. The result of the analysis also shows that there is a positive but weak relationship between size and satisfaction. Meaning that bigger size leads to satisfaction and the apex bank (CBN) may have achieved their objectives but there is still room for improvement. The analysis shows that with an overall mean value of 2.89 for banks that merged or acquired, and 3.12 for banks that did not undergo mergers and acquisition, customers of banks that did not merge appear more satisfied than those of the merged banks. Analysis also shows that the mean scores for questions on interest on loans and advances are higher than three. These means suggest that customers somewhat agree that improved capitalization has indeed reduced interest on loans and advances. From the analyses, it is possible to conclude that the directives given to the banks by CBN to merge or be acquired in order to increase their capital base may have been rightly given as there is indeed an improvement in banking practices as shown by customers' satisfaction and accessibility to loans and advances.

In this study attempts was made to highlight the significance of mergers and acquisitions as tools for restructuring the Nigeria banking sector and the economy as a whole. The concept of merger and acquisition, its purposes, benefits, types, amongst others were examined.

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From the review of related literature, analyses and interpretation of data, the study concludes that mergers and acquisition are really good for enhancing control, rapid growth and survival of banks in Nigeria.

One can assert that there is a dawn of a new era in the banking industry. This is due to the fact that the CBN is not resting on its oars to bring out policies aimed at ensuring stability and transparency in the banking operating environment.

The study shows that the mergers and acquisitions in the banking industry are among the policy trusts of the government to correct the anomalies in the industry .More importantly , the merger has sharpen the competitive edge in the industry that they need to play in the emerging global financial markets .

The study further shows that one of the fall outs of the mergers is the shrink in the number of banks in Nigeria. Nigeria now has mega banks with huge capital to invest , but it is instructive to note that size and huge capital do not necessarily make a good and sound bank if customers are not satisfied and the bottomlines realized. What makes a sound bank is really how effective and efficient the management of the bank is deploying the available resources. Many of the merger/acquisition either directly or indirectly justified their mergers through the fact that the combined asset base (size) would be larger and, thus, allowing the combined institutions to make loans to companies and individuals that the individual banks could not have previously serviced due to capital base lending regulatory restrictions and lean capital base. In essence, the larger capital base allowed the merged institutions to offer a new product (bigger loans) to an existing customer or to gain new customer through the new product offering. In addition, on the same path many of the applications justified the merger through the ability to offer a greater number of products, increasing their sales and, thereby, increasing gross revenue.

The last point deals with the indirect merger justifications of increasing market power. Through the merger, the merged institutions would be better able to compete with institutions within their market, increasing their product sales, and, thus, their gross revenue. As can be seen, much of the results support some of the intentions of CBN: (1) merging to increase financial performance (net operating profits) and (2) merging to gain financial benefits through increasing lending capacity for banks. Further analysis and research in this area will lend even further insight into

the motivating reasons behind bank mergers and acquisitions, and the resulting strategic benefits derived from the merger activity.

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