Merger and Acquisition as Survival Strategies in Nigeria's Banking Industry: A Study of Skye Bank Plc and Enterprise Bank Plc

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ABSTRACT

The incessant failure of both small and big companies while others manage to stay afloat especially in the banking industry has led to the issue of merger and acquisition. Many companies are of the opinion that to remain in the market, they must merge with other companies while others simply surrender themselves to be acquired by larger firms. It has, therefore become pertinent to investigate the relevance of merger and acquisition as strategy for survival in the banking industry. Survey research design was adopted for the study. A total of 30 staff and customers of Skye Bank Plc and Enterprise Bank Plc respectively were randomly sampled, and stratified along management staff and the customers. A structured questionnaire was used to elicit information. The result revealed a great deal of relevance of merger and acquisition as a strategy for survival in the banking industry. The study is concluded by recommendation that merger procedure should be streamlined in line with economic realities so as to safe the moribund banks from imminent total collapse.
Keywords: *Merger, acquisition, take-over, consolidation and recapitalization.*

INTRODUCTION

Merger, acquisition, business alliance and other corporate restructuring activities are increasingly commonplace in both developed and emerging economies. In Nigeria, merger and acquisition relatively became significant in the 1980s. Many of the cases handled by Security and Exchange Commission (SEC) must have been induced by the prevailing economic problems (SEC Quarterly, 1988). Many companies as a consequence, had to close down while others managed to stay afloat. The resultant effects may be retrenchment, fall in purchase power etc. There is also observed increase in price level and cost of borrowing index. In these circumstances, financially weak companies had to seek merger with stronger companies. The acquiring companies on the other hand, saw the combination as an opportunity to expand, diversity, capture a potential market and improve profitability (Ekuankuma and Braye, 2012). The failure of banks in the 1990's and early 2000's made the former governor of Central Bank of Nigeria (CBN), Prof. Charles Soludo to announce on July 6, 2004 that minimum capital requirement base of the banks in the country would

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be raised from N2billion to N25billion. The new policy which required banks to comply with the directive by the end of December 2005 was aimed at significantly strengthening the operating environments for banks to perform their intermediation role effectively and efficiently. The new capitalization level of banks was to foster consolidation of the banking industry through merger and acquisition (Ayade, 2007). Banks in Nigeria explored the options of merger and acquisition in an attempt to meet the capital base of N25billion. Merger and acquisition represent the most widely used corporate strategy to penetrate into new markets and new geographic regions, gain management expertise and experience and effectively allocate the available capital. The question why merger and acquisition 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 valuation. Merger and acquisition in the banking industry are aimed at achieving economies of scale and scope. This is because as the size increases the efficiency of the system also increases. Merger also helps in the diversification of products which helps to reduce risk as well as failure. The economic rationale of merger and acquisition 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 economies of scale and scope (Oghiafor and Adebisi, 2012). Merger and acquisition have drawn much attention in academic research one stream of which investigates whether Merger & acquisition can create or destroy value of shareholders. Empirical evidence indicates that on average there is no statistical significant gain in values or performances from merger activity, yet merger continues (Alao, 2010).

However, some banks in Nigeria are facing some problems that led to the 2004 and 2005 banks consolidation through merger and acquisition from a capital base of N2 to N25 billion. A good example is the renaming and/or rebranding of Spring Bank Plc to Enterprise Bank Plc, Afribank Plc to Mainstreet Bank and Bank PHB to Keystone Bank in early 2012.Oceanic Bank Plc was acquired by the Ecobank in the late 2011. An observed feature of most merger plans in Nigeria has been the fact that they are undertaken by banks having common foreign affiliation. It does appear that common affiliation makes it easier for the affected parties to reach accord more quickly. On the other hand, the tempo of merger proposals prior to the introduction of Structural Adjustment Programme (SAP) was accentuated more than Post-SAP era when it appears that accessing foreign facilities had become an uphill-task.

Conceptual Clarification

Merger arrangement of the companies regardless of the number and size are basically on equal terms. In some mergers, the legal existence of the affected companies is terminated and a new one is incorporated to take up the assets and liabilities of the companies, for example, if companies A & B merge to form company C, the former companies cease to be legal entities. In other instance, the share and assets of all the companies are brought under the umbrella of one of the merging companies. An illustration, if companies X, Y and Z merge but agree to retain the corporate entity of company X. In the first case, another

entity is formed with new name and this is often referred to as consolidation or amalgamation whereas in the second scenario, all but one of the companies ceases to exist. The choice of company to be obtained would usually be influenced by a variety to factors which could include its popularity, market size, performance record (Guaghan, 2007). The term "Acquisition" is often used interchangeable with merger. This is because of the mix in their definition. However, Jimmy (2008) opines that the acquisition of firm B by firm A occurs when firm A acquires 51% or more of firm B's equity. Therefore firm B ceases to be a separate legal entity. Mergers and acquisition, amalgamation and take-over are important features in corporate structural changes. They have played an important role in the external growth of most of the leading companies in the world today.

Nature and Scope of Merger and Acquisition

The term merger refers to the combination of two or more organizations into one large organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). An acquisition on the other hand is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm (Jimmy, 2008 and Alao, 2010). In the same vein, Gaughan (2007) defines merger as a combination of two or more corporations in which only one corporation survives. Richard and Stewart (2000), point out the difference when they describe merger as the process whereby two or more corporations come together to combine and share their resources to achieve common objectives with the shareholders of the merger firms still retaining their ownership and this may sometimes lead to new entity being formed, while acquisition resembles more of an arms-length transactions with one firm purchasing the assets and liabilities of the other and the shareholders of the acquired firm becoming part owners of the new firm.

Types of Merger

According to Gaughan (2007) and Okonkwo (2004) cited in Appah and John (2007) literature on merger and acquisition consistently discussed different types of merger. These are vertical, conglomerate, horizontal and concentric mergers. Vertical merger is a merger in which one firm which supplies its products to the other. A vertical merger results in the consolidation of firms that have attained potential buyer-seller relationships. A conglomerate merger occurs when unrelated organization combine or firm which compete in different products in markets which are situated at different production stage of the same or similar products combine to enter into different activity field in the shortest possible pattern though divergent but may be highly related in production distribution technology. Horizontal merger is the integration of two or more companies operating in the same field and in the same stage of process of attaining the same commodity or service. Sudarsauam (2003) argues that an understanding of acquisition decision process is important since it has bearing on the quality of acquisition decision and its value creation logic. The deal structuring and negotiation stage of merger and acquisition is tricky business and it has serious financial implication for both the acquirer and the acquired that do not possess the necessary expertise or professional guidance due to asymmetric information.

Determinants of Merger

Albert (1986) opines that one of the key factors of a free enterprises; price-driven economy is the strategy for entry. Every corporate entity in such an economy is faced with problem of growth whether in output or profitability. Growth may be achieved through internal or external entry into a new industry or market. The considerations that inform the choice of entry made are many and diverse, and may not be of general application. Each merger proposal arises out of its peculiar reasons. However, the following general principles may be identified to apply to some merger cases. According to Ekuankuma and Braye (2012), "Merger appears to be attractive where there are possibilities to exploit economies of scale, synergy, and the acquisition of undervalued assets etc. Equally relevant are acquisitions that might reduce the likelihood of bankruptcy, competitiveness or that would lead to a better blend between talents of corporate managers and the resources at their disposals.

Why Merger and Acquisition Happen

Donald (2011) highlights some of the motives and reasons which may give rise to business combinations are as follows:

Synergy: Synergy is the rather simplistic, motion that two (or more) businesses in combination will create greater shareholder value than if they are operating separately. It may be measured as the incremental cash flow that can be realized through combination in excess of what could be realized if the firms are to remain separate.

Diversification: Buying firms outside a company's current primary lines of business is called *diversification,* and is typically justified in one of two ways. Diversification may create financial synergy that reduces the cost of capital, or it may allow a firm to shift its core product lines or markets into ones that have higher growth prospects, even ones that are unrelated to the firm's current products or markets.

Economies of Scale: Size could be a great advantage in relation to costs. Large scale production may result in a lower unit cost. The combination of two companies in the same industry may produce cost saving through economies of scale. These savings could be in various areas e.g. finance, administration, capital expenditure, production and warehousing.

Inefficient Management: A business with good potential may be poorly managed and the assets underutilized thus resulting in a low return being achieved. Such a business is likely to attract a take-over bid from a more successful company which hopes to earn higher returns.

Strategic Realignment: The *strategic realignment* theory suggests that firms use merger & acquisition to make rapid adjustments to changes in their external environments. Although changes can come from many different sources, this theory considers only changes in the regulatory environment and technological innovations.

Technological Change: Technological advances create new products and industries. The development of the airplane created the passenger airline, avionics, and satellite industries. The emergence of satellite delivery of cable networks to regional and local

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stations ignited explosive growth in the cable industry. Today, with the expansion of broadband technology, we are witnessing the convergence of voice, data, and video technologies on the internet. The emergence of digital camera technology has reduced dramatically the demand for analog cameras and films.

Reduction of Competitions: A company may take over the business of its competitor in order to reduce competition in a particular market, so that it can exert a greater influence on the market.

Tax Considerations: Tax benefits, such as loss carry forwards and investment tax credits can be used to offset the taxable income of firms that combine through merger & acquisition. Acquirers of firms with accumulated losses may use them to effect future profits generated by the combined firms. Unused tax credits held by target firms may also be used to lower further tax liabilities

Failing Companies: With the present economic situation in the country, most companies are now experiencing serious cash flow problem and these have made it difficult for them to meet debt obligations to their bankers. Consequently, an increasing number of companies are now with receivership and foreclosure threats from their bankers. A merger or acquisition could reduce and eliminate such threat (Famoroti, 1989).

Table 1: Evolution of Banking in Nigeria

Phases	Date	Period
First	Up to 1952	Free banking era.
Second	1952-1959	Pre-central banking era.
Third	1959-1970	Era of banking legislation.
Fourth	1970-1976	Era of indigenization.
Fifth	1977-1985	Post Okigbo era.
Sixth	1986-1992	Deregulation era.
Seventh	1993-2001	Era of bank distress.
Eighth	2002-2004	Universal banking era.
Ninth	2004-Date	Era of bank consolidation.

Source: Nzotta (2004)

Merger and Acquisition in Nigerian Banking Industry

According to Soludo (2006), the Nigerian banking industry has gone through a lot of transformations as regards merger and acquisition. Prior to the merger and acquisition wave of 2004 and 2005, the acquisition of African Banking Corporation (ABC) in 1894 by the British Bank for West African (BBWA) (now First Bank of Nigeria Plc) and Union Bank of Nigeria's acquisition of City Trust Merchant Bank for N16,775 million in 1995 were the major bank merger and acquisition in Nigeria. Between July 6, 2004 and December 31, 2005 the numbers of banks in Nigeria reduced from 89 to 25 courtesy of merger and acquisition and forced withdrawal of banking licenses from institutions that were unable to achieve the new paid-up capital of N25 billion. Out of the 25 banks that

achieved the N25 billion requirements, 14 of them were the product of merger and acquisition involving sixty-nine banks while only six grew originally. The wave of merger and acquisition that began in 2004 has not abated as the merger between IBTC Chartered Bank Plc and Stanbic Bank of Nigeria Limited after the December 31, 2005 deadline has further reduced the number of banks from 25 to 24 while those banks that were unable to recapitalize which were earmarked for liquidation by the banking regulatory authorities have virtually been acquired by successfully recapitalized banks. In addition, First City Monument Bank (FCMB) acquired Fin Bank Plc; Access Bank Plc acquired Intercontinental Bank Plc while Eco Bank Plc acquired Oceanic Bank Plc.

Table 2: Banks' Mergers and Acquisitions in Nigeria between 2004 and 2005

New Banks	Constituent Members
Access Bank Nig Plc	Access Bank & Capitals Bank Int.
Afribank Nig Plc	Afribank Plc &Afribank Int (Merchant Bank).
Bank PHB Plc	Platinum Bank Ltd & Habib Nig Bank Ltd.
Diamond Bank Plc	Diamond Lion & African Int Bank.
GTB Plc	GTB & Devcon Bank Ltd.
Fidelity Bank Plc	Fidelity Bank, FSB Inter Bank & Manny Bank.
First Bank of Nig	First Bank Plc, MBC International. Bank & FSB (Merchant Bank).
First City Monument Bank Plc	First City Mon. Bank, Coop Dev. Bank, Nig-American Bank and Midas Bank.
Fin Bank Plc	First Inland Bank, Atlantic Bank, (Nigeria) Plc, IMB International Bank Plc.
IBTC-Chartered Bank Plc	IBTC, Chartered Bank Plc And Regent Bank Plc.
Intercontinental Bank Plc	Intercontinental Bank Plc, Global Bank Plc, Equity Bank of Nigeria Limited and Gate-way Bank of Nigeria Plc.
Oceanic Bank International Plc	Oceanic Bank International Plc and International Trust Bank.
Skye Bank Plc	Prudent Bank Plc, Bond Bank Limited, Reliance Bank Limited,Cooperative Bank Plc and EIB International Bank Limited.
Spring Bank Plc	Citizens International Bank, ACB International Bank, Guardian Express Bank, Omega Bank, Trans International Bank and Fountain Trust Bank.
Sterling Bank Plc	Trust Bank of Africa Limited, NBN Bank Limited, Magnum Trust Bank, NAL Bank Plc and Indo-Nigeria Bank.
United Bank for African Plc	United Bank for Africa Plc, Standard Trust Bank Plc and Continental Trust Bank.
Union Bank of Nigeria Plc	Union Bank of Nigeria Plc, Merchant Bank Ltd, Broad Bank of Nigeria Ltd and Universal Trust Bank.
Unity Bank Plc	Intercity Bank Plc, First Interstate Bank Plc, Tropical Commercial Bank Plc, Centre-Point Bank Plc, Bank of the North, New African Bank, Societe Generale, Pacific Bank and New Nigerian Bank.
Wema Bank Plc	Wema Bank Plc and National Bank of Nigerian Ltd.

Source: CBN Reports on Merged Banks (2006)

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Table 3: Troubled Banks after 2005 Mergers & Acquisitions

Names of Banks	Capital after M & A as at 2006
Union Bank Plc	N95.70 billion.
Intercontinental Bank Plc	N53.90 billion.
Wema Bank Plc	N31.90 billion.
Unity Bank Plc	N30.00 billion.
Bank PHB Plc	N28.50 billion.
Oceanic Bank Int, Plc	N37.70 billion.
Afribank Nig Plc	N24.90 billion.
Spring Bank Plc	N25.00 billion.
Fin Bank Nig Plc	N25.40 billion.
Equatorial Bank Ltd	N28.40 billion.

Source: CBN Reports on Merged Banks (2006)

The troubled banks nationalized by Asset Management Corporation of Nigeria (AMCON) before December, 2011 include: Spring Bank Plc renamed Enterprise Bank Plc, Afribank Plc., renamed Mainstreet Bank Plc and Bank PHB Plc renamed Keystone Bank Plc.

Why Merger & Acquisition Fail

Despite the goal of performance improvement, results from merger and acquisitions are often disappointing compared with results predicted or expected. Numerous empirical studies show high failure rates of merger and acquisition deals. Sanusi (2010) opines that neither the industry nor the regulators were sufficiently prepared to sustain and monitor the sector explosive growth. Prevailing sentiments and economic orthodox all encouraged this rapid growth, creating a blind spot to risk building in the system. Somoye (2008) argues that the reason that may be advanced for the present state of the Nigeria banks after the 2005 merger and acquisition to be viewed from the perspective of wrong planning. Shih (2003) points out the possibility that credit risk could increase in the event of a sound bank merging with unsound banks. Straub (2007) develops a comprehensive research framework that bridges different perspectives and promotes an understanding of factors underlying merger and acquisition performance in business research and scholarship. The study should help managers in the decisions making process. The first important step towards this direction is the development of a common frame of reference that spans conflicting theoretical assumptions from different perspectives.

Merger and acquisition are salient phenomenon in the Nigerian banking environment. It is one of the most recent strategies of ensuring the survival of dying banks. The research into this aspect of the Nigeria Economy is of paramount importance, as many authors or writers in Nigeria have very comprehensive write up on the topic. The persistent failure which is ravaging the banking industry in Nigeria calls for ways and strategies through which their survival could be guaranteed hence, the focus of this study is informed by the fact that many Nigerian banks happened to have experienced the new strategy, that is, merger and acquisition. The main objectives of the study are:

i To examine the causes of the bank's decision to embrace merger and acquisition option

ii To examine the negative or positive impact, the merger and acquisition exercise have had on the banking industry in Nigeria.

iii To critically look into the activities of the banks after the merger exercise and determine the level of its viability.

The following Research Hypotheses were formulated for this study

$H_0$1: Merger and acquisition are not bail-out strategy of the consolidated banks that make-up Skye Bank

$H_0$2: Merger and acquisition have not improved the turnover of banks since adoption.

$H_0$3: Preventing underutilization of capacity and poor financing were not part of the motive for merger and acquisition

MATERIAL AND METHOD

This study adopts investigative research method through which structural questionnaire were administration to selected respondents as well as banks' annual reports and the Central Bank of Nigeria Reports. A sample of 60 respondents was selected purposefully from two banks in Owo, Osun State. This consists of 30 staff and customers each of Skye Bank and Ecobank respectively. The sample size was stratified based on the relevance of merger and acquisition to the respondents concerned. Simple percentage and chi-square tests were applied to analyse the data obtained from the respondents.

RESULTS AND DISCUSSION

Table 1 shows that while 93% of the respondents in Skye Bank did not agree that merger and acquisition deliver the anticipated synergy in your organisations, 100% of the respondents in Enterprise Bank. One hundred per cent of the respondents support merger and acquisition as the case may be as a bail out strategy to your organisation (table 2). In Skye Bank Plc, 83.33% of the respondents agree that merger and acquisition lead to loss of Jobs in your organization, while in Enterprise Bank, it is 100% (table 3). Table 4 indicates that while 83.33% of the respondents are of the opinion that merger and acquisition in respect to your establishment lead to much expected profitability and efficiency, 50 % agree in Enterprise Bank. When 100% of the respondents accept that merger and acquisition in the banking industry lead to building a vibrant local economy, 16.67% disagree in Enterprise Bank (table 5). Based on the Chi-square test, the calculated value of 4.8 is greater than the critical value of 3.84 at 5% level of significance. Hence, the null hypothesis which states that merger and acquisition are not bail-out strategy of the consolidated banks that make-up Skye Bank is therefore rejected. On the hypothesis 2, the calculated chi-square value of 6.54 is greater than critical value of 3.84 at 5% level of significance. Therefore, the null hypothesis which states that merger and acquisition have not improved the turnover of banks since its adoption is rejected. In the same vein, the computation of the chi-square statistics shows that the calculated value of chi-square is 13.34 and is

greater than the critical value of 3.84 at 5% level of significance. It therefore concludes that the null hypothesis which states that preventing underutilization of capacity and poor financing were not part of the motive for merger and acquisition should be rejected. The result of findings in this research reveals that merger and acquisition are inevitable strategies for survival in the banking industry particularly in a depressed economy like Nigeria. Merger and acquisition though have not achieved 100% result; they have saved some banks from outright collapse and improved the merged banks' turnover.

Table 1: Does M & A deliver the anticipated synergy in your Organisations?

Variable	Skye Bank		Enterprise Bank	
	Frequency	**%**	**Frequency**	**%**
Yes	02	06.67	-	-
No	28	93.33	30	100%
Total	30	100	30	100

Source: Survey, 2015

Table 2: Do you support merger and acquisition as the case may be as a bail out strategy to your organisation?

	Skye Bank		Enterprise Bank	
	Frequency	**%**	**Frequency**	**%**
Yes	30	100	30	100
No	0	-	0	-
Total	30	100	30	100

Source: Survey, 2015

Table 3: Does merger and acquisition lead to loss of Jobs in your organization?

	Skye Bank		Enterprise Bank	
	Frequency	**%**	**Frequency**	**%**
Yes	25	83.33	30	100
No	05	16.67	0	0
Total	30	100	30	100

Source: Survey, 2015

Table 4: Does merger and acquisition in respect to your establishment lead to much expected profitability and efficiency.

	Skye Bank		Enterprise Bank	
	Frequency	**%**	**Frequency**	**%**
Yes	25	83.33	15	50%
No	05	16.67	15	50%
Total	30	100	30	100

Source: Survey, 2015

Table 5: Can Merger and Acquisition in the banking industry lead to building a vibrant local economy?

	Skye Bank		Enterprise Bank	
	Frequency	**%**	**Frequency**	**%**
SA	20	66.67	15	50
A	10	33.33	10	33.33
U	-	-	-	-
SD	-	-	-	-
D	-	-	05	16.67
Total	30	100	30	100

Source: Survey, 2015

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CONCLUSION AND RECOMMENDATIONS

Many companies find that the best way to get ahead is to expand ownership boundaries through merger and acquisition for others separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, merger creates synergies and economies of scale, expanding operations while reducing costs. Investors can take comfort in the idea that a merger will deliver enhanced market power. However, it is worthy of mention that the underlining challenges before consolidation are still abound .The c challenges include poor portfolio risk management, poor corporate governance practices, avarice, over reliance on public sector funds, inadequate infrastructure, weak control mechanism, weak credit assessment skills, lack of professional acumen, fraud, corruption and favouritism. The following recommendations are offered to enhance effective and efficient merger and acquisition strategy. The recommendations if adopted would make a success of the strategy as a worthwhile option.

1. Merger procedure should be streamlined by the courts. Therefore, the growing pre-occupation of the court with moral issues in the otherwise commercial undertaking, should be discarded. Once there is an economic justification for the exercise and prescribed statutory procedure followed, the merger scheme should be endorsed by the court.

2. The parallel and identical procedure now judicially imposed on the transferee bank makes merger expensive and since the same is not expressly required by the statue, it ought to be dispensed with way of an authoritative interpretation of section 199 by either court of appeal or the Supreme Court.

3 The double requirement of a majority in number and value for the approval of a scheme of arrangement is outdated in view of the pattern of holding in modern banks. It should suffice to insist only on a prescribed majority in value.

4. Since a merger results into an economic benefit when the combined banks are worth more than one apart, it should be undertaken. Merger benefits may result from economies of scale, economies of vertical integration, increased efficiency, and tax reduction efficient management as evident in the case of Skye Bank Plc. Merger should only be undertaken when the merger gain exceeds the cost.

5. The issues of corruption, fraud and insider abuses need to be minimized in order to reap the benefit of merger and acquisition.

6. The government and policy makers should be careful in promotion merger and acquisition to ensure equity, capital adequacy, sound liquidity and good banking practices in Nigeria.

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