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AN EMPIRICAL ASSESSMENT OF THE EFFECT OF CORPORATE RESTRUCTURING IN THE BANKING INDUSTRY AND ECONOMIC GROWTH IN NIGERIA, 1990-2009

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Abstract
The main thrust of this study was an empirical assessment of the effect of corporate restructuring in the banking industry and economic growth in Nigeria from 1990-2009. Secondary data were obtained from the Central Bank of Nigeria Statistical bulletin. A model was formulated liking economic growth on one hand to foreign direct investment, aggregate capital to the private sector, pre-tax on profit for all banks and number of personnel of banks on the other hand. Data collected were analyzed and tested using Ordinary least square multiple regression statistical technique. Result of the findings revealed that foreign direct investment, aggregate capital to the private sector, significantly influenced economic growth in Nigeria. The result also revealed that pre –tax profit for all banks and number of employees of banks significantly influenced economic growth in Nigeria. It was recommended that The central Bank of Nigeria CBN Should deliberately (through regulatory incentives for corporative restructuring) encouraged banks to invest their, usually huge, post restructuring capital subsequent profits in the real sector of the economy to boost the productive capacity of Nigeria's economy.

1.0 Introduction

The efficient functioning of a nation's economy depends heavily on the strength of its financial system (CBN, 2005). Of the major players in any country's financial system, banks are foremost and highly visible. Nigerian banks have over the years, tried to adapt to Competition, Systemic Weaknesses and macroeconomic instability, by engaging in quite a lot of survival measures. Such measures are restructuring, retrenchment, diversification, mergers and acquisition, etc. (Odukoya, 2000). Mergers and Acquisitions have the objective of maximizing shareholder's wealth through the creation of a "synergy" (Pandey, 2002). The motives for, mergers are many and they include access to source of supply, economics of scale, better management, diversification, market signaling, empire-building, strong asset base and so on (Rose, Westerfield and Jaffe, 1996). Based on this, banks which could not competitively stand on their own embraced the options of mergers and acquisitions as a survival strategy to diversity risks and ensure continued growth. This is because, globally, the objective of the firm is the maximization of profit as well as the maximization of shareholder's wealth and the maintenance of adequate liquidity level (Mbat, 2001). Mergers and acquisitions have become popular tool by bank regulators, wherever they seek to strengthen supervision to impact on banking development, raise bank efficiency and reduce the likelihood of crisis. Barth, Caprio and Levine (2006), who analysed the attempts by governments around the world to make the banking system safe from calamities, discovered that a more developed banking sector is measured by the amount of credit extended to private firms as a proportion of Gross Domestic Product (GDP).

Accordingly, companies seek to berth in an enabling environment that helps them accomplish these objectives. The global phenomenon in corporate governance is the consolidation of businesses as well as a way of resolving problems of enterprise distress. Consolidation could take any form of absorption, acquisition and combination (Agba and Enofe, 2007). According to Sawada and Okazaki (2003), these forms arise from the power relationships among the participating firms. For instance, according to them, merger describes a situation where the powers of the participant firms are nearly equal, and their coming together results in a new firm. On the other hand, they argued that where a strong and weak firm are involved, the strong one acquires or absorbs the other. Generally, mergers and acquisitions seem to influence growth in the real sector and hence make significant contributions to the process and magnitude of economic growth in several key ways. These include improving the efficiency of resource mobilization, including firms to operate more efficiently, enhancing capacity building, helping to achieve a relatively high value added operation and enhancing entrepreneurship status of the citizenry (Udoka & Ogege, . (2012).

Obviously, an important goal of any economy is to achieve economic growth so as to raise the living standard of the people. The process of economic growth and development is a highly complex phenomenon. It is influenced by various factors, which could be economic, political, social and cultural in nature. Whatever the factors inducing growth and development may be, their adoption improves the efficiency of resource mobilization through a pooling of savings, thus,

raising investments, better technology and managerial know-how as well as enhanced foreign direct investment (Udoka & Anyingang, 2010). Mergers and acquisitions have been found to provide an engine for economic growth and development. Also, the Central Bank of Nigeria (CBN) has recognized that all over the world and, given the internationalization of finance, size has become an important ingredient for success in the globalized world (Soludo, 2004). The last few years have witnessed the creation of the world's banking groups through mergers and acquisitions. Flowing from this, the CBN stipulated that the only legal modes of consolidation allowed are mergers and outright acquisitions/take over and a number of incentives promoted for this (Okagbue and Aliko, 2004).

It should be noted that Corporate restructuring has been necessitated by the persistent desires by corporate entities to remain solvent or viable regardless of their respective economic environments. To say the least, Corporate restructuring are borne out of new realities which emphasize the synergy of resources for maximum profitability.

In the Nigerian banking sector, the urge to merge, combine or acquire another business entity came into focus with the failures of several financial institutions due to the parlous state of the economy. The poor state of the economy necessitated the enactment of certain government policies/strategies that might keep existing companies afloat and enhance growth and development.

Empirical information reveals that economic forces, either external (regulatory inducement) or internal (market inducement) are theoretical basis and / or driving forces of mergers. Agreeing with this position, the Federal Reserve Bank of San Francisco (FRBSF) Economic letter stated that four economic forces largely drive banks to merge. First, is the economics of scale which shows the relationship between the average production cost per unit of output and productions volume; Secondly, is the economics of scope, thirdly, the potential for risk diversification, and fourthly, the bank managements personal incentives (Ekaete, 2004). The main motivation behind business combination is to maximize shareholder's value which is best achieved through mergers and acquisitions (M & A) and also contribute to the exploitation of economics of scale as well as altering the centers and peripheries of capital formation activities. Mergers and acquisitions add value to the economy if they generate additional economic rents – some competitive edge that other companies can't match and the target company's mangers can't, achieve on their own. How do these positive externalities connect with an impact on the determinants of economic growth and development, particularly given that mergers and acquisitions come in waves? Therefore, the basic problem for this study is establishing how and to what extent banking sector mergers and acquisitions could contribute significantly to the economic growth and development of the country. The incidence of high level of unemployment, high cost of goods and services, non availability of funds to the real sector of the economy and systemic bank failures are critical issues in Nigeria, which mergers and acquisitions are capable of solving.

Thus, the broad objective of this paper is to examine the effect of corporate restructuring and economic growth in Nigeria. The specific objectives are:

(i) To examine the structure, rational, legal and regulatory environment for mergers and acquisitions;
(ii) To determine the economic benefits, cost and challenges of mergers and acquisitions in the Nigerian banking sector,
(iii) To assess the relationship between mergers and acquisitions and the determinants of economic growth and development in Nigeria.

To achieve these objectives, the study is divided into five but coordinated sections. Section one is the introduction. This is followed closely by the literature review which elucidates the opinions and stance of eminent scholars on corporate restructuring. The third section captures the research methodology, indicating the step by step approach on which the research is built on. The fourth section is on the analysis of data relating to corporate restructuring in the Nigerian Banking industry. The remaining section of the paper draws some managerial implications that emerge from the discussions.

1.1 *Research Hypothesis*

Ho: Mergers and acquisitions of banks do not have any significant impact on economic growth and development in Nigeria.

2.0 Theoretical consideration/literature review

There are several literatures on financial system development and economic growth the world over. There has not been any direct correlation between mergers and acquisitions and economic growth and development, particularly in developing countries. Mergers and acquisitions is a financial development strategy. Thus, this study draws inspiration from the financial repression hypothesis. This is based on the seminal works of Mckinnon (1973) and Shaw (1973) which hold that financial development correlates with economic development and growth and that banks have great influence on growth and development in a developing economy. Accordingly, all the regimes of banking sector reforms in Nigeria are routinely preceded with an assessment of the theory of financial development and the relationship between financial intermediation and economic growth and development, based on the Mckinnon-Shaw Banking intermediation paradigm. The efficient functioning of a nation's economy depends on the strength of its financial system (CBN, 2005). Of the major

players in Nigeria's financial system, banks are foremost and highly visible. All human activities are usually characterized by successes and failures and Nigerian banks not exception. A lot of companies have failed, others stagnated and yet many surviving ones are trying to adapt to competition, systemic weakness and macroeconomic instability, by engaging in quite a lot of survival measures such as re-organization/restructuring, retrenchments, diversification mergers and acquisitions, etc. (Odukoya, 2000)

According to the Central Bank of Nigeria (CBN, 2004), bank merger is a reorganization process involving the coming together of two or more banks whereby a new bank with a new legal status (the successor bank) is created and the merger banks are simultaneously liquidated. All the rights and the obligations of the merged banks pass to the Successor bank. This is done because of the widely held view that the mergers and acquisitions would help to develop the financial system, strengthen the balance sheets of banks and promote supply driven economic growth by curtailing financial market imperfections and frictions (Patrick, 1966). There is a two-way relationship between financial development and economic growth (Greenwood and Jovanovich, 1990). Additionally, the financial activity of mergers and acquisitions produces an "information effect" which ensures that ex-ante information about possible investment and capital opportunities are made available to lesson, even though not necessarily wipe out, the effects of asymmetric information (Levine, 2004). Given that the primary purpose of banks (financial system) is to effectively intermediate between surplus and deficit economic units, there is a general agreement among economists that a well functioning banking sector stimulates economic growth (Levine, 1997), through capital accumulation (Hick, 1969) and technological innovations (Schumpeter, 1911), Prior to the adoption of mergers and acquisitions model regulators, many banks fail to show capacity for risk assessment, loan portfolio monitoring, active pursuit of savings mobilization, and active liquidity and liability management. Mergers and acquisitions have, in some cases, resulted in incentive to increase efficiency, Lower Loan-Loss ratio, curtail costs of financial intermediation and increase investment in information capital which is crucial for the development of the financial system (World Bank, 1994). Theoretically, this was expected to lead to increased volumes of savings and investment, increased efficiency of investments, long-term economic growth. Economic growth was then expected to support the growth of the financial sector in order to facilitate the process of savings mobilization and the allocation of (credit) finance to the real sector for productive investment (Shaw, 1973).

The agency theory according to Jensen and Meckling (1976), stated that agency problems arise when institutions merged and served to reduce agency costs borne by the majority of owners. A variant of agency problem is the managerialism theory of conglomerate mergers. The theory holds that managers are motivated to increase the size of their firms in the belief that management compensation is a function of the size of the firm, and that the agency problem is not solved but that merger activity is a manifestation of the agency problems of inefficient, external investment by managers of free cash flow. Jensen (1987) defines free cash flow as cash flow in excess of the amount required to fund all projects that have positive net present values when discounted at the applicable cost of capital, such free cash flow, he continued, must be paid out to shareholders of the firm is seen to be efficient and to maximize value of shareholders. Iyiegbuniwe (1995) gave a similar view to Jensen's theory in what he referred to as the "unused debt capacity" motive for mergers and acquisitions. According to him, some companies do not use as much debt as they ought to, thus, creating unused debt capacity which would make such companies attractive for acquisition. The acquirer companies can profitably utilize the unused debt capacity to finance the takeover and generate increased earnings, and thereby maximize the wealth of shareholders, which inexorably, leads to improved economic well-being. Further studies by Goetzmann (2009) revealed that there were appreciable increments in employment in the years after the 2004-2005 regulator-induced bank consolidation in Nigeria.

Those who initiate mergers and acquisitions usually premise their actions on economic or business considerations. More often that not, an economy under recession provides compelling reasons for a company to seek a merger with the hope that the combined enterprise will stand a better chance of weathering the storm. Furthermore, dire economic conditions, as presented in Nigeria of the early 1980's expose the weak and inefficiently managed companies to take-over bids. For Earl and Fisher III (1986), companies merge with a number of objectives in mind, and before a decision on a merger or acquisition is taken, a list of precise criteria are drawn up, against which to evaluate whether a potential target is a suitable or unsuitable candidate for acquisition. They gave a number of motives for mergers which are similar to the theories proffered by Weston, Chung and Hoag (1990): differential managerial efficiency, inefficient management, operating and financial synergy, pure diversification, strategic realignment to changing environments, undervaluation of target companies; information and signaling; agency problems and managerialism; free cash flow hypothesis ; market power; tax consideration and redistribution.

3.0 Research Methodology

This study is on the assessment of the effect of corporate restructuring in the banking industry and economic Growth in Nigeria, 1990-2009. Secondary data were obtained from the CBN statistical bulletin of various years. The data would be tabulated, analysed, interpreted and tested in order to facilitate valid conclusion on the effect of corporate

restructuring of banks in Nigeria. The major statistical tool used in the study is the multiple regression statistical technique. The model formulated for the study is given by

GDP = f(P, ACP, st, FD1) -----------(1)

So,

$GDPt = ao+a_1pt+a_2ACPt+a_3sTt+a_4FD1_t=Ut$-----------(2)

On apiriori, a_1, a_2, a_3, $a_4 > 0$

Where,

a_o = the intercept point, giving the value of GDP when P, FDI, ST and ACP are Zero

a_1 = the marginal effect of changes in Accounting profits on GDP when all the other variables are held constant.

a_2 = the marginal effect of changes in aggregate credit to the private sector on GDP, when all the other valuables are held constant.

a_3 = the marginal effect of changes in staff Levels on GDP, when all the other variables are held constant.

a_4 = the marginal effect of changes in foreign direct investment on GDP, when all the other variables are held constant.

GDPt = Gross Domestic Product at time, t, which for the purpose of the study is the proxy for economic growth and development.

MAt = Contribution of mergers and acquisitions to economic growth at time, t.

Pt = Accounting Profit at time t.

ACPt = Banking sector's Aggregate Credit to private sector at time t.

st_t = Staff Level of the banking sector at time t.

FDI = Net inflow of Foreign direct investment at time t.

Ut = Error term.

4.0 Data Presentation, Analysis and Discussion of Findings

<Insect Table 1 here>

From Table 4.1, the GDP had maintained an upward trend from 1990 to 2009 but this trend may not necessarily be as a result of the mergers and acquisition in the banking sector. In the pre-merger period of 1990-2003, aggregate credit, to the private sector (ACP) grew on average by 32.95% annually, while the average growth rate was 50.38% in the post merger era of 2006 to 2009. This variable does not indicate a particular pattern of growth with lowest growth of -13.84% in 1991 and highest of 92.74% in 1994. There seems to be an unimpressive growth rate in the number of employees in the banking sector irrespective of the mergers and acquisition in that sector. This may be as a result of the fact that actual number of people employed in that sector during and after the mergers and acquisition had been very low even though post mergers and acquisitions is supposed to generate a very high level of employment. It may also be that the periods immediately following mergers and acquisitions are usually characterized by staff rationalizations, resignations, etc occasioned by right-sizing policies, branch closures, and conflicts of corporate cultures. Notwithstanding this, growth in staff levels was 4.99% and 12.13% for the pre and post merger periods respectively. In the same vein, although banking sector profit looks poor and not reflective of the seeming growth in the banking sector in Nigeria, the annual growth rate follow a similar trend. However, full information is not available to conclude on this. On the other hand, foreign direct investment inflow moved between 15.73% and 24.74% in the period of 1990-2003 and 2006-2009. It is also noteworthy that the explanatory variables show higher rates of growth in the post merger era, the GDP reports the opposite, as it declined from a growth rate of 36.83% before 2004 to 17.08% post 2004 merger period.

<Insect Table 2 here>

The coefficient of multiple determinants R^2 of 0.985 in Table 2 revealed that about 98.5 changes in the dependent variable GDP is caused by a joint change in the independent variables of foreign direct investment (FDI), aggregate credit to the private sector, number of staff and annual pre-tax of all banks. The adjusted R^2 value of 0.983 revealed the model is 98 per cent goodness fit. The F-statistics of 261.207 which is significant at 5 per cent level of significance revealed that there exist a significant relationship between GDP of the country on one hand and foreign direct investment, aggregate credit to the private sector, number of staff, and annual pre-tax of all banks on the other hand.

The estimated coefficient for FDI and ACP are positive, indicating that there existed a direct relationship between FDI, ACP and GDP. This means that when FDI and ACP increases, GPD will also increases. Conversely a decrease in any of these variables will lead to a decrease in GDP. These results are all significant at 5 per cent level of significance.

The estimated coefficient for annual pre-tax (P) and number of staff (ST) are also positive, indicating that there exist a direct relationship between annual pre-tax for all banks and number of staff. These results are all significance at 5 percent level of significance

This finding s of this study is highly supported by the result obtained by Agba, and Enofe, (2007) who in their study discovered that there exist a significant relationship between number of staff employed by banks and the growth of the economy. Also, in line with the findings of this study is the finding obtained by Odukoya, (2000) who found in his study on corporate restructuring and economic growth that foreign direct investment and aggregate credit to private sector significantly influence economic growth.

5.0 Conclusion and Recommendations

This study was an empirical assessment of the effect of corporate restructuring in the banking industry and economic growth in Nigeria. Secondary data were obtained from the Central Bank of Nigeria Statistical bulletin. Data collected were analyzed and tested using Ordinary least square multiple regression statistical technique. Result of the findings revealed that foreign direct investment, aggregate capital to the private sector, significantly influenced economic growth in Nigeria. The result also revealed that pre –tax profit for all banks and number of employees of banks significantly influenced economic growth in Nigeria.

The following recommendations are made based on the findings of the study to achieve the benefits of corporate restructuring in the banking sector in Nigeria ;

1. The central Bank of Nigeria CBN Should deliberately (through regulatory incentives for corporative restructuring) encouraged banks to invest their, usually huge ,post. restructuring capital subsequent profits in the real sector of the economy to boost the productive capacity of Nigeria's economy
2. The sector regulator should evolve appropriate, trustworthy and transparent framework to protect investors and other actors in the sector, ensure a reliable and consistent provision of banking sector infrastructure, reduce the cost of doing business generally and, in particular remove restriction and discriminatory rules on FDI to enhance their inflow and ensure their most efficient use in the economy
3. The regulatory authority should set strict standards of accountability and corporate governance including sanctions to check the diversion of the huge post-merger capital of banks into unproductive, self-serving, corrupt appropriation by the board and top managements of banks to remove the Gerschenkron's (1962) structuraist hypothesis effect.
4. Since it is not possible to exhaustively treat all the issues involved in corporate restructuring (through mergers and acquisition) in Nigeria banking sector which is multidimensional in nature, further studies should be carried on the recommendations made herein as the study, hopefully opened up a new vista in the literature on the contribution of corporate restructuring to economic development

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Table 1: Effects of macroeconomic indicators on economic development: 1990-2009

YEAR	GDP	GR	ACP	GR	ST	GR	FDI	GR	P	GR
1990	267550	23.41	38199.3	35.9	35339	8.35	10.44	-4.2	0	NA
1991	312139.7	16.67	32912.4	-13.84	36675	3.78	12.24	17.24	0	NA
1992	532613.8	-82.94	41810	27.03	40162	9.51	20.51	67.57	0	NA
1993	683869.8	28.4	48056	14.94	34830	-13.28	66.79	22.65	0	NA
1994	899863.2	31.58	92624	92.74	35330	1.44	70.71	5.87	0	NA
1995	1933211.6	114.83	141146	52.39	41890	18.57	119.39	68.84	0	NA
1996	2702719.1	39.8	169242	19.91	42980	19.62	122.6	2.69	5.5	NA
1997	2801972.6	3.67	240782	42.27	52170	4.11	128.33	4.67	7.3	32.73
1998	2708430.9	-3.34	272895.5	13.34	52213	0.08	152.41	18.76	21.1	189.04
1999	3194015	17.93	353081.1	29.38	52330	0.22	154.19	1.17	24.52	16.21
2000	4582127.3	43.36	508302.2	43.96	51275	-2.02	157.51	2.15	44	79.45
2001	4725086	3.12	796164.8	56.63	45962	-10.36	161.44	2.5	23	-47.73
2002	6912381.3	46.29	954628.8	19.9	57451	25.00	166.63	3.21	19	-17.39
2003	8487031.6	22.78	1210033.1	26.75	60227	4.83	178.48	7.11	57.9	20.74
2004	11411067	34.45	1519242.7	25.55	59227	-1.66	249.22	39.63	66.79	15.35
2005	14572239	27.7	1847822.6	21.63	50111	-15.39	324.66	30.27	74.57	11.65
2006	18564595	27.4	2385643.3	29.11	52288	4.34	624.5	92.36	99.73	33.74
2007	20657318	11.27	3821282.2	60.18	64028	22.45	759.4	21.6	168.47	68.93
2008	23842171	15.42	6871302.7	79.82	77519	21.07	460.2	-39.4	0	0
2009	24712700	3.65	9096724.6	32.39	78019	0.65	572.5	24.4	0	0
Average G/R										
Pre-merger		36.83		32.95		4.99		15.73		34.13
Post-merger		17.08		50.38		12.13		24.74		51.34

Source: CBN and Author's Computation

N/B: G/R = Growth Rate; GDP = Gross domestic product;

ACP = Aggregate credit to private sector; ST = Number of staff;

FDI = Foreign direct investment inflow; and

P = Annual pre-tax profit of all banks.

Table 2: Regression results of the relationship between merger and acquisition of banks and the growth of Nigeria economy

Dependent Variable: LOG(GDP)
Method: Least Squares
Date: 09/26/12 Time: 09:34
Sample: 1990 2009
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.424256	4.503520	0.760351	0.4588
LOG(FDI)	0.447166	0.096492	4.634242	0.0003
LOG(ACP)	0.470378	0.100098	4.699169	0.0003
LOG(ST)	0.308184	0.500789	0.615397	0.5475
P	0.001244	0.001292	0.962991	0.3508

R-squared	0.985847	Mean dependent var	15.10711
Adjusted R-squared	0.982073	S.D. dependent var	1.438204
S.E. of regression	0.192566	Akaike info criterion	-0.244440
Sum squared resid	0.556224	Schwarz criterion	0.004493
Log likelihood	7.444400	F-statistic	261.2077
Durbin-Watson stat	1.281895	Prob(F-statistic)	0.000000

Source: Researcher Estimation, 2012

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