

Mergers and Acquisitions as Survival Strategies in Developing Economies: Evidence from the Nigerian Banking Sector

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Abstract

Essentially, mergers and acquisitions in the Nigerian banking sector are reform strategies recently adopted to reposition the banking sector. These were done to achieve improved financial efficiency, forestall operational hardships and expansion bottlenecks. Nevertheless, a sizeable proportion of the deposit-money banks operating in the country before the introduction of the policy of bank consolidation were classified as unhealthy as a result of a seemingly unending systemic crisis, hence, the necessity for the banks in this category to embrace the option of mergers and acquisitions as a way out of their precarious situation. The objectives of the study therefore, was to establish the motives behind corporate mergers and acquisitions, to examine whether mergers and acquisitions are ways of stemming the tide of persistent distress in the Nigerian banking sector as well as to investigate whether mergers and acquisitions are survival strategies for the banking sector in Nigeria. The method of data analysis included chi-square statistics and t-test statistic. The study found that mergers and acquisitions are options of stemming the tide of persistent distress in the Nigerian banking sector. It also found mergers and acquisitions as survival strategies in the Nigeria banking sector before and after the consolidation policy. The authors are of the view that both industry and the regulator should be adequately prepared to monitor and sustain mergers and acquisitions activities embarked upon by a sizeable proportion of Nigerian banks that will make some of the banks to survive and eventually lead to the growth of the sector. .

Keywords: Mergers, Acquisitions, Strategies, Survival, Growth, Banking Sector

Introduction

Ogubunka (2007) posits that the Nigerian economy, like other economies, is organically linked to the growth of the financial system. The banking sector in Nigeria plays a very significant role in the economic development of the country (Ebimobowei & Sophia, 2011). According to Abdullai (2002), the banking sector, in particular, plays crucial role in the economic development by mobilizing savings and channeling them for investment especially in the real sector which increases the quantum of goods and services produced in the economy, thus national output increases and the level of employment improves. Also, banks play a sensitive role in propelling the entire economy of any nation of which there is need to reposition it for efficient financial performance through a reform process geared towards forestalling bank distress (Okpanachi, 2011).

In today's global banking environment, banks may have to grow to survive and one of the best ways of banks growth is by merging with one or more banks or acquire others. A merger therefore occurs when one firm acquires all the assets and all the liabilities of another. The acquiring firm retains its identity, while the acquired firm ceases to exist. For such arrangement to be justified, the two firms involved must be worth more together than they were before their merger or acquisition took place. Some of the potential advantages of mergers and acquisitions include achieving economies of scale, combining complementary resources, garnering tax advantages and eliminating inefficiencies.

Prior to the consolidation era in the Nigerian banking sector, not less than 89 banks were in operation and most of these banks were grossly undercapitalized. Aside the issue of being undercapitalized, there were instances of insider abuses manifesting in the granting of unsecured credits to directors and top management of these banks. These sharp practices culminated in a quantum of non-performing loans. Because the Nigerian banking sector is fashioned along branch banking system, banks had numerous branches scattered all over the rural and urban areas of the nation. . Just as a good number of these banks were not doing well, a sizeable proportion of the branches, especially the ones cited in the rural areas, were operating at losses putting some of them in a state of bad health and chronic distress. The 2004 consolidation policy therefore necessitated that banks in Nigeria must evolve the ways and means of surviving the harsh banking terrain and consequently endeavour to become strong players in the global banking environment

1.1 Statement of the Problem

The result of scientific studies in mergers and acquisitions tend to indicate that the lion's share of potential gains goes to the target rather than the acquiring firms (Jensen &Ruback,1983; Bhagot, Sheleifer & Vishny, 1990 and Eckbo & Thorburn, 2000). In spite of the growing increase in such events, relatively few researchers have looked into the economic gains of mergers and acquisitions. Although empirical evidence indicates that on average, there is no statistical significant gain in value or performance from merger activities, yet, mergers continue (Ebimobowei & Sophia, 2011: Herd & Behr, 2008). However, some banks in Nigeria are still facing some of the problems that led to the 2004-2005 bank consolidation through mergers and acquisitions, from a capital base of N2billion to N25billion. (Ebimobowei & Sophia, 2011). While this study is set out to establish the motives for mergers and acquisitions, it thus attempt to examine how they can be employed as a means of stemming the tide of persistent distress in the Nigerian banking sector. Moreover, the survival of the banking sector is of utmost importance to the Nigerian economy, particularly when the sector had engrossed itself in an unwholesome systemic crisis for a long period of time. The study therefore examines mergers and acquisitions arrangement as strategies to bring the Nigerian banks to the path of survival, especially in the midst of daunting challenges..

1.2 Objectives of the Study

(i) To establish the motives behind corporate mergers and acquisitions.

(ii) To examine whether mergers and acquisitions are ways of stemming the tide of persistent distress in the Nigerian banking sector.

(iii) To investigate whether mergers and acquisitions are survival strategies for the banking sector in Nigeria.

1.3 Research Questions

(i) What are the motives behind corporate mergers and acquisitions?

(ii) Can mergers and acquisitions stem the tide of persistent distress in the Nigerian banking sector?

(iii) Do mergers and acquisitions really serve as a survival strategy for the banking sector in Nigeria?

1.4 Statement of Hypotheses

Hypothesis I

Mergers and acquisitions are not options of stemming the tide of persistent distress in the Nigerian banking sector.

Hypothesis II

Mergers and acquisitions are not survival strategies for the Nigerian banking sector.

2.0 Literature Review and Theoretical Framework

2.1 Literature Review

Imala (2005) observes that banking is dynamic and it has evolved over the years, changing with developments and the needs of the society in Nigeria. Alao (2010) argues that Nigerian banks adopted different strategies to achieve the stipulated minimum capital base of N25billion during the consolidation of banks in 2004-2005 which include mergers and acquisitions. However, mergers and acquisitions were not as common in Nigeria before the early 1980's as they are now. This may be because the Nigerian economy before this period was enjoying a big boom and expansion making it possible for the organizations to carve out their own niches in their respective industries. Invariably, the Nigerian Companies Act (1968) now decomposed into the Companies and Allied Matters Act (1990), the principal statute regulating the existence, structure and powers of companies in Nigeria, never used the terms mergers and acquisitions, preferring instead, terms such as, 'reconstruction', 'amalgamation', 'compromise' and 'arrangement' to describe symbiotic relationships between two or more corporate entities. Orji (1990) observes that mergers and acquisitions are alien to the Nigerian culture unlike in Europe and America. According to him, mergers and acquisitions started in earnest in the 1980's because of economic distress in Nigeria. This may be responsible for the relatively new Companies and Allied Matters Act 1990, which has incorporated mergers and takeovers in the document. Relevant sections indicating these are Sections 591-598.

Many reasons are usually postulated for mergers and acquisitions with the most common being a growth strategy for competitive advantage. Wright, Kroll and Parnell (1996) look at different views of two schools of thought – acquisitions are not beneficial in a perfect market and acquisitions are beneficial as real market are imperfect. Adegbite (1989) looked at some of the legal implications of mergers and acquisitions and the roles to be played by the companies involved. One of the major considerations of mergers and acquisitions is economic advantage. As such, the importance of determining the financial health and value of the organizations involved cannot be over-estimated. Orji (1990) also stressed that the importance of financial advisers in guiding organizations through the complex process of mergers and acquisitions. Kaur & Kaur (2010) note that mergers and acquisitions in the banking industry are aimed at achieving economies of scale and scope. Whether it is finally realized or not, the reason for organization going into mergers and acquisitions is to realize gains, from stronger organizations, become more competitive and in most cases, survive in adverse economic conditions.

Of all the reasons why organizations merge and or acquire one another, studies have shown that two reasons seem to be recurring and these are mainly survival and investment strategies. Under adverse economic conditions, firm may merge for the following reasons to enhance their survival:

(i). to pool together scarce resource thus providing more working capital, thereby improving the financial base of the companies involved.

(ii). to expand into new markets via diversification, thus reducing the overall threat to their individual business.

(iii.) to move into relatively virgin areas where competition is less and fewer firms have developed enough expertise to constitute major threats.

(iv). to pool together management skills aimed at improving efficiency.

(v) as a cost reducing measure, especially with regards to cost from research and development, advertising, marketing and duplication of activities from a non-combine workforce.

Notwithstanding, Adewoyin (2006) observes that bank failure has been experienced since 1990s during which period one out of every two banks was distressed and in the early 2000 when one out of every three banks was marginally unsound or totally unsound (Sannj, 2009). However, in recent years, most mergers in Nigeria have been survivalist in nature because of the harsh economic conditions.

3.0 Methodology

The population for the study was the entire banking sector in Nigeria. There are 6 geo-political zones in the country out of which the South West was selected. Furthermore, Lagos metropolis was selected because it is the nerve centre of Nigeria and most banks are lopsidedly sited in this area The sample size consisting of 70 staff from the banks within this metropolis were selected through random sampling procedure from 5 banks out of 20 banks currently operating in Nigeria. Each of the banks produced 14 respondents (7 from the biggest branch of each of the 5 banks on the Island and 7 from the biggest branch from the Mainland). Well-structured questionnaires were administered to the 70 respondents out of which 52 were duly filled and returned. The study employed a 4 point Likert scale ranging from strongly agree to strongly disagree and the method of data analysis used for this research work were chi-square statistics and t-test statistic'

4.0 Data Analysis

4.1 Testing of Hypothesis

Hypothesis I

Mergers and acquisitions are not options of stemming the tide of persistent distress in the Nigerian banking sector

Category	Observed N	Expected N	Residual
Strongly Agree	20	13.0	7.0
Agree	30	13.0	17.0
Disagree	1	13.0	- -12.0
Strongly Disagree	1	13.0	-12.0
Total	52		

Source: Author,s Compilation, December, 2014

Test Statistics

	Category
Chi-Square	48.154[a]
Df	3
Asymp. Sig.	.000

At 0.05 level of significance, the statistical value of 3 degree of freedom of chi-square (X^2) is 9.64 from the table. Since the calculated X^2 is 48.154, the null hypothesis is rejected. The statistical value of X^2 (9.64) therefore falls within the region of rejection. Since the null hypothesis is rejected, the alternative hypothesis has to be accepted.

Hypothesis II

Mergers and acquisitions are not survival strategies for the Nigerian banking sector

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Variable	N	Mean	Standard Deviation	Crit-t	Cal-t	DF	P
Mergers and Acquisitions	52	38.51349	6.20592	2.10	20.113	51	.004
Survival Strategies for the Nigerian banking sector	52	41.56783	6.44731				

Source: Author's compilation, December, 2014

The table above shows that the introduction of mergers and acquisitions as survival strategies in the Nigerian banking sector before and after the recapitalization policy.(Crit–t = 2.10, Cal–t = 20.113, df =51, P< .01 level of significance since the value of P stands as P= .004). The result is significant at 1 percent since the critical value for t was greater than the tabulated value. The result however shows that the mean falls between 38.51349 and 41.56783. The null hypothesis which has no significant difference on mergers and acquisitions as survival strategies in the Nigeria banking sector before and after the recapitalization is rejected.

5.0 Conclusion

The systemic crisis in the Nigerian banking sector remained unabated and when the recapitalization policy was about being set in motion, the banking system was fragile and was playing a marginal role in the development of the real sector of the economy. In essence, the system could not be in a position to meet the expectation of a strong, competitive and reliable banking system which the depositors can trust, investors can rely upon and the nation depend upon to facilitate its economic growth. The study was carried out to examine whether the adoption of mergers and acquisitions could stem the tide of persistent crisis in the Nigerian banking sector and also serve as survival strategies to marginal and border-line banks. The hypotheses formulated were tested using chi-square statistics and t-test statistic and the result showed that mergers and acquisitions could serve as survival strategic options for the banking sector in Nigeria. Mergers and acquisitions therefore remain effective strategic tools for ensuring survival and growth in any industry, and specifically in the Nigeria banking industry and that of any developing economy.

In adopting mergers and acquisitions as survival strategies, the board and management should endeavour to evolve detailed post-merger or acquisition plan. The banks should be more pro-active in their approach by encouraging,/ promoting the productive sector of the economy with a view to diversifying the revenue base of the country. To this extent, financing the real sector of the economy should be germane to the banking sector.as this is part of the monetary policy measures. Mergers and acquisitions strategies therefore should not be a one-step actions; it should be a continuous exercise so as to ensure the survival and steady growth of the banking sector.

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