An Evaluation of the Comparative Effects of Mergers & Acquisitions on the Profitability and Efficiency of Banks (A Case Study of Selected Banks in Nigeria)

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Abstract
Nigerian banking industry plays a predominant role in driving Nigerian economy especially at a turbulent period when the world was just hit by global financial recession. Its players (money deposit banks) were found to be unhealthy with low capital base and low performance, hence the need by CBN (Apex Bank) to revive and reposition the industry. Mergers and Acquisitions which is one of the recapitalization strategies campaigned by the Apex Bank to build money deposit banks to a minimum of N25 Billion was adopted. The research work seeks to examine the evaluation of comparative effect of Mergers and Acquisitions on profitability and efficiency of Nigerian banks as the specific objective. A quantitative approach was adopted with secondary data collected from selected banks published annual financial reports while other data were extracted from journals, academic books, published speech, magazines and internet sources. The study adopted a purposive sampling method in selection of its sample size (Access bank Plc, First Bank of Nigeria Plc and Union Bank of Nigeria Plc) while financial ratios were subsequently used to analyze the secondary data with an in-depth interpretation for validity. The study revealed that Mergers and Acquisitions as recapitalization strategy so far show many benefits as it significantly leads to better performance of banks and repositioned them with a better outlook across the globe for improved efficiency and profitability.
Keywords: Mergers & Acquisitions, Consolidation, Capitalisation, Organic Growth

1.0 Introduction

The Nigeria Banking industry witnessed a tremendous change after the global economic meltdown. Money deposit banks play an important driving force in the Nigerian economy and during the period, they struggled to survive from the effect of the meltdown, hence the need for reviving and repositioning the industry for sound performance and a healthy capital base.

The Nigeria apex bank (Central Bank of Nigeria) which is the regulatory authority for all money deposit banks, in her bid in reviving the Nigerian banking sector and preventing any further bank distress directed all money deposit banks in July 2004 to have N25 billion as minimum paid-up share capital with a deadline of December 31, 2005. Money deposit banks that could not raise the minimum share capital through organic growth resorted to mergers and acquisitions to strengthen their liquidity, capital base, profitability and efficiency.

Soludo (past CBN Governor) pronounced that (2004, cited in Okpanachi, 2011, p.1) the CBN adopted the option of reviving Nigerian banking industry process with the consolidation and recapitalization policy through Mergers and Acquisitions for improved efficiency.

Without any reservation, Mergers and Acquisitions have brought about improved efficiency on bank's operations making banks to be more relevant to a growing nation. Oladejo and Oladipupo (2011) considered banks as a strong and most important stakeholder to Nigerian financial strength which is prone to systematic risk and financial failure; hence a sound financial system is a catalyst to a nation's financial efficiency.

1.1 Regulatory Agencies in Nigerian Banking Sector Supervising M&A

Thatcher (2002) argues that the efficiency and effectiveness of the financial sector is dependent on efficient regulations by relevant government agencies as recognized in the system against banking distress. The following agencies as discussed by Okonkwo (2004) witnessed and supervised 2005 consolidation exercise in Nigeria and will be discussed with a broad view in my literature review:

1) The Federal Ministry of Finance (FMF)
2) Central Bank of Nigeria (CBN)
3) Nigerian Deposit Insurance Corporation (NDIC)
4) Securities and Exchange Commission (SEC)

1.2 Overview of Nigerian Banking System

The Nigerian Banking System started as early as 1892 with the establishment of African Banking Corporation shortly followed by British Bank for West Africa (now First Bank of Nigeria Plc) in 1894 who took over the operations of Elder Dempster and Co. after African Banking Corporation ceased operations.

After thirty-six years, Nigerian Banking System increased with the establishment of Union Bank of Nigeria Plc and United Bank for Africa Plc in 1925.

In addition, establishment of National Bank of Nigeria Limited, Wema Bank Plc and African Continental Bank Plc (now defunct) in 1933, 1945 and 1948 marked the beginning of indigenous banking in Nigeria.

The Nigerian Banking sector which has witnessed a rapid expansion and development was considered to have passed through many reforms and nine phases of banking era (Nzotta, 2004).

According to Lisa (2011), banking reform will bring about a better capitalized and efficient banking system.

Research has it that Nigerian Banking System during what seems to be called the banking boom period suffered challenges which led to the review of developments of some remarkable changes over the years ranging from soundness, adequate capital, number of banks and ownership structure (Ogunleye, 2005).

This development led to CBN investigation in 2004 on the healthiness of Nigerian banks. The investigation revealed that many have been under-capitalized, shareholders' fund eroded with operating losses, unsoundness and accumulation of non-performing loans (Soludo, 2006).

The consolidation exercise was promulgated in 2004 by the CBN with 31st December 2005 advising with legal demands for increase in capital base from existing N2 billion to a minimum of N25 billion (Soludo, 2005). The outcome which is expected to lead to increased economies of scales and ability of banks to have access to credit loans from foreign banks (Soludo, 2005).

Banks were advised to either raise new capital (no public-sector fund) or engage in Mergers and Acquisitions as a recapitalization strategy in order to surpass the new capital requirement as stated by CBN.

By 31st December 2005, the Reform was able to produce 25 big banks which can contest favorably with foreign banks from the originally 89 (75 made it through mergers & acquisition while 14 did not and had their license revoked by CBN) licensed banks (CBN, 2005).

1.3 Summary of the need for Banking Reform

Consolidation of banks in Nigeria became a necessity due to observed fundamental challenges facing the industry ranging from unsatisfactory performance, low capital adequacy ratio, low deposit ratio, unsoundness, inadequate risk management policy, over-dependence on government funds and the need to meet up with global banking challenges after 2007 global financial crisis.

Restructuring the industry for better sustenance is underpinning the pronouncement by the Central Bank of Nigeria on banking sector reform and directs all money deposit banks to raise their capital from N2Billion to N25Billion by way of internal business expansion or engaging in a synergy process of business combination.

As widely proclaimed, the reform policy by CBN according to Soludo (2006) is to effectively achieve the following and examine its usefulness in emerging economies of another country:

- Restore sector depositor confidence
- Liquidity enhancement
- Strengthened Risk Management Systems in banks
- Enforcement Corporate Governance principles
- Reduce the cost structure of banks and make them more competitive and development-oriented around the globe
- Providing and sustaining good expected returns to investors through efficiencies
- Increased shareholder's fund from N2Billion to minimum of N25Billion

1.4 Statement of the problem

Consolidation exercise has continued to be an on-going exercise as more banks are involved in Mergers and Acquisition. Examples are Stanbic Bank of Nigeria Limited with IBTC Chartered Bank Plc merged in 2007 while acquisition occurred between Ecobank Plc & Oceanic International Bank Plc in 2010 and Access Bank Plc & Intercontinental Bank Plc in 2011.

And most recently, the Merger between Heritage Bank Plc (a newly established bank in 2014) and Enterprise Bank Limited (acquirer of Spring Bank Plc) in 2015 is a strong indication that Mergers and acquisition indeed leads to bigger and bigger bank (Komolafe, 2015).

Hence, the need to judgmentally analyze the effect of M&A on the efficiency and profitability of money deposit banks became a keen interest and to see the effectiveness of the 2005 reform in present day banking in Nigeria.

1.5 Research question

In view of the research objectives, the following question becomes relevant to determine the performance and efficiency of banks after mergers/acquisition:

- What are the impacts of Mergers and Acquisition on the profitability and efficiency of banks?

1.6 Objectives of the study

The aim is to examine and evaluate the comparative impact of Mergers and Acquisitions on the profitability and efficiency of banks in Nigeria banking sector and as well investigate its effects on shareholders fund, financial markets, stakeholders and possible efficiency on economies of scale

1.7 Rationale of the study

The aftermath effect of mergers and acquisition on the profitability and efficiency of money deposit financial institutions is highly significant to development of Nigerian banking industry.

Several research works have been previously conducted to examine the effect of 2005 consolidation reform through M&A on Nigerian banks performance in terms of profitability resulting from enlarged capital base in order to be a mega bank.

However, the size of emerging mega banks is better imagined with the Central Bank of Nigeria 2005 consolidation policy which is aimed at reducing the number of banks, repositioning it for a greater growth and integrates it into the global financial structure (Anderibom & Obute, 2015).

Specifically, this study is aimed to evaluate with comparative financial ratios of three selected banks the impact of Mergers and Acquisitions in Nigeria banking system at pre-consolidation era and post-consolidation era in a bid to identify the possibility of merged banks to sustain the positive flow of effects on their profitability and efficiency now and in the nearest future.

In addition, the research will provide an in-depth knowledge and information as regards Mergers and Acquisitions needed to understand the effect of synergy for business organizations with the possibility of been applied in better emerging economies.

Hence the rationale of this study becomes more relevant when we considered the evidence that the outcome of the reform will be a driving force for Nigeria economic growth and the global economic outlook.

2. Literature Review

2.0 Introduction

A well fitted and resilient financial economy is subject to sound, established and more refined financial system (Okpanachi, 2011). Many years back before the banking reform in 2004, most money deposit banks show signs of financial instability with inefficient flow of fund for banking transactions and some other challenges (lack of integrity by customers, poor IT infrastructure, poor brand name) militating them from rendering good services; hence this resulted to collapse or distress of some banks.

The result of the Nigerian banking sector reform during 2004 and 2005 reduced number of banks from 89 to 25 as at 31st December 2005 with adoption of different strategies (Mergers & Acquisitions and Organic Growth) in order to comply with new capital condition of N25 billion (Anthony, 2008).

Several academic works have provided enough theories on the impact of M&A on banks operational efficiency which has further propel my interest in evaluating with comparative analyses of selected banks financial ratios. The main objective of this research work is to comparatively investigate the effect of M&A on the profitability and efficiency of banks.

2.1 Definition of Mergers & Acquisitions

Merger as defined earlier as the coming together or combination of two or more business entities to form a larger organization with the aim of increasing their strength resulting from the synergy while acquisition on the other hand is the purchase of one organization by another either by expression of interest or hostile takeover with a change in business name or adopting the former name is a renowned global business term used to identify business entity that undergo business combination (Anthony, 2008).

Sudarsanam (1995) argues that M&A is a strategic decision taken by organizations in order to achieve proposed operational and financial objectives. He however defines M&A as a process for organization growth and expansion.

Section 590 of the CAMA (repealed) also defined "Merger" as "any amalgamation of the undertakings or any part of the undertakings or interests of two or more companies or the undertakings or part of the undertakings of one or more companies and one or more bodies corporate".

According to Lynch (2006, cited in Faulkner et al, 2014, p.1), "M&A is a form of co-operation strategy, with the aim of co-operating with other players within or outside one's industry".

Soludo (2004) further contends that M&A is primary focused at achieving efficient cost implication on economies of scale, diversification of banking activities for more improved performance. This opinion was strongly supported by Ajayi (2005) and Uchendu (2005).

2.2 Types of Mergers and Acquisitions

Three forms of Mergers and Acquisitions remained a subject matter by researchers, M&A handbooks and textbooks. They are vertical, horizontal and conglomerate mergers.

The first, vertical merger is a merger in which one firm that is not in the same stages of production merged with another firm that engages in one or more stages of its production (Burns et al, 2003). The result of the merger increases production and complexity of supply and logistics (Scott, 2016). A conglomerate merger seems to occur when dissimilar firms operating in different product markets with dissimilar production stages of the same or similar products combine resources together for the purpose of business diversification (Okonkwo, 2004). In addition, the business diversification provides opportunity for the firm to have economic gains from different cycles with cost minimization (Scott, 2016).

A horizontal merger is the merger of two or more business entities operating in the same line of business in the same stages of production and striving to attain the same commodity or service (Burns et al, 2003; Andrade et al, 2001; Okonkwo, 2004). Examples of this merger are the ones stated in Table 2.2. M&A between similar companies are known as horizontal mergers

2.3 Concepts of Mergers and Acquisitions Waves

Faulkner et al (2014:20) defined "Mergers and Acquisitions Waves as periods of intense merger and acquisition activity beginning with a characterized dramatic increase in the number of executed acquisitions relative to the prior period".

History has it that M&A waves is cyclical in nature and recent research provided strong, compelling empirical evidence supporting the common belief that M&A occur in waves with different motives covering several countries (Scott, 2016; Faulkner et al, 2014).

Historically, M&A market waves mostly focused on the United States and United Kingdom markets with characterized cyclic activities caused by a number of factors such as creation of monopoly/oligopoly, changes in technology, economic expansion, changes in regulations, management self-interest and elimination of conglomerate structures (Sudarsanam, 1995; Faulkner et al, 2014).

Faulkner et al (2014) affirms that M&A occurs in waves and this is evident by the observed common belief and phases of occurrences across the world as shown in Table 2.1 below.

Table 2.1 is a revelation of the five phases of M&A across the globe which was necessitated by changes in technology, economic expansion, new regulations, deregulation and economic recovery after the First World War.

The value of the first merger wave stood at $6.9 Billion with 3,012 deals which later rose to $4.5 Trillion with 31,152 deals. This is a strong indication that most business organization in Asia, Europe and America has embraced and adopted M&A as a means of improving organization performance and efficiency.

Table 2.1 Summary of Mergers & Acquisitions Waves

	First Merger Wave	**Second Merger Wave**	**Third Merger Wave**	**Fourth Merger Wave**	**Fifth Mergers Wave**
Time period	1897-1903	1920-1929	1960s-1973	1980s	1990s-2001
Geographical scope	U.S.	U.S.	U.S., UK, Europe	U.S., UK, Europe, Asia	U.S., UK
Value (in $Billion)*	6.9	7.3	46	618	4,500
Number of deals**	3,012	4,828	N/A	9,617	31,152
Rationale	Creation of monopolies	Creation of oligopolies	Managerial self-interest; growth through diversification; exploiting efficiencies of internal capital allocation markets	Elimination of conglomerate structures and inefficiencies	International expansion

	First Merger Wave	Second Merger Wave	Third Merger Wave	Fourth Merger Wave	Fifth Mergers Wave
Drivers of waves	Changes in technology; economic expansion; introduction of new legislation and industrial stock exchanges; lack of antitrust regulation	Increase in antitrust laws; economic recovery after World War I	Increase in antitrust regulation; underdeveloped external capital markets	Relaxation of antitrust regulation; favourable economic conditions; financial innovations (e.g. junk bonds)	Globalization; deregulation; privatization
Acquisition types	Friendly acquisitions		Friendly and diversifying acquisitions	Related acquisitions; hostile takeovers; LBOs	Related acquisitions
Financing	Cash	Stock	Stock	Cash	Stock
Performance effects	Positive effects- merging firms gained 12-18% in cumulative abnormal returns	Positive effects only for target firms-15% in abnormal returns	Mixed effects for acquiring firms- initial market reaction to mergers positive, but insignificant operational improvements. Positive effects for target firms	Acquiring firm effects depend on relatedness- related acquisitions generated value, unrelated acquisitions generated losses	Positive effects only for targets- 16% in abnormal returns

Adapted from: Faulkner et al (2014:24) *Merger activity in the U.S. industry
**Involving U.S. companies

Table 2.2 Summary of reviewed literatures outside Nigeria on the effect of Mergers and Acquisitions

Researcher(s)	Research Topic	Samples and methods	Findings
Liargovas & Repousis (2011)	The Impact of Mergers and Acquisitions on the Performance of the Greek Banking Sector: An Event Study Approach	Event study approach as a research method was used to assess the effect of Greek M&A on the efficiency of the Greek Banking system during the period 1996-2009 and financial rations for operational performance	The effect of M&A is not significant with no improvement to operational efficiency and as such there is no value-added to shareholder's wealth
Kemal (2011)	Post-Merger Profitability: A Case of Royal Bank of Scotland (RBS)	Financial ratios were used on one sample size to evaluate the productivity of the case study at post-merger	M&A left the bank's performance and efficiency unchanged because they have been approved satisfactory before the merger
Dilshad (2013)	Profitability Analysis of Mergers and Acquisitions: An Event Study Approach	The study applied Event study approach to examine the effect of asymmetric information of M&A on bank's profitability and efficiency with 18 sample size of banks in Europe from 2001 to 2010	M&A lead to increased earned abnormal returns to target banks on the merger announcement day

Researcher(s)	Research Topic	Samples and methods	Findings
Ayadi & Pujals (2005)	Banks mergers and acquisition in the EU: Overview, assessment and prospects	Financial ratios were used to assess broad performance of banks in EU with greater emphasis on cross-border transactions on 33 bank-to-bank mergers	M&A leads to a higher improvement on cost efficiency and little improvement of profitability on domestic transaction. On overall, M&A in Europe shows that there is likelihood for better revenues synergies due to geographical diversification
Urio (2011)	The impact of merger and acquisitions on bank efficiency in Europe	56 commercial bank mergers were sampled in 22 EU countries between 2001 and 2007 and Event study research methodology were used to access the impact of M&A on wealth creation and cost efficiency	M&A leads to improved shareholder value creation with more profit efficiency than cost efficiency
Haynes & Thompson (1998)	The productivity effects of bank mergers: Evidence from the UK building societies	Examined the effect of acquisition of banks augmented production function approach	M&A leads to an increased productivity gains and effective cost minimization
Bernad et al. (2010)	The effect of mergers and acquisitions on productivity: An empirical application to Spanish banking	17 samples of Spanish savings banks and Event study methodology was adopted	M&A relatively improves productivity
Sufian (2004)	The Efficiency Effects Of Bank Mergers And Acquisitions In A Developing Economy: Evidence From Malaysia	Assessed the gross effect of M&A on bank's productivity with increased economies of scale using Data Envelopment Analysis	M&A was successful and lead to increased economies efficiency
Gwaya & Mungai (2015)	The Effect of Mergers and Acquisitions on Financial Performance of Banks (A Survey of Commercial Banks in Kenya)	Explore financial ratios on 14 banks as sample size	M&A increased shareholders' value and firm profitability
Al-Sharkas et al (2008)	The impact of Mergers & Acquisitions on the efficiency of the U.S. Banking Industry: further evidence	Examined the impact of cost and profit performance on merged and non-merged banks in US using Stochastic Frontier Approach (SFA)	M&A improved cost and profit efficiency with lower cost of production due to improved technology

2.4 Review of published literatures

Various research studies have empirically evaluated the impact of mergers and acquisition on Nigeria banks. They provided framework on its impact in terms of performance, profitability, efficiency, cost saving, loan enhancement, ability to generate more deposit, capital base and economic growth rate. Some did a narrow approach while others on comparative analyses showing the trend of the pre-merger, merger deadline and post-merger period.

Oladejo and Oladipupo (2011) opined that main purpose of banking consolidation reforms is to provide more strength for banks in Nigeria banking industry in terms of capital, efficiency and effective performance in order to meet global standards.

Anderibom & Obute (2015) conducted a recent study which investigated the effects of mergers and acquisition on the performance of commercial banks in Nigeria. The study which is evidenced from United Bank for Africa Plc (UBA) adopted both descriptive and analytical ratio tools for analyzing the performance of UBA both at pre-merger and post-merger period between 2000 to 2010. The study identified 2000 to 2004 as pre-merger period, 2005 as deadline for recapitalization and 2006 to 2010 as post-merger period. The analytical ratios used are (a) Capital adequacy (b) performing loans to total loans (c) Returns on assets (d) Profit before tax (e) Investment deposit ratio. The data was obtained from United Bank of Africa Plc annual reports. The data were analyzed with the t-statistic to test the trend of the ratios for the period before and after mergers and acquisition. The study revealed that there is more efficiency in performance of the bank after merger except for management competency.

Further research on the effects of mergers and acquisition of banks, Elumilade (2010) concluded that Mergers and acquisition has greatly enhanced banking operations in terms of profitability, efficiency, capital base, deposit ratio and core banking activities.

The study of Adeyemi (n.d, cited in Anderibom & Obute, 2015, p.104) of Nigerian banking sector shows that the reform if properly implemented is possible to lead to development of healthy, effective and economic driven force for Nigerian economy which can accelerate the economic growth and development of the nation.

Onaolapo & Ajala (2012) in their study affirmed that over years, the Nigerian banking sector has passed through surgical changes in terms of size, number of banks, management structure and has brought more relief and confidence to the mind of investors. These definite changes were greatly affected by forces outside the banking sector and necessitated by the regulatory body for a most robust operation.

Odetayo & Olowe (2013) confirmed that impact of post-merger on Nigerian banks profitability is highly commendable but identified the challenges posed by the consolidation such as payments system efficiency, distress resolution, range of product lines available to customers, staff rationalization and executive capacity. All this if not addressed by regulatory authorities in the Nigerian financial system will not allow the economy to have maximum feed from the benefits of the consolidation.

The work of Okpanachi (2011) is very more relevant as it clearly states one can not 100 per cent affirm that mergers and acquisition actually led to a greater performance and effectiveness in core banking operations because the banking industry continues to witness an undergoing reform as a result of global recession which has adverse effect on banks profitability. This is a narrow approach on performance.

Salawu (2013) find gains in his sample size of 20 staff of United Bank for Africa Plc Main Head office in Nigeria with questionnaire to evaluate the effect of M&A strategy in Nigeria banking industry, the author finds that M&A is capable of encouraging use of pooled resources and manipulation of the learning and knowledge due to increase economies of scale.

Ebiomobowei & Sophia (2011) demonstrate the importance of exploratory research method with a descriptive analysis in investigating the effect of M&A in Nigerian banking industry. Their findings revealed that M&A drivers (economies of scale, improved risk asset management and advanced technology application) are factors to better economic performance but M&A should be a voluntary one and not government induced.

The work of Anthony (2008) is also noteworthy. He evaluated the operating efficiency of Access Bank Plc M&A and Zenith Bank International Plc organic growth with financial ratios with the ascertaining the superior method. The author compared the performance of the two selected banks both at pre-consolidation and post-consolidation. The results indicate that M&A is a factor to increased economies of scale as Access Bank Plc witnessed an accelerated growth than Zenith Bank Int'l Plc that pursues internal business expansion who only maintained existing excellence productivity

Thus, as stated above empirical studies have explained the effects of M&A on banks performance within the context of Nigerian Banking System (Oladejo & Oladipupo, 2011; Anderibom & Obute, 2015; Elumilade, 2010; Adeyemi, n.d; Onaolapo & Ajala, 2012; Odetayo & Olowe, 2013; Okpanachi, 2011; Salawu, 2013; Ebiomobowei & Sophia, 2011 and Anthony, 2008) and finally, turning to studies of effect of M&A reactions to market returns, profitability and efficiency either in a national economy or at cross-border level outside Nigerian Banking System, the following researchers as shown in Table 2.3 generally states the capital gains of M&A in terms of its impact either positive or negative in selected countries were M&A predominately exist:

From the foregoing, numerous studies on M&A have generated diversified outcomes in determining the overall effect on banks efficiency, profitability, investor's returns and capital base.

In general, M&A has direct relationship with significance changes in terms of banks improved performance, increased profitability, enhanced efficiency and creation of shareholders wealth even at cross-border after consolidation except for Liargovas & Repousis (2011) and Kemal (2011) who had a contrary opinion. They concluded M&A does not create wealth and improved operating performance after consolidation because all this measure has been considered satisfactory before the merger.

This research work will link the missing gap by empirically analyzed operating and investor's ratios to examine bank's efficiency, profitability and investor's returns in terms of liquidity, earnings yield, capital base, dividend payment, share valuations and returns of investment at pre-merger, post-merger and future to come; and further improve on the findings of previous researchers on the positive effect of M&A by considering three well established banks in Nigeria who has significant dominance and long standing existence with quality service.

2.5 Why Mergers and Acquisitions?

Sudarsanam (1995) argues that organizations engage in M&A to achieve projected strategic and financial objectives. Burns et al (2003) stressed that firms undertake M&A with the concept of synergy, market motives and economic advantages as the underlying factors.

The following factors as provided by Bengtsson (1992) are some of the reasons why firms engage in M&A:

1) Synergy exploitation
2) Increase market share
3) Market protection
4) Production acquisition
5) Strengthen core business
6) Gain footholds abroad
7) Achieve critical mass-competitive size

In relation to bank, Gwaya and Mungai (2014) opined that banks specifically engage in M&A in order to increase shareholders values, enhance profitability, and reduce transaction costs with access to increase market share.

2.6 Consequences of Mergers & Acquisitions on banks performance

Several research works on the effect of M&A on banks performance revealed that the outcome has indeed been successful. With application of different financial ratios on the balance sheet and income statement, the efficiency and profitability of most banks increased after M&A when compared with figures before M&A.

However, available statistics within Nigerian banking context revealed that there has been a remarkable positive change in banks operations, standard, profit and efficiency as the Statement of Affairs figure and profit & loss statement doubled since consolidation reform took place in 31st December 2005 (Soludo, 2008).

3. 0 Research Methodology

This study adopted positivism as an Epistemological position (Bryman & Bell, 2015 p.28) and is carried out with comparative analysis to evaluate the effects of Mergers and Acquisition on the efficiency and profitability of banks in Nigerian banking sector. It is also aimed to highlight the key activities that will be undertaken and indicate their relevance to this study.

The deductive process which is free from context is used to predict future performance of the sample frame and total population to some extent with better explanation and understanding because the results are considered to be accurate and reliable since the financial ratios are applied on the secondary data sourced from the banks' annual reports and accounts.

3.1 Research method, population and sample size

Quantitative research approach was adopted for this study with in-depth evaluation into the financial performance of selected banks upon which interpretations are made.

The population for this study was drawn from pre-merger and post-merger period with a sample size of three (3) selected money deposit banks who participated actively in the consolidation reform. Before the consolidation, the population size (number of banks in Nigerian banking sector) was 89, after the consolidation reform exercise, it went down to 25 mega banks in early 2006. Further consolidation took it down to 22 money deposit banks in Nigeria.

However, because of the available extra information on the population size, a typical case sampling (Purposive Sampling) approach was adopted for this study (Bryman & Bell, 2015 p.430; Patton (1990, cited in Suri, 2011, p.68).

With a population of seventeen (17) banks involved in M&A, the sample size is likely to be representative of the total population.

3.2 Method of data collection

This study uses secondary data which was collected from academic journals, newspapers, magazines, selected banks publish annual reports (Access Bank Plc, First Bank of Nigeria Plc and Union Bank of Nigeria Plc) official websites and CBN official website; these are reliable sources of data. This study was more objective to analyze data from selected banks published financial statements to remove personal opinion that will provide assurance and confidence the validity and reliability of empirical data used for analysis of this study.

3.3 Method of data analysis

For the data analysis, financial ratios were used, arranged, analyzed and presented in an organized form. The use of statistical tools such as charts, graphs and tables will be applied to aid interpretations of results. Financial performance indicators as provided by (Mishkin, 2006) such as Liquidity ratio, Profitability ratios (Return on assets, Return on Equity, Return on Capital Employed, and Cost-Income Ratio) and Investment Valuation ratios (Dividend Payout Ratio and Earnings per share) are applied for this study.

4.0 Data Presentation and Analysis

This study was embarked upon with comparative evaluation of the impact of mergers and acquisition (M&A) on the profitability and efficiency of banks in Nigeria.

The study made use of secondary data which were extracted from ten years financial statements of the three selected banks with an intent to show pre-merger (2001-2004), merger (2005) and post-merger years (2006-2010) through the use of graphs & tables for presentation and financial ratios for analysis and interpretation.

Summary of Published Accounts

Table 4.1 Summary of Access Bank's 10 Years Profit & Loss Account

	2010 (N'm)	2009 (N'm)	2008 (N'm)	2007 (N'm)	2006 (N'm)	2005 (N'm)	2004 (N'm)	2003 (N'm)	2002 (N'm)	2001 (N'm)
Gross Earnings	79,065	75,847	57,627	27,881	13,360	7,495	5,515	4,368	2,604	1,589
PBT	17,668	41	19,042	8,043	1,119	751	952	811	-17	PBT
EPS (Kobo)	72k	141k	173k	87k	7k	12k	21k	21k	-2k	6k
DPS (Kobo)	20k	70k	40k	-	-	-	10k	5k	-	-
Total Assets	726,960	647,574	1,042,464	328,615	174,554	66,918	31,342	22,582	11,342	8,027
Total Liabilities	544,455	474,423	871,462	300,230	145,660	52,846	28,339	20,082	9,399	7,108
Shareholders' fund	182,504	173,151	*171,002*	*28,384*	*28,894*	*14,072*	*3,003*	*2,365*	1,943	919
Total Deposit	79,065	75,847	*57,627*	*27,881*	*13,360*	*7,495*	*5,515*	*4,368*	2,604	1,589
Branch network	148	130	*108*	*92*	*71*	*48*	*41*	*29*	22	15
Commitments& Contingencies	194,451	125,636	155,035	80,130	30,091	14,763	13,394	6,377	2,735	1,318
Total Loans	403,178	360,387	244,595	107,750	54,111	16,183	11,461	6,505	4,248	2,794

Source: Access Bank Plc Annual Reports

Table 4.2 Summary of First Bank's 10 Years Profit & Loss Account

	2010 (N'm)	2009 (N'm)	2008 (N'm)	2007 (N'm)	2006 (N'm)	2005 (N'm)	2004 (N'm)	2003 (N'm)	2002 (N'm)	2001 (N'm)
Gross Earnings	207,524	184,536	130,600	79,299	61,243	49,475	45,121	45,055	47,717	29,098
PBT	31,491	46,110	38,020	22,097	16,128	15,145	14,106	13,393	15,781	6,201
EPS (Kobo)	83k	141k	223k	156k	269k	308k	381k	406k	196k	288k
DPS (Kobo)	-	-	-	100k	100k	166k	155k	150k	130k	130k
Total Assets	1,957,258	1,772,456	1,165,461	762,881	540,129	377,496	312,490	320,578	266,356	212,901
Total Liabilities	1,616,523	1,454,968	825,614	685,530	479,149	332,824	273,869	295,538	248,609	195,808
Shareholders' fund	340,735	317,488	339,847	77,351	60,980	44,672	38,621	25,040	17,747	17,093
Total Deposit	207,524	175,390	130,600	79,299	61,243	49,475	45,121	45,055	47,717	29,698
Branch network	611	570	453	408	394	394	353	339	326	315
Commitments& Contingencies	334,126	431,316	198,239	132,737	80,662	60,578	48,829	50,423	76,883	25,797
Total Loans	1,0174,411	1,022,486	437,768	219,185	175,657	114,673	78,040	56,046	614,918	46,111

Source: First Bank Plc Annual Reports

Table 4.3 Summary of Union Bank's 10 Years Profit & Loss Account

	2010 (N'm)	2009 (N'm)	2008 (N'm)	2007 (N'm)	2006 (N'm)	2005 (N'm)	2004 (N'm)	2003 (N'm)	2002 (N'm)	2001 (N'm)
Gross Earnings	113,961	97,403	92,935	71,090	50,736	44,791	39,185	34,712	31,846	34,394
PBT	47,438	-285,370	29,746	15,320	12,350	11,953	10,210	10,154	7,499	7,058
EPS (Kobo)	874k	-2118k	214k	126k	160k	210k	231k	262k	106k	113k
DPS (Kobo)	-	-	100k	100k	100k	140k	140k	135k	70k	42k
Total Assets	845,231	921,230	907,074	620,100	517,564	398,271	367,798	329,583	275,194	214,885
Total Liabilities	981,125	1,175,140	795,803	523,170	421,879	359,142	331,813	296,853	244,892	201,099
Shareholders' fund	-135,894	-253,910	111,271	96,930	95,685	39,129	35,985	32,730	30,302	13,786
Total Deposit	113,961	97,935	92,935	71,090	50,736	44,791	39,185	34,712	31,846	34,394
Branch network	427	427	405	386	386	372	322	313	306	297
Commitments& Contingencies	111,280	101,351	86,855	24,459	16,794	28,617	27,316	21,874	33,992	34,683
Total Loans	178,654	336,812	244,845	149,376	116,060	78,684	78,338	54,560	45,486	36,925

Source: Union Bank Plc Annual Reports

4.1 Methods, Results and Discussion

4.1.1 Methods

The study which is centred on comparative evaluation of the impact of Merger and Acquisitions on Nigerian Banks' efficiency and performance involves three carefully selected Nigeria Banks as the sample size with a population of twenty-two banks.

Purposive sampling method was adopted because of related characteristic that exist among the sample frame of seventeen banks.

Ten years ranging from 2001 and 2010 were used as the accessed years while 2005 was the exact year the three banks were involved in merger process. The study was able to look into the operational efficiency of banks at pre-merger year (2001-2004) and effect of M&A at post-merger years (2006-2010). The data required for this study were obtained from secondary sources.

Financial Ratios are applied to assess the impact of M&A on the three banks efficiency and profitability.

4.1.2 Results

The study for testing and analysis the research question; extracted the gross earnings, net profit margin, total debt, total equity, total assets, EPS, DPS, total deposits, current liabilities, cash & short term, non-interest expense, net interest income, non-interest income net profit before tax, total asset plus contingencies and shareholder's fund of the three sampled banks.

The results showed the financial efficiency parameters in terms of Financial KPIs, Financial Growth KPIs and Non-Financial KPIs.

4.1.2.1 Financial Key Performance Indicators

From calculated Leverage ratio, the merger synergy in effect is an added advantage to the three banks because the pooled resources after the M&A allowed them to operate without depending on borrowings thereby increasing their equity maximization.

Equity to Total Assets ratio shows that the three banks assets are adequately financed by shareholder's fund which in effect provide them the ability to sustain their operations in the nearest future without borrowing while calculated Dividend Payout Ratio is a confirmation that the merger successes which guarantee a consistent payment of dividend as a way of maximizing shareholder's return allow the banks to have more access to market power.

The three banks calculated EPS growth rate has made their shares highly rated and traded in the financial market. In other words, M&A has significantly had a positive effect on the banks efficiency through the share price market performance.

Return on shareholder's fund; a measurement of bank's capacity to deliver a sustainable DPS growth to shareholders doesn't show a significant increase after the M&A. Hence, regardless of the synergy, M&A had neither significantly improved nor worsened the efficiencies of the banks' operations.

High profitability through Risk Asset ratio is significantly maintained as M&A allow the banks to put in larger proportion of shareholder's fund as loan. This will have a potential positive effect to the net profit after tax.

The three banks liquidity as measured by Loans to deposit ratio and cash & short-term investment to current liabilities are used to evaluate the impact of M&A on wider stakeholder. This shows that there is more loanable fund through deposit after the M&A; they can be give out more loans and remain liquid. Equally, they can meet up with their financial obligations as at when due. This implies that liquidity position of the banks was better off at post-merger.

With regards to profitability ratios, there is a conviction, that the banks can successfully be able to generate sustainable profits from its earnings shortly after the M&A though FBN and UBN are not significant but they are most likely to have a growth increase in their profit margin as evidence in 2010. By implication M&A has effectively improved the efficiency and profitability of the banks' after 2005.

4.1.2.2 Financial Growth Key Performance Indicators

M&A had significantly improved the banks' gross earnings through increased economies of scale which is a pure manifestation of the synergy.

In the same vein, calculated Deposit Growth rate shows a high increase in deposit figure for the banks'. This implies that there is a direct positive relationship between M&A and increased deposit mobilization.

Likewise, Total Assets plus Contingency Growth rate calculation has a positive effect on the three banks Total Asset plus contingencies growth rate. The growth rate is significant as it is tied to an even growth in shareholder's fund and increased deposit mobilization.

4.1.2.3 Non-Financial Key Performance Indicators

M&A has significantly increased the three banks branch network which has a great impact on wider stakeholder with easy access to bank location for improved deposit mobilization and loan processing.

4.1.3 Discussion

The results of the three banks as shown above are very much significant to a positive effect on the banks' efficiency and profitability after M&A.

The computed increased gross earnings growth, increased branch network, improved deposit mobilization, better liquidity, value-added Return on Assets and consistent payment of dividend for enhancement of shareholders' equity maximization are strong indicators that M&A has impacted positively the efficiency and profitability of the three banks.

Two years after the consolidation reform in 2005, the three banks performance is considered to have achieved a milestone in 2007. This was strongly supported by well co-ordinated business risk management and profitability improvement as seen the findings.

In spite of the great landmark brought about by M&A, the 2007/2008 global financial crisis gave rise to FBN and UBN to adopt the use of subordinated debt qualifying as Tier II Capital in Africa in compliance with provision of CBN code of capital mix on their capital structure which positioned them to meet up with global best practices.

Likewise, Net Profit Margin shows that the 2007/2008 was a factor attributable to the decrease in the net profit margin of FBN and UBN in spite of the strength derived from the synergy.

The result of this research is strongly supported by Elumilade (2010) and Okpanachi (2011) who agreed that M&A has significantly improved bank's profit and performance. Also, the work of Salawu (2013) support the result of this research in that he agrees that M&A leads to efficient use of resources for improved performance and profitability through increase economies of scale.

However, the work of Odetayo & Olowe (2013) has a contrary opinion to the result of this study. They opined that M&A does not have any significant impact on Nigeria's banks' profitability.

In comparison with cross-border M&A of banks, M&A has led to improved operating cost minimization and less growth of profit efficiency for both local activities and cross-border transaction (Ayadis & Pujals, 2005). This finding is in support of my results as M&A leads to improved efficiency in Nigerian banks.

5.0 Conclusion and Recommendations

5.1 Conclusion

This study was aimed at evaluating the comparative effects of Mergers and Acquisitions on the profitability and efficiency of Nigerian banks using Access Bank Plc, First Bank of Nigeria Plc and Union Bank of Nigeria as case studies.

To achieve this, relevant financial ratios and growth in non-financial Key Performance Indicators related to the research objectives were applied. The results showed that Mergers & Acquisitions has significantly impacted positively on the profitability and efficiency of the three banks. There are increased economies of scale, access to market power and consistency in payment of dividend which are the expected results of synergy.

Findings of relevant research were compared to support the results of this study. It was observed that operations of the three banks improved significantly after 2005 which implies that Nigerian banking consolidation exercise of 2005 was of great benefits to the financial economy.

The study also shows that the three banks witnessed a faster growth in gross earnings, branch expansion, total assets plus contingencies, loans to deposit ratio and cash & short term investment which are considered as dividends of Mergers and Acquisitions.

The reform had brought about mega banks with strong capital base, viable total assets and good branch network system needed to make the banking system more reliable, resourceful, dependable and ability to compete favorably with their peers around the globe.

Most importantly, the reform through Mergers and Acquisitions has rebuilt the lost confidence wider stakeholders had on the banking sector prior to 2005. This was made possible with good risk asset management, better liquidity profile and increased gross earnings.

Summarily, a consolidated industry of mega banks increasing sustainability of Nigerian economy growth through improved profitability and efficiency wouldn't have been possible if not for Mergers and Acquisitions as a tool recommended by Central Bank of Nigeria during banking consolidation reform.

Consequently, the apex Bank had the cause and confidence to declare that banks operating in the banking sector after the M&A are considered to be sound with a minimum of N25billion capital and more profitable than the pre-merger period.

Nevertheless, the challenges facing banks after the consolidation through value-driven M&A are never undervalued but the benefits accrued so far is beyond imagination.

5.2 Recommendations

With relevance to the findings of this study, which includes the effect of pooled resources which brought about increased equity maximization without recourse to external borrowings, adequate funding of assets by shareholders' fund, consistent maximization of shareholder's returns, sustainable liquidity position and ability to generate reasonable profits from operations which brought about an improved efficiency and profitability to the three banks'.

In addition, expanded branch network and significant growth to customers' deposit and gross earnings are part of the effect of M&A to the efficiency and profitability of banks in Nigeria.

With reference to the above mentioned key findings, it is recommended that the Apex bank to constantly review guidelines for liquidity to safeguard the amount of deposit to be used as loans. This was evident in the rapid increased in the three banks gross earnings and Access Bank Plc Net profit before tax.

In addition, the study which has three sample sizes can still be extended to cover at least 70% of Nigerian banking system using quantitative methods for better comparison.

As an addendum, investors who are strongly interested to trade on merged recapitalized money deposits banks' shares should take note of findings in this study as related to the waves of increase in the gross earnings, equity maximization and liquidity position of interested bank for better decision making.

Lastly, the Central Bank of Nigeria should implement strong policies to discourage bank's management from unlawful banking practices such as window dressing and improper corporate governance as this affected their operations in pre-merger years.

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