Do M&A Really Matter for Banking Sector Growth in Nigeria?

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Abstract: **- Merger and acquisition (M&A) lead banking sector growth argument has continued to garner more momentum since almost a decade and half ago precisely after the major Nigerian Banking sector consolidation in 2004/5. While the debate is on, several studies have concentrated efforts on group comparative estimation of the pre and post impact of M&A. But comparative growth impact assessment between merger option and acquisition option respectively is lacking. This paper is thus a contribution in this direction. Utilizing bank asset data generated from fourteen (14) deposit money banks (DMBs) categorized into Banks that stood alone (5); merged banks (4); and banks that acquired others (5) respectively, over a 12-year period (2006-2017), the paper sought to investigate if merger or acquisition or both significantly matter for banking sector growth in Nigeria. To achieve this, generated data were first descriptively analyzed and subsequently regressed with E-view-7 and SPSS-20 computer packages to generate optimal multivariate estimators at 95% significant level. Results revealed that acquisition was not significantly positive on bank growth but merger was both positive and significant and thus matter more for banking sector growth. The study therefore among others, recommends due diligence as way forward for acquirer mega-banks in the identification and correction of possible factors which abinitio made the banks they acquired unsound and distressed in order to achieve synergy in the new arrangement.**

Keywords: **Acquisition, Bank Growth, Bank Asset, Consolidation, Merger**

I. INTRODUCTION

The role of the banking sector in propelling economic growth cannot be overstated. Studies have shown that a strong and virile economy depends to a very large extent on a robust, stable and reliable banking sector (Okpanachi, 2011; Salawu, 2013, Eleje, Osayi, Okoh, & Okoye, 2017). Imperatively therefore, there is the need to constantly reposition the banking sector for efficient and viable economic performance. Unarguably, reform process of the banking sector has been part and parcel of various governments' strategic agenda. The reforms have aimed at fine-tuning the banking sector to meet the challenges of economic development. In most part of the world and mostly in developing nations, banking sector reforms have been influenced majorly by structural adjustment policies which are featured by deregulation, globalization, technological innovations, and implementation of supervisory and prudential requirements of monetary authorities that conform to international regulations and standards. As part of the strategic reform, bank consolidation via merger and acquisition (M&A) has also hotly been debated especially in Nigeria as one possible solution to achieving the anticipated strong and reliable economy.

Meanwhile, the current interest generated in M&A in Nigeria might not have been, if not for the mid 2004 declaration by the Central Bank of Nigeria (CBN). It would be recalled that on July 6, 2004 precisely, the CBN announced a far-reaching reform of the banking sector to firm up capitalization of banks in Nigeria. The major thrust of the 13-point reform agenda was the prescription of minimum shareholders' funds of 25 billion for Nigerian deposit money banks (DMBs) not later than December 31, 2005. The reform rationale was predicated on the apex bank's findings that many banks had exhibited severe symptoms of under capitalization, illiquidity, weak asset quality and poor earnings which in sum could have led to failures (Onwumere and Ogamba, 2006). Hence, the capitalization reform became imperative for CBN to ensure an efficient and strong banking sector to pacify depositors' confidence in the banking system. But the prescribed N25 billion capital adequacy for DMBs was substantially enormous in view of their low financial base. Hence, M&A option was specifically proffered among other financing options by the CBN. The fallout was a swoop diminution of 89 banks to 25 banks at the end of 2005 (Achua and Ola, 2013, Okoye, Modebe, Achugamonu, & Isibor, 2016).

In the meantime, M&A have been acclaimed as the most widely used corporate financing strategy to strengthen capitalization in banks (Rehan, Khani, & Khan, 2018). The credibility of proponents have been that M&A would eliminate marginal players and provide strong banks that could gain economies of scale through reduced expenses and earnings volatility, and increase long-term profitability. Thus, the drive towards M&A, apart from meeting the N25 billion capitalization for Nigerian DMBs was also expected to improve overall banks' performance including liquidity, profitability as well as reduce earnings volatility. But after several years of its implementation, there still exist strong doubts about the potentials of banks in realizing these efficiency gains. Extant empirical verifications on the value gains that were predicted for M&A option have mixed results. And so, whether or not banks that were involved in M&A are actually achieving the visualized financial gains still remains a critical research question.

Conceptual Clarification

There are two broad categorizations for firms combining with each other. Afolabi, (2011) identified the two groupings to include **(**a) M&A, and (b) Joint Ventures and Strategic Alliance. Between these two alternatives, the most common methods often employed by organizations are M&A. For the Nigeria financial system, M&A have assumed great prominence as a strategy for resolving distress of banks. A merger is defined by the companies and allied matters decree 1990 as "any amalgamation of the undertaking of any part or interest of two or more companies or the undertakings or part of the undertaking of one or more company's bodies corporate" (Salawu, 2013). Acquisition on the other hand is the buying over of a company by the payment of cash to its shareholders by another company with the target company still continuing its existence but as a subsidiary of the buying company which becomes the acquired company's holding company. According to Oyedijo (2004:167) a merger occurs when two companies under different ownerships and management combine together to become a single enterprise. Hence, Hubbard (2001) argued that there are psychological differences between acquisitions and merger as the latter involve two partners of relatively equal size and power and a genuine attempt is made to combine the two entities into a culturally new one.

Motives for M&A

Salawu, (2013) identified two primary motives for M&A to include cost savings and revenue enhancement:-

i. *Cost Savings:* M&A can lead to reductions in costs for a variety of reasons as the emerging large banks are expected to enjoy both scale and scope economies on the one hand, and avoid cost duplication, on the other hand.
ii. *Revenue Enhancement:* M&A can lead to increased revenues through its effects on firm size, firm scope (through either product or geographic diversification), or market power. Research suggests that mergers may provide some opportunities for revenue enhancement either from efficiency gains or from increased market power (Onwumere, & Ogamba, 2006).

Supportive Factors for M&A

i. *Improvement in Information and Telecommunication Technology (ICT):* New technological developments have encouraged M&A because of their high fixed costs and the need to spread these costs across a large customer base. At the same time, dramatic improvements in the speed and quality of communications and information processing have made it possible for financial service providers to offer a broader array of products and services to larger numbers of clients over wider geographic areas than had been feasible in the past.
ii. *Deregulation:* Over the past 25 years, many governments have removed important legal and regulatory barriers to financial industry development. The removal of these barriers has opened the way for increased M&A, both within and across national boundaries and both within and across financial industry segments.
iii. *Shareholders' Pressure:* Increased competition has helped to squeeze profit margins, resulting in shareholders' pressure to improve performance. M&A has in many cases, seemed an attractive way to accomplish this objective.
iv. *Common Currency:* The adoption of common currency by an economic block, such as euro in the European Union, has induced changes in financial markets in the region and this has provided new opportunities for realizing economies of scale and revenue enhancement through M&A.

Theoretical Justifications

Bank consolidation via M&A could be perceived from three theoretical standpoints: Concentration theory; Deconcentration theory, and 'eat or be eaten' theory (Gorton, Kahl and Rosen, 2005; Adebayo and Olalekan, 2012; Samuila and Obute, 2015):-

A. Concentration Theory

Bank concentration theory is linked to the work of Demirguc-kunt and Levine (2000), and Boyd and Runkle (1993). According to these authors, bank concentration suggests a fewer number of large banks. They are of the view that economies of scale triggers bank M&A so that increased concentration results in efficiency improvements (Samuila and Obute 2015). It is believed by these theorists that a less concentrated banking system with many small banks is highly prone to financial crises than a concentrated banking sector with few large banks. This is partly because reduced concentration in a banking market results in increased competition among banks and vice-versa. The proponents of concentration theory hold that larger banks can diversify better so that banking systems characterized by a few large banks will tend to be less fragile than banking systems with many small banks. Further, it is argued that a concentrated banking system may also enhance profits and therefore lower bank fragility. High profits provide a buffer against adverse shocks and increase the franchise value of the bank, reducing incentives for bankers to take excessive risk. Moreover, a few large banks are easier to monitor than many small banks, so that corporate control of banks will be more effective and the risks of contagion less pronounced in a concentrated banking system (Beck, Demirguc-Kunt and Levine, 2003).

B. Deconcentration Theory

Deconcentration theory stemmed from the lapses discovered in the concentration theory of M&A. The proponents of this theory argue that concentration will intensify market power and political influence of financial conglomerates, obstruct competition and access to financial services, reduce efficiency, and destabilize financial systems as banks become too big to be disciplined and can use their influence to shape banking regulations and policies (Samuila and Obute 2015). According to Demirguc-Kunt and Levine (2000), concentration may not only lead to banks that are *too-big-to-fail* and *too-big-to discipline*, it may also create banks that disproportionately shape society's policies, regulations, and institutions governing banking sector activities. Such large, politically influential banks may also help shape the policies and regulations influencing bank activities in ways that help banks, but not necessarily in ways that help the overall economy. For example, to enhance the profitability of high networth clients, mega banks may seek to boisterously control the financial markets by weakening anti-trust laws and other policies crafted to promote competition in the system. Concentrated banks may also seek to restrain stock market development by agitating for higher taxes on capital gains and by repressing regulations that protect the rights of small investors and promote accounting transparency.

A second major position of the deconcentration theorists is the idea of bank fragility occasioned by concentrated banking structure. Advocates of this '*concentration-fragility*' are of the view that larger banks frequently receive subsidies through implicit 'too big to fail' policies that small banks do not enjoy. This occurs when regulators fear potential macroeconomic consequences of large bank failures. The greater subsidy for larger banks may in turn intensify risk-taking incentives beyond any diversification advantages enjoyed by them, thereby increasing the fragility of concentrated banking systems (Boyd and Runkle, 1993). In a nut-shell, deconcentration theorists submit that higher market concentration is associated with lower socio-economic welfare thus, higher concentration is undesirable.

C. "Eat or be Eaten" Theory

The advocates of this theory of M&A are Gorton, Kahl and Rosen (2005). They proposed the theory as a response to the innumerable M&As which featured the financial landscape of the United State in the 1960s-1990s. The proponents combined elements of neoclassical and behavioural theories in a new theoretical framework and termed it "*Eat or Be Eaten*". The theory presents a model of defensive merger and advanced that merger can occur when managers prefer that their firms remain independent rather than be acquired. The theory further stipulates that managers can diminish their chances of being acquired by acquiring another firm and in so doing, magnify the size of their own firm. The "eat or be eaten" theory is hinged on three major assumptions:

- Managers may have a preference for keeping their firms independence. Managers of acquired firms are likely to play subordinated roles in the new firms or may lose their jobs.
- Second, there is a state of the world in which at least some mergers generate value.
- Thirdly, a firm of a given size cannot acquire a larger firm. The larger the acquisition, the more difficult it is to finance.

The assumption that a firm cannot acquire a firm that is larger than itself stipulates that a firm can reduce its chance of being acquired by acquiring another firm smaller than it. In so doing, its size is magnified, and this in turn, reduces the number of potential acquirers. Merger waves arise because of the externalities involved in defensive mergers: one firm's defensive acquisition makes other firms more vulnerable as takeover targets, which induces them to make defensive acquisitions themselves, resulting in a race for firm size. Thus, the potentially profitable acquisition opportunity for one firm can lead to an "eat or be eaten" merger wave.

Meanwhile, Gorton, Kahl and Rosen (2005) have criticized the 'eat or be eaten theory". They observed that managerial self-interest could lead to inefficient M&A decisions. Often, managers make defensive mergers that protect their jobs at the expense of their shareholders. They may do so even if the expected synergies of the mergers are negative.

Deducing from the three theories above, it can justifiably be asserted that the theory that best explains the M&A exercise of 2004-2005 in Nigeria is the bank concentration theory. Although the 2004-2005 M&A exercise in Nigeria was driven by the apex bank's policy, the policy aimed, among others, at increasing the concentration of banks in Nigeria by reducing the number of banks, deepening the financial sector and rebalancing it for growth.

Review of Empirical Studies

Extant empirical arguments exist which have attempted to either justify or nullify the relevance of M&A locally and at the international parlance. Adebayo and Olalekan (2012) analyzed the implications of M&A of commercial banks in Nigeria on their profitability and other associated measures of performance. The research data was generated from published audited accounts of ten (10) out of twenty-four (24) banks that emerged from the consolidation exercise of the CBN. The relevant data collected were analyzed and tested using simple percentage and tables. Subsequently, three hypotheses formulated in the study were tested using correlation co-efficient (r^2) and T-test statistics. The result of the analysis revealed that there is significant relationship between pre and post-merger/acquisition capital base of commercial banks and level of profitability. There is also a significant difference between pre and post-merger acquisition earnings per shares. Merger/acquisition has also increased the capitalization of commercial banks with evidences of changes in company's share ownership, increase in the cost of services and changes in bank lending rates.

Achua and Ola (2013) examined the impact of M&A recapitalization strategy on Nigerian banks' financial volatility using eight financial ratios. Data spanning from 2001-2009 was collected for pre and post M&As. Paired t-test results indicate that there is no significant improvement in the financial performance of post-M&A banks in all the areas of profitability, liquidity, leverage, and earnings volatility after the M&A deals.

Okpanachi (2011) made a comparative analysis of the impact of M&A on financial efficiency of banks in Nigeria. The paper used gross earnings, profit after tax and net assets of the selected banks as indices to determine financial efficiency by comparing the pre-M&A indices with the post M&A indices for the period under review. Three Nigerian banks were selected using convenience and judgmental sample selection methods. Data were collected from published annual reports and accounts of the selected banks and were subsequently analyzed with t-test statistic. It was found that the post M&A's period was more financially efficient than the pre-M&A period.

Salawu (2013) evaluated the effect of M&A on the performance of the Nigerian banking sector. The study utilized survey research design. Descriptive research approach employed to analyze the questionnaire drawn from the main research objectives manifested that M&A lead to efficient use of shared resources and increases scale of production. Secondly, implementation of M&A improves management efficiency and ensures sanity and stability in the banking sector and the economy at large.

Anderibom and Obute (2015) explored the effects of M&A on the Performance of commercial banks in Nigeria with particular interest on United Bank for Africa (UBA) Plc. Using Capital, Asset, Management, Earnings, and Liquidity (CAMEL) data obtained from the bank's annual reports and statements of accounts for the period, 2000-2010 and applying pair sample t-test for pre and post M&A analysis, result showed that M&A had positive and significant effect on the performance of commercial banks in Nigeria.

Okoye, et.al (2016) sought to examine the extent to which banking sector performance differs between pre- and post-merger and acquisition periods. Return on assets, bank asset ratio and capital adequacy ratio were adopted as proxies for bank performance. The study employed ex-post facto research design and covered a period of nine (9) years before and nine (9) years after the 2005 banking sector recapitalization exercise. Data on the variables were analyzed using the independent sample t-test technique. The study found that there is no significant negative difference in the performance of return on asset in the pre- and post-merger and acquisition periods. Bank asset ratio showed significant positive difference between the pre- and the post-merger and acquisition periods leading the study to conclude that mergers and acquisitions have significant impact on banking sector performance in Nigeria.

Rehan, et.al (2018) shed light on the effect of merger and acquisition on the profitability of banks in Pakistan. Debt equity ratio (DER), return on capital employed (RCE), net profit margin (NPM), gross profit margin (GPM), operating profit margin (OPM) and Return on equity (ROE) were selected for analyzing the profitability of banks on three years before the merger and three years after the merger of banks. Paired sample T-test was applied in order to find out the effect of pre and post-merger & acquisition on bank performance. Study among others revealed that there occurs only 100 percent change in the return on equity after merger and acquisition. Secondly, 54 percent change was found in the debt to equity after merger and acquisition and 33 percent change was found in the net profit margin after merger and acquisition.

Ramanath, Subramanyam, & Lakshman, (2019) attempted to understand the performance of State Bank of India (SBI) based on selected performance indicators. Data was collected for nineteen years starting from financial year 1999 -2000 till the financial year 2017 -18. Specifically, the data for the study was collected from annual reports of State Bank of India. The study sought to analyze the performance of State Bank of India before and after merger based on profitability, deposits mobilized, advances given to the borrowers, ROA, Investment to Assets Ratio, Credit Deposit Ratio and CAGR. Among other findings, performance of SBI in terms of number of branches and number of employees showed consistent growth from 1999 to 2018. Similarly, performance of SBI in terms of deposits and advances showed consistent growth from 1999 to 2018 and there has been a good improvement of these parameters after the merger.

II. METHODOLOGY

Empirical Design and Data: The study utilized *ex-post facto* research design. Basic analytical data was generated from fourteen (14) deposit money banks (DMBs) listed on the floor of the Nigerian Stock Exchange over the sampled period (2006-2017). For ease of analysis, the 14 banks were grouped into three categories: Banks that stood alone (5); merged banks (4); and banks that acquired others (5) respectively. Dependent variable was proxied by aggregate assets of sampled DMBs (DMBS_T_ASSET) while explanatory variables were total asset of acquired banks (ACQD_BNKS), total asset of merged banks (MRGD_BNKS), and total asset of stand-alone banks (S_ALONE_BNKS) respectively. Extracted data were subsequently analyzed using computer based multivariate linear regression statistics aided by the Econometric View (E-view) computer package.

Null Hypotheses: Two null hypotheses were formulated to guide the research as follows:

H_{01}: *Merger does not positively and significantly matter for banking sector growth in Nigeria*

H_{02}: *Acquisition does not positively and significantly matter for banking sector growth in Nigeria*

Analytical Econometric Model and Justifications: Deductions from the reviewed empirical studies have shown that the analytical framework and testing procedures employed to measure the effect of combination on bank performance often determine the conclusion thereof. The previous researches have focused attention on the test of Cobb Douglas's model as modified by the pooled cross-sectional regression works of La Porta, Florencio and Andrei, (2002); as well as Eleje and Olopade (2015). Rather than replicating in totality the methodology of these previous researches, this study utilized a more recently modified regression model employed by Eleje, et.al, (2017) which captures some factors considered sensitive and relevant to the Nigerian economy in recent time. The study therefore differs from previous studies in three main respects. First, it utilized a model that has been recently modified and used in related study in Nigeria. Secondly, the analytical approach is different. Other studies have focused on pre and post consolidation analysis but the present study holistically employed grouped comparative analytical evaluation along the line of banks that stood alone, banks that merged, and those that acquired other banks respectively. Thirdly, the period covered (2006 - 2017) is unique. Obviously, the research is a post consolidation study that attempted to evaluate the performance of the banks as categorized after the consolidation period of 2004/5, hence the choice of *ex-post-facto* design. Patterning Eleje et.al (2017), the multivariate linear regression model is thus specified:

$$DMBs\_T\_ASSET_t = \beta_0 + \beta_1 ACQD\_BNKS_t + \beta_2 MRGD\_BNKS_t + \beta_3 S\_ALONE\_BNKS_t + .. \varepsilon_t$$

Where:

$DMBs\_T\_ASSET_t$ = Aggregate Assets of Sampled DMBs in Nigeria

$ACQD\_BNKS_t$ = Total Asset of Sampled Acquirer Banks in Nigeria

$MRGD\_BNKS_t$ = Total Asset of Sampled Merged Banks in Nigeria

$S\_ALONE\_BNKS_t$ = Total Asset of Sampled Stand-Alone Banks in Nigeria

β_0 = Constant of the Regression

$\beta_{1, 2, 3}$ = Coefficient of the Explanatory Variables

e = Random Error Term

III. RESULTS AND DISCUSSIONS

Table (1) below is the result emanating from the E-view computer statistics

Table 1:

Dependent Variable: DMBS_T_ASSET
Method: Least Squares
Date: 07/24/19 Time: 17:20
Sample: 2006 2017
Included observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.10E+08	2.56E+09	-0.043181	0.9666
ACQD_BNKS	0.214531	0.477751	0.449043	0.6653
MRGD_BNKS	3.659431	1.496547	2.445250	0.0402
S_ALONE_BNKS	0.757664	0.584603	1.296032	0.2311

R-squared	0.987110	Mean dependent var	2.13E+10
Adjusted R-squared	0.982277	S.D. dependent var	8.14E+09
S.E. of regression	1.08E+09	Akaike info criterion	44.70671
Sum squared resid	9.40E+18	Schwarz criterion	44.86834
Log likelihood	-264.2403	Hannan-Quinn criter.	44.64687
F-statistic	204.2193	Durbin-Watson stat	1.031688
Prob(F-statistic)	0.000000		

Source: E-View Processed (2019)

A cursory observation of the coefficient values in table 1 result reveals some useful evidence for achieving the research objective. The acquirer banks (ACQD_BNKS) asset coefficient is 0.2145. The value is positive but not significant (0.6653) at both 95% level. The meaning is that for every 1% increase in acquired banks total asset over the period of study holding other variables constant, aggregate asset of DMBs in Nigeria appreciated slightly by approximately 0.21%. Similarly, stand-alone banks' total asset insignificantly (0.2311) showed appreciation in aggregate DMBs asset. A one percent (1%) increased in stand-alone banks asset over the period of study slightly increased aggregate DMBs asset by only 0.76%. But merged banks asset performance revealed significant appreciation. A one percent (1%) increase in merged banks asset over the period of study increased DMBs aggregate asset significantly (0.0402) by approximately 3.66%.

Table 2:			Relationship and Variance Statistics				
INDEPENDENT VARIABLES			ACQD_BNKS		MRGD_BNKS		S_ALONE_BNKS
Pearson Corr.			0.979		0.990		0.988
	Variables	R	R^2	Adj. R^2	F	F-Sig	DW
H_{01}	ACQD_BNKS, MRGD_BNKS, S_ALONE_BNKS	0.994	0.987	0.982	204.21	0. 000	1.032
Dependent Variable: : DMBS_T_ASSETS							

Source: SPSSWIN Processed (2019)

Testing for the acceptability of the employed model from the statistical point of view, the Analysis of Variance (ANOVA) was employed. According to Gujarati and Porter (2009), ANOVA tests for the acceptability of models from statistical viewpoint by looking at the goodness of fit from the F-statistics. If the significant value of F-statistics is less than 0.05, the independent variables did a good job in explaining the variation in the dependent variable. Checking from the ANOVA summarized in table (2) is an F- significant value of 0.000. This value is less than 0.05, an indication that the model did a good job. Verifying for the nature of the relationship between the variables, the Pearson correlation coefficient was applied. The coefficient showed strong positive relationship (0.971) between DMBs aggregate asset and total asset of acquired banks; strong positive relationship (0.988) between DMBs aggregate asset and total asset of stand-alone banks; and, strong positive relationship (0.990) DMBs aggregate asset and total asset of merged banks respectively. The multiple correlation coefficient (R) defines the correlation between the predicted and the observed values of the dependent variable. The values for R range from 0 to 1. The larger value for R suggests strong relationship between the predicted and the observed values of the dependent variable. Deducing from the model summary, the R value is 0.994. This indicates that there is a strong positive relationship between the predicted and the observed values of the dependent variable. The coefficient of determination (R^2) defines the proportion of the variance for a dependent variable that is explained by an independent variable or variables in the regression model. The R^2 statistics from table 1 is 0.9871. This implies that 98.71% of the variations in the dependent variable is explained by the independent variables in the model. The remaining 1.29% is due to other factors not accounted for in the rmodel.

Validation of Hypotheses With p & t-Statistics

Decision Rule:

Testing the two hypotheses of this study, the *t* & *p* statistics were considered. This was to capture the magnitudinal and directional contents of the stated hypotheses. Accordingly, the decision rule was to reject the null hypothesis and accept the alternate hypothesis if the *p-value* is less than 0.05 and the corresponding *t-value* is positive; otherwise, accept the null.

For hypothesis one, the *p-value* is 0.0402<0.05 while the *t-value* is 2.4453. Based on the above decision rule, the paper rejected the null hypothesis and accepted the alternate hypothesis which states that; Merger positively and significantly matter for banking sector growth in Nigeria.

Conversely, the *p-value* of hypothesis two is 0.6653>0.05 while the corresponding *t-value* is 0.4490 respectively. Consistent with the decision rule therefore, the paper rejected the alternate hypothesis and thus submits that acquisition restructuring option of banks does not positively and significantly matter for banking sector growth in Nigeria.

IV. CONCLUSION AND RECOMMENDATIONS

One obvious conclusion of this study is the fact that although acquisition restructuring option could positively influence the growth of the banking sector in Nigeria, the growth effect of this strategy is not significant especially when measured from the prism of aggregate asset size. The restructuring option of merger is rather most acceptable and therefore significantly matter for banking sector growth in Nigeria.

The above conclusion is partly consistent with existing M&A studies including Okpanachi, (2011), Okoye et.al, (2016) Rehan, et.al, (2018), and Ramanath, et.al, (2019). Meanwhile, the foregoing conclusion has generated a number of useful recommendations for fast-tracking the value added impact of M&A on bank performance in Nigeria:

- First, one major upshot of the M&A is the collapse in the industry from 89 to 24 banks. Apparently, Nigeria now has mega banks with huge financial resources to invest. However, it is very imperative to note that size and huge capital do not necessarily translate to good and sound bank. The determinant of sound bank is really how effective and efficient the management of the bank is deploying the available resources. This is therefore informative to the managers of the new banks.
- Secondly, one of the motivations for acquisition strategy of banks in Nigeria unarguably is the *eat-or-*

be-eaten theory. A closer scrutiny of the 25 banks which surfaced after the consolidation of 2004/5 reveals that most banks deemed distressed and unsound were fused under acquisition arrangement into existing perceived strong banks who acquired them not necessarily to correct the inefficiencies in their operating system but just to meet the mandatory requirement to remain afloat and to continue business as usual. For this banks, this study recommends that due diligence be adopted in the identification and correction of possible factors which abinitio distressed the acquired banks in order to achieve synergy in the new arrangement.

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