Mergers and Acquisition Strategy and Performance of Selected Deposit Money Banks in Nigeria

Etim Osim Etim[1], Nsima Johnson Umoffong[2]

[1]*BSc, MBA, MSc, PhD, CFAN, FCA, Department of Accounting, Faculty of Business Administration, University Of Uyo, Uyo, Akwa Ibom State, Nigeria*

[2]*BSc, MBA, PhD, Department of Accounting, Faculty of Business Administration, University Of Uyo, Uyo, Akwa Ibom State, Nigeria*

***Abstract:* - The study examined the effect of merger and acquisition strategy on performance of selected Deposit Money Banks (DMBs) in Nigeria. Purposive sampling technique was adopted as sampling procedure for selecting three Deposit Money Banks (UBA, Access Bank and FCMB) that successfully implemented Merger and Acquisition Strategy in the Financial Services Sector of the Nigeria economy. Secondary Data Spanning a period of 20 years (1996-2015) were collected from the published annual financials of the banks. Descriptive statistics involving the test of differences in two means (pre and post mergers periods) and multivariate Analysis of variance (MANOVA) were employed in analysis of the data. Results shows that merger and acquisition strategy impacted positively on performance of the selected Deposit money Banks in Nigeria with improved performance in gross earnings (pre total value 6.05, post total value , 405.29); profit after tax (PAT) values (Pre-total values 2.1 post total values 65.91). Earnings Per Share (E.P.S) values (pre-total values 23.03, Post-total values, 141.12). More so the calculated ANOVA values (F-statistic) for test of hypothesis were 32.83, 17.31 and 29.14 as against 3.60 critical value meaning post-merger performance were better than the pre-merger period. It was concluded that merger and acquisition strategy is good for Nigerian Banks. It is recommended that Banks with poor corporate governance issues and weak Capital structure should embrace mergers and acquisition and that the CBN should strengthen it monitoring and oversight functions to enhance operational efficiency of Deposit money Banks in Nigeria.**

***Key words:* Merger and acquisition, Performance, Corporate governance and capital structure.**

I. INTRODUCTION

Banks and other financial institutions occupy pivotal position in any economy. They serve as the linkage between the surplus and deficit economic units in channeling funds needed for economic growth and development. The robustness and viability of this sector is necessary for a vibrant economy as the state of any economy is often a reflection of the state of its financial system. The correlation cut across the globe, for developed and developing economies (Olowe, 2011). Following the global financial crisis and the economic meltdown that blew across countries the world over, many businesses including banks in Nigeria were affected and shaken to their foundations thus impacting their operations negatively. There was liquidity shock, high non-performing facilities, banks insolvency and failures. The frequency of these banks anomalies and the danger posed to the Nigerian economy was alarming and led to loss of public confidence in the financial sector. There is, therefore, need to strengthen these institutions to enhancing their performance and developmental roles in the economy.

In order to restore confidence in the financial sector and strengthen the competitive and operational capabilities of banks in Nigeria, the Central Bank of Nigeria (CBN) instituted a banking reform programme with mergers and acquisition been the main component which saw most of the then existing 89 banks merging with each other in 2004. The result of the recapitalization then and consolidation policy of the CBN, was the merging and acquiring of banks which reduced Deposit Money Banks from 89 to 25 active banks as at December 2005.

Winstone (2013) clarifies that managers and stakeholders adopted merger and acquisition strategy because it was seen as been able to contribute immensely to the overall health of business organizations in the long run; increase banks profits, improve market share and reduce risk. Merger and acquisition strategy involve integration of intellectual properties such as efficient human resources, brand appeal , strong corporate image, good customer management system, efficient management team, goodwill and technical know- how into one indivisible corporate entity.

Donalson (2008) posits that the ability of a bank to implement merger and acquisition strategy and measure performance quantitatively becomes integral activities of most successful business organizations in the twenty-first century. Many scholars have attributed the performance of Deposits Money Banks in Nigeria to merger and Acquisition (recapitalization and consolidation) strategy implemented by banks following the CBN’s Banking reform programme without empirical support, or enough data comparing the pre and post merger periods in the banking history. This study contributes to the body of knowledge by empirically assessing the impact of merger and acquisition strategy on banks performance in Nigeria. The Objectives of this study include:

i. Analyze the trend of gross earnings in the pre and post mergers and acquisitions eras of the DMBs.
ii. Assess the extent profit after tax of DMBs vary in the pre and post merger periods;

iii. Examine the extent earnings per share (EPS) differ in the pre and post merger periods.

Hypothesis of the study

The following three hypotheses stated in null form are tested in the study.

Ho_1. The gross earnings of the selected banks do not significantly differ between the periods of study.

Ho_2: There is no significant difference in the DMB's profit after tax in the two periods.

Ho_3: Earnings per share (EPS) of DMBs is not significantly different in the pre- and post merger and acquisition periods.

Following this introduction is section two which is a review of related literature and theoretical framework, section three discusses the methodology employed in carrying out the study,section four dwells on analysis and discussion of result while section five concludes the study with recommendations.

II. REVIEW OF RELATED LITERATURE AND THEORETICAL FRAMEWORK

This study integrates two theories that explain the ideas behind mergers and acquisitions strategy. The theories are efficiency theory and resource based theory.

1. Efficiency Theory: In efficiency theory, mergers are planned and executed with the main objective of achieving synergies. That is, financial synergies, operational synergies and managerial synergies, which in turn leads to the rise of studies concerning synergy using corporate performance information (Tang, 2015). According to the efficiency theory, mergers are planned and executed to reduce costs by achieving economies of scale (Porter, 1985; Shelton, 1988). This means firms are expected to have better financial performance and improvement in overall business growth following mergers and acquisition strategy.

Tang (2015), describes two major efficiency theories that aid mergers and acquisition: Disciplinary and Synergistic merger theories. According to him, Disciplinary merger theory suggests that acquiring firms acquire other under- performing companies with the objective of improving their performance by realizing the full potential of the target. While the synergistic theory suggests that acquiring firms consolidate with other complementary performing companies in order to obtain efficiency gains. As opine by Allen (2010), bank mergers increase profit efficiency relative to other banks, but have little effect on cost efficiency. Efficiency gains are much more pronounced when the participating banks are relatively inefficient ex-ante. Mergers may "wake –up" slumbering or inefficient management and can be used as an excuse to adjust or alter unpleasant restructuring.

*ii. Resource Based Theory***:** This theory depicts an approach to achieving competitive advantage. The supporters of this theory argue that organizations should look inside the business firm to find the resources for competitive advantage instead of looking at competitive environment for it. Resource-based theory according to Business Dictionary (2015) is a management device used to assess the available amount of a business: strategic assets. It is based on the idea that effective and efficient application of all useful resources that a firm can muster will help determine its competitive advantages. As explained by Rothgermel (2012), resource-based view is a model that sees resources as key to superior firm performance. If a resource exhibits, VRIO (Valuable, Rare, Inimitable, Organized for used) attributes, the resources enables the firm to gain and sustain competitive advantage. The proponents of this theory, posited that it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity.

The two theories explained the necessity of merger and acquisitions and formed the theoretical framework for this study as mergers and acquisition are not end in itself, but a means to an end- profitability and operational efficiency.

Concept of Merger and Acquisition

Merger and acquisition strategy is one of the key corporate strategies that many corporate entities like commercial banks, manufacturing firms adopt to gain competitive advantage and enjoy economies of scale. Merger involves external approach to expansion and is often mentioned with acquisitions in academic and management literature. Some strategic management and finance scholars; Hoskisson, Hitt and Johnson (2002); Thompson and Strickland (2007); Kazmi (2008) and Pandey (2010) define merger and acquisition strategy as the combination of two or more businesses in which one acquires the assets and liabilities of the other in exchange for shares or cash or both. The companies are dissolve and their assets and liabilities are combined and new stock is issued.

In Nigeria, the scope of what constitutes a merger is less clearly defined and appears wide enough to capture many acquisition-type structures. A transaction is qualified as a merger under section 119 of the Investment and Security Act (2007) if it is an "amalgamation of the undertakings or any part of the undertakings or interest of two or more companies or the companies and one or more bodies corporate." The Act further provides that this may be achieved in any manner including: (I) Purchase or lease or shares, interest or assets of the other company in questions (clearly coming within the sphere of a traditional acquisition), or (II) amalgamation or other combination with the other company in question (section 119, ISA 2007). As posited by Onele (2015), the question of whether a transaction is a merger, and another acquisition is effectively one of market-accepted practice and the legal procedure adopted in effecting the transaction. For instance, in Nigeria, it is highly unlikely that a transaction will be classified as a merger where it only involves an acquisition of all the shares of a private company by another company –

even though, technically, it may be viewed as coming within the statutory definition of a merger.

To buttress this fact further, Etim (2015) explains that when a company acquires a majority holding of the equity share capital of another company in exchange for cash, shares, debentures (loan stock) or a combination of these items, the business combination is accounted for by acquisition accounting. When two companies combine through an exchange of the equity shares of one company (the holding company) for the whole or almost the whole (at least 90%) of the other company (the subsidiary) or when the companies combine to form a new company (for example X Ltd and Y Ltd to form Z. Ltd) the shareholders in the subsidiary companies (X Ltd and Y Ltd) give their equity shares for the equity share of the holding company, the combination is regarded as a pooling of interests. It is accounted for by merger accounting.

International Accounting Standards (IAS) No. 22. Now replaced by International Financial Reporting Standards (IFRS) No. 3. Accounting for Business combination identifies two methods of accounting for business combination - Acquisition and, Uniting of interest. The Nigerian Accounting Standard Board (NASB) now Financial Reporting Council of Nigeria (FRCN) is yet to issue an accounting standard on Business combinations or Acquisition and Mergers. Borrowed from opinions of the Accounting Principles Board No. 16: Mergers (applicable to UK), it can be concluded that only very few business combinations can satisfy the conditions required before the merger accounting method can be used (Bassey, 2002). Consequently, most business combinations are accounted for using the acquisition method; recommended by the International Financial Reporting Standard rather than merger accounting method.

Acquisition and Merger Accounting Compared

Although they are often uttered in the same breath and used as though they were synonymous, the terms merger and acquisition means slight different things. A distinction between the two terms as presented by Etim (2015) is as follows:

Acquisition Accounting

a) The assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values at the date of acquisition.
b) When a subsidiary is acquired path way through the accounting period, the subsidiary's revenues and expenses from the date of acquisition are included in the consolidated profit or loss account. In other words, only post-acquisition profit/loss of the subsidiary is included in the consolidated profit or loss accounts.
c) When shares issued by the holding company in exchange for the shares of the acquired (subsidiary) company are issued at a price which is higher than the a nominal value of the shares, the holding company will recognize the share premium in its accounts
d) The difference between the cost of acquisition and the fair value of the net assets acquired in the subsidiary represents positive or negative goodwill (Bargain Purchase).
e) Pre-acquisition reserves of the subsidiary are frozen or capitalize at the date of acquisition and are excluded from the consolidated statement of financial position. Only post-acquisition reserves of the subsidiary and the whole of the holding company's reserves are included in the consolidated statement of financial position.
f) When a dividend is paid to the holding company out of the subsidiary's pre-acquisition profits, such a dividend is regarded as a capital receipt or return on capital to the holding company and deducted (or credited) to the cost of investment in the subsidiary. It cannot be available for distribution as dividend to the shareholders of the holding company.
g) Acquisition accounting is used when the business combination involves the payment of cash by the holding company for the shares of the subsidiary company acquired. Other means of settlement like issue of shares, loan stock etc. may also be involved.

Merger Accounting

(a) It is not necessary to revalue the assets and liabilities of the subsidiary and to restate them at their fair values at the date of acquisition.
(b) When a subsidiary is acquired path way though the accounting period, the subsidiary's revenues and expenses for the whole year are included in the consolidated profit or loss account. In other words, both pre and post acquisition profit or loss are included in the consolidated profit or loss account. Profit or loss account and statement of financial position comparative or corresponding figures are presented as if the companies had been a combined unit throughout the previous period and at the previous statement of financial position date.
(c) The shares issued by the holding company in exchange for the shares of the acquired (subsidiary) company are recorded in the books of the holding company at their nominal value. The question of share premium does not arise.
(d) The cost (or carrying value) of investment recorded in the holding company's Statement of financial position is the same as the nominal value of shares by the holding company (plus any additional consideration) in exchange for the shares of the acquired company. If the nominal value of the shares issued by the holding company is more than the nominal of shares received from the acquired company, the difference is deducted from the group

reserves. Where the nominal value of shares by the holding company is less than the nominal value of acquired, the difference is treated as a reserve (non distributable) arising on consolidation.

(e) The distinction between pre-acquisition and post-acquisition reserves of the subsidiary is not relevant as the whole of the subsidiary's reserves are aggregated with those of the holding company included in the consolidated Statement of financial position.

(f) When a dividend is paid to the holding company out of the subsidiary's pre-acquisition profits, it is not required that the dividend should be deducted (or credited) to the cost of investment in the subsidiary. As the pre-acquisition dividend is credited to the holding company's profit or loss account. It is available for distribution as dividend to the shareholders of the holding company.

(g) In addition to other conditions that must be fulfilled, merger accounting is used when the business combinations involves a share-for-share exchange (i.e. one company using its share to acquire all or almost all of the shares of another company).

From the above, the consolidation programme of the banking sector was an acquisition rather merger method of business combination.

Types of Merger and Acquisition

Kazmi (2008) suggest four major types of mergers:

(a) *Horizontal Merger:* This takes place when there is a combination of two or more organizations, in the same business, or of organizations engaged in certain aspects of the production and marketing processes.

(b) *Vertical Merger:* This takes place when there is a combination of two or more organizations, not necessarily in the same business which create complementary either in terms of supply of materials (inputs) or marketing of goods and services (outputs). Orjih (2001), puts it as the combination of two or more firms involved in different stages of production or distribution.

(c) *Concentric Mergers:* This takes place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups or the alternative technologies used.

(d) *Conglomerate Mergers:* This take places when there is a combination of two or more organizations unrelated to each other, either in terms of customer function; customer groups of alternative technologies used.

Wikipedia (2008) is of the opinion that acquisitions could take two forms namely:

(1) *The buyer buys the shares, and therefore control of the target company being purchased.* Ownership control of the company in turn conveys effective control over the assets of the company. But since the company is acquired intact as a going concern, the form of transaction carries with it all of the liabilities accrued by the business over its past and all of the risks that company faces in its commercial environment.

(2) *The buyer buys the assets of the target company.* The cash received by the target from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to "Cherry-pick" the assets that it wants and leaves out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future unquantified damaged awards such as those that could arise from litigation over defective products, employees benefits or terminations, or environment damage.

Reasons for Business Combination

Okwuosa (2005) advance the following reasons for why businesses combine:

a) *Economies of scale in operations:* There are many ways in which operating economies can be achieved through business combination example fixed cost can be allocated over a larger product base, duplicate and competing facilities can be eliminated.

b) *Diversification:* Business will usually result in diversification and spreading of risk since two or more businesses are now involved.

c) *Acquiring management skill:* An enterprise lacking management skill may seek to acquire another enterprise to gain access to its management skills.

d) *Sustaining Growth:* Some companies find that it is difficult to achieve sustain internal growth. The potential for generating new ideas and new products may be limited and mergers/acquisitions appear the best option in this circumstance. Some companies management feel that it is cheaper to grow by buying into ongoing concerns than starting from scratch.

e) *Financing prospects:* Firms with excellent growth potential may find that their ability to achieve their potential is limited by a lack of access to financing. In these cases, they may find it desirable to seek merger with a firm having excess cash.

f) *Enhancing liquidity:* An enterprise may be able to improve it liquidity through the acquisition of another highly liquid enterprise.

g) *Growth:* A company may achieve growth through acquisition more cheaply than through internal expansion.

Van Horne (2002); Kazmi (2008), and Pandey (2010) argued that the benefits of merger and acquisition enhances an organisation's improved management, diversification and wealth transfer which are a result of the synergistic effect.

Overview of the Banking Consolidation Programme

Prior to the introduction of the bank consolidation programme in July, 2004, statistics as at the end of 2003 reveal that 69 out of 89 licensed banks in the system operated as marginal players. According to Afolabi (2006), the banking industry in Nigeria exhibited the following fundamental problems, among others:

- Poor asset quality;
- Undercapitalization;
- Poor corporate governance;
- Late or non-publication of annual accounts;
- Over-dependence on public sector deposits (accounting for over 20 percent of the total deposit liabilities of Deposit Money Banks and over 50 percent in some banks). The implications were that the resource base of such banks were weak and volatile, rendering their operations highly vulnerable to swings in government revenue, which in turn was equally plagued by uncertainties of the international oil market;
- Inadequate risks management practices, and
- Neglect of Small and Medium Scale Enterprise by the system.
- Also, the examination results of banks as at the end of year 2003 revealed that pockets of distress still persisted in spite of the numerous efforts made by the regulatory/supervisory authorities'. Consequently, an assessment of the nation's banking industry financial condition and performance against its expected role in the nation and/or against those of its counterparts in emerging economies shows that the Nigeria banking system could be described as fragile, poorly developed and extremely small.

The reform programme of the banking system through consolidation introduced by the CBN could therefore be seen as an attempt to promote banking sector stability and make the industry to operate more efficiently so as to enable the banks perform their catalytic role of financial intermediation to enhance the growth of the Nigerian economy.

The specific reasons for the reform included the following:

- ❖ To halt the incessant bouts of distress;
- ❖ To prevent imminent systemic distress;
- ❖ To promote competitiveness and transparency in the sector;
- ❖ To enable the sector effectively play its developmental role in the economy;
- ❖ To strengthen the sector to become an active participant in the regional and global financial system and
- ❖ To enhance public confidence in the banking system.

The first phase of the reform programme was the prescription of minimum capitalization requirement of ₦ 25 billion for each bank which should be met by 31st December, 2005, The requirement was to be met by each bank through:

- ❖ Recapitalization via right issues to existing shareholders, private placement and public offers for subscription in the capital market, and
- ❖ Consolidation of banking institutions through mergers and acquisitions. By December 31, 2005, Twenty five (25) bigger banks emerged from hitherto eighty –nine (89) banks in the system through recapitalization and mergers/acquisition.
- ❖ The 25 banks have reduced further to 21 due to operational challenges.

At the end of the bank consolidation exercise, 25 banks emerged. These banks are predominantly retail banking institutions that accept deposit from one set of the banking public (the surplus – spending public depositors) and make short –term loans to another set of the banking public (the deficit – spending publics - borrowers). The banks and the constituent banks that emerged to twenty five banks are as listed below:

List of Emerge Banks after the Consolidation Exercise in 2005

S/NO.	BANK NAME	MEMBER OF THE GROUP
1.	ACCESS BANK PLC	Marina Bank, Capital Bank, Access Bank
2.	AFRIBANK PLC	Afribank Plc. Afri Merchant Bank
3.	DIAMOND BANK	Diamond Bank, Lion Bank, African International Bank (AIB)
4.	ECOBANK	Ecobank
5	ETBPLC	Equatorial Trust Bank (ETB) Devcom.
6	FCMB PLC	FCMB, Co-operative Development Bank, Nigeria American Bank, MIDAS Bank
7	FIDELITY BANK PLC	Fidelity Bank, FSB Manny Bank
8	FIRST BANK PLC	FBN PLC, FBN Merchant Bank, MBC
9	FINBANK PLC	IMB, Indian Bank, First Atlantic Bank.NUB.
10	GTBANK PLC	Guarantee Trust Bank
11	IBTC-Chartered Bank	Regent, Chartered, IBTC
12	INTERCONTINENTAL BANK	Global, Equity, Gate-way, Intercontinental.
13	NIGERIAN INTERNATIONAL BANK	NIB
14	OCEANIC BANK	Oceanic Bank Intl, Trust Bank

15	BANK PHB	Platinum Bank, Habib Bank
16	SPRING BANK	Guardian Express Bank, Citizens Bank,Fountain Trust Bank, Omega Bank. Trans-International Bank. ACB Intl.
17	SKYE BANK	Prudent Bank, Bond Bank. Cooperative Bank. Trans-International Bank. EIB. ACB Intl.
18	STANBIC BANK	Stanbic Bank
19	STANDARD CHARTERED BANK	Standard Chartered Bank
20	STANDARD	Standard Chartered Bank
21	STERLING BANK	Magnum Trust, NBM, NAI, INMB. Trust Bank of Africa.
22	UBA	UBA, Standard Trust, continental Trust
23	UNION BANK	Union Bank, Union Merchant Bank Un
	UNITY BANK	New African Bank, Tropical Commercial Centre point, Bank of the North. New Nigerian, First Inter State, Integrity, Société Bencairé, Pacific Bank.
24	WEMA BANK	Wema National Bank
25	ZENITH INTERNATIONAL	Zenith International Bank

Source: CBN Annual Report, 2005

Most of the banks listed in the table have since been taken over by new investors and have their names changed, for example Skye Bank taken over by Polaris Bank Ltd, etc.

Measures of Organizational Performance

Organizational performance is the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Performance also refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. It is the outcome of all of the organization's operations and strategies (Aaltonen and Ikavalko, 2002), According to Ayandele and Akpan (2012) performance measurement must be fair and logical and must contain standards reflecting minimum or maximum values of key variables such as average Sales revenue per month, average output per worker, maximum proportion of daily production that is defective, maximum processing times for various categories of document, earnings per share, and average number of letters processed per hour.

Financial Integration and Firm's Profitability

Luypaert (2008) stresses that bank profitability is the net after-tax income or net earnings of a bank (usually divided by a measure of bank size or capital base). Pandey (2010) asserts that a combination of two or more firms may result into cost reduction due to operating economies. A combined firm may avoid or reduce overlapping functions and facilities. It can consolidate its management functions such as marketing, research and development and reduce operating costs. Other factors remaining constant, growth leads to higher profits and increase in shareholders' value.

It can be deduced that performance measurement could be either result-oriented or effort-oriented. Result oriented include issues like gross earnings, sales volume, sales revenue, net worth, return on investment, average stock level held, market share and growth in assets, etc. Some proxies of banks performance in Nigeria are explained below;

(i) *Gross earnings:* for a firm is calculated by dividing earnings before interest and tax by sales or revenue (Adekola, 2011). According to analysis by Onuorah (2016), post merger period best predict growth in gross earnings in the banking sector.

(ii) *Net Profit after Tax:* operating profit margin, otherwise known as profit margin or net margin is a ratio of profitability calculated by International Financial Reporting Standard (IFRS) as after-tax net income (net profits) divided by sales (revenue). Net profit margin is displayed as a percentage. It shows the amount of each sales dollar left after all expenses have been paid.

(iii) *The net worth;* otherwise known as **shareholders equity** is calculated by adding total assets (what the company owns) minus the total liabilities (what the company owes). If a company does well, its profits increase and its networth increases too. According to Valerie (2016), Networth is the amount by which assets exceed liabilities. Networth is a concept applicable to individuals and businesses as a key measure of how much an entity is worth. A consistent increase in networth indicates good financial health; conversely, net worth may be depleted by annual operating losses or a substantial decrease in asset values relative to liabilities. Luypaert (2008) explains that since merger and acquisition involve cost, benefit should exceed the cost of acquisition for realizing a growth which adds value to shareholders.
Net worth = assets - liabilities.

(iv) *Earnings Per Share (EPS):* This is an accounting measure of value defined as net profit after tax divide by number of shares outstanding.

$$\text{EPS} = \frac{\text{Net Profit after Tax}}{\text{Number of Shares outstanding}}$$

EPS simply shows the profitability of the firm on a per share basis. However, it does not reflect how much is retained in the business and how much is paid as dividend. But as profitability index, it is valuable and widely used ratio (Pandey, 2010). Earnings per share capture a firm's internal efficiency in some way (Cochran and Wood, 2009). In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding share at the end of the year. EPS serves as an indicator of a company's pofitabi1ity.

Pandey (2010) states that it is often difficult to determine causes for lack of profitability. The profit system of financial analysis provides management with clues to the lack of success of a firm. This financial tool brings together activity, profitability and leverage measures and shows how these ratios interact to determine the overall profitability of the firm.

(v) *Volume of Assets Acquired by a Bank:* Sayed, Nanil, Nabihad and Rajar (2016) explain that inventory management plays an important role in every company as any ineffective inventory system will result in loss of customers and sales. An effective inventory management is able to generate more sales for the company which directly affects the performance of the company. Therefore, it requires a systematic inventory management which is managed by a group of employees who are experts in this area.

The total asset turnover is calculated by dividing sales by total assets, industry figures for asset turnover will vary with capital, and those industries requiring large inventories will have much smaller ratios (Adekola, 2011). For banks, their inventory is the cash deposits available for credits and link to liquidity transformation gap.

Deep and Schaefer (2004) define the liquidity transformation gap as the difference between liquid liabilities and liquid assets divided by total assets .i.e. Liquidity transformation gap =

$$\frac{\text{Total Asset}}{\text{Liquid liabilities—Liquid Assets}}$$

Operational Efficiency through Merger and Acquisition

The major aim of M & A is to create something greater than the sum of its pacts which is known as synergy. Suff and Reilly (2007) opine that the decision to merge marks the end of the beginning of a process. In order to realize the strategic benefits of the merger, it is likely that much will need to change in the firms concerned, and merger integration requires significant management attention. Typical of the issue that must be addressed are firm governance, organizational structure, operations (often involving the selection of best-of-both approaches or the development of new approaches), and performance assessment and compensation systems for partners and staff. In addition, the benefits of merger are rarely attained until the income-generation potential has been realized, and this frequently requires special attention to cross-selling and integration of practice groups. The success of a firm is founded on the sum of the performances of its people.

Ghosh (2001) and Sudarmanam (2003) argue that specific performance measures as well as information system integration may be assessed for further development of capabi1ities and learning.

Review of Related Empirical Studies

There are so many empirical works that seek to evaluate mergers and acquisitions strategy and organizational performance. A few of these works concentrated on banking sector consolidation across the globe. Several researchers have given different perspectives of mergers and acquisitions. The mergers and acquisitions paradigms include; the economic and finance paradigm - primarily interested in the efficiency impact of mergers and acquisitions on the economy 'through economies of scale and market power with emphasis on market, for corporate control (Denis and McConnel, 2003).

In a study by Kaur and Kaur (2010), that examine the impact of mergers on the cost efficiency of Indian commercial banks, Time-series cross sectional data of commercial banks in India for the period, 1990 - 1991 to 2007 - 2008 were used to evaluate how mergers helped banks in India to 'reducing operating cost. A total of 1055 observations were recorded from the random sampled commercial banks. The study employs Analysis of Variance (ANOVA), mean and median for testing the hypotheses, efficiency 'distributions, and efficiency' measurement. The findings from the study showed that over the entire study period average efficiency cost of public sector banks found to be 73.4% and private banks was 76.3%. The result reveals that mergers implementation has been successful in Indian banking sector in the period under study. It also indicates that merger led to higher profitability and 'higher level of cost efficiency for the merging firms. That technical efficiency has been the main source of efficiency gain from merger rather than a locative efficiency. Merger between distressed and strong banks did not yield any significant efficiency gain, to participating banks. The researchers recommend that government should not see mergers as a means of bailing out of weak banks and that strong banks should not be merged with weak banks, as it would have adverse effect on the assets quality of the stronger bank, The study further suggests that government and policy makers should be more cautious in promoting merger as a way of reaping economies of scale and scope.

Similarly, in a published research work by Agu, Olajide, Ikenwilo, and Orji (2011) on Mergers and Acquisitions, seeking to explore the behavior of banks in the Nigerian Consolidation Programme; Secondary data of all the 89 banks operating in Nigeria during the period, 2001 - 2005 were used. These data were drawn from the banks' statement of account and annual financial reports of the period under study. The study uses descriptive statistics to analyze the pre-consolidation, consolidation and post-consolidation performance of commercial banks in Nigeria. A flexible bivariate competing risks model was used to examine the importance of macroeconomic' and industry-specific factors of both merged and failed banks. The findings show that the average bank age was 16 years with standard deviation of about 7 years difference between them. The result suggests that bank-specific characteristics matter more for preventing bank failure than they did for emergence of the 'M&A' banks. The result also reveals that Central Bank of Nigeria's assistance was highly influential in preventing bank failures; and for banks that benefitted, the assistance increased their probability of being merged or acquired. The study found no evidence suggesting that prevailing macroeconomic conditions and industry-specific factors had influenced exit behavior of banks during the consolidation exercise. The researchers recommend that regulating authorities and government institutions should continue to assist financial institutions, to be vibrant and able to compete in the global market.

In a study by Adegbojega and Awolusi (2014) on effect of mergers and acquisitions on shareholders' wealth in Nigerian banking industry, an exploratory research design was adopted. Fifteen (15) out of twenty five (25) consolidated banks as at 1st January, 2006 were selected through stratified sampling technique. The study made use of primary data collected by administering questionnaire to sampled respondents. Data were analyzed using Multiple Regression tool in the Statistical Package for Social Sciences (SPSS) software. This was adopted to test hypotheses, predict and describe the outcome of the model. The findings of study showed that there was a significant relationship between shareholders wealth and capital base, market share, and bank revenue. The major implication of the finding is that new capital brought in by shareholders of merged banks as a result of consolidation policy triggered increase in banks operations in post consolidation era, it increased size of merged banks total assets. Revenue was also on increasing trend while cost of operations reduced due to elimination of redundancy and duplication of branches. Increase in capital base of merged banks does not only enhance revenues generation but act as hedge against future losses and secure equity of the shareholders. This directly strengthened the corporate governance of these banks. Because of excess capital at their disposal they were able to compete favorably with foreign banks in the area of packaging loan deals to aviation, oil and gas, shipping, telecommunication and other high risk (off balance sheet) businesses. The study also revealed that Mergers and acquisitions improved cost structure of the banks. Fraudulent and incompetent staff were eliminated while unprofitable branches were closed down.

The study recommended a renew focus on elusive factors such as bank revenue efficiency, market share and cost efficiency in an attempt to grow profits, sustain bank's value and create wealth to shareholders. Banks' Management should also give proper attention to scope and scale of economies; eliminate redundancy, duplication, corrupt and inefficient staff.

Onikoyi (2012) carried out a research on mergers and acquisitions and banks performance in Nigeria. Using simply linear regression analysis for the review between 2003-2008 on two banks, the result revealed that all the two groups produced in addition to operational and relational synergy, financial gains and net assets appreciate far more than the synergistic effects. Ratio technique and inferential statistical tools were used to highlight synergistic effects on the merging banks.

III. METHODOLOGY

The research design adopted for this study is ex-post fact design involving content analysis. Of the twenty one (21) banks operating at present in the Nigerian economy, judgmental sampling technique was used to select three Deposit Money Banks used for the study. The selection of these banks is premise on the fact that the required data needed for the study is available and have been fairly stable before and after the mergers consolidation periods. These banks are Access Bank PLC, United Bank for Africa and First City Monument Bank Plc. The period for the study is twenty years from 1996 to2015, divided into two sections of ten (10) years each. The pre-merger period cover 1996 to 2005 while the post-merger period cover 2006-2015 respectively.

Model Specification

The general econometric model for this study is stated as:

Op = F(PrPoMp)

Where:

Op =organizational Performance.

PrPoMp = Pre and Post Merger Periods.

F = functional notation

Thus:

$Op = Q + \beta_1 Ge + \beta_2 PAT + \beta_3 EPs + e$

Where:

a =Constant

B_1 , β_2 , β_3 estimate of parameter

Ge = Gross earnings

PAT = Profit After Tax

EPS = Earnings Per Share

e = error term

Based on the generalized model specified above, the following models represent each hypothesis:

Model 1

GE = f (PrmP, PsmP) ……………….. equation 1

Where;GE = Gross earnings

PrMP = Pre-Merger Period

PomP = Post – Merger period

Model 2

PAT = f (PrmP, Pomp)……………………… equation 2

Where; PAT = Profit After Tax

Prmp = Pre-merger period

Pomp = Post Merger Period.

Model 3

EPs = F(Prmp, Pomp)………………………… equation 3

Where:

EPs = Earnings Per Share

Prmp = Pre-merger Period

Pomp = Post –merger period.

The data analysis technique used for the study were trend and comparative analysis and multivariate Analysis of variance (MANOVA) to test the strength of the Variation between pre and post merger / acquisitions strategy and deposits money Banks performance.

IV. RESULTS AND FINDINGS

The results and findings are carried out according to the trend of the three research questions and hypotheses of the study.

Table 1: Mean value Analysis of Deposit money Banks Gross Earnings during pre-merger and post –merger and Acquisition strategy.

Bank	Pre-Merger Period (10years)	Post-Merger Period (10years)	Mean Difference
UBA	1.97	188.02	186.05
ACCESS Bank	3.45	143.80	73.34
FCMB	0.63	73.97	139.85
Total	**6.05**	**405.39**	**399.24**

Source: Author's Computation, 2018.

The result of the analysis in Table 1 indicates that the gross earnings mean value for United Bank for Africa (UBA), ten years pre-merger is 1.97 and value for post-merger gross earnings is 188.02. The results for ACCESS Bank ten years pre-merger period was 3.45, while its post-merger period is 143.30.In the same vein, the mean values for First City Monument Bank (FCMB) ten years pre-merger period was 0.63 and 73.97 post-merger period respectively. The table shows the mean difference between the two periods of 186.05, 139.85 and 73.34 for UBA, ACCESS Bank and FCMB respectively. This implies that Deposits Money Banks gross earnings vary significantly during the pre -and post-merger acquisition periods.

Table 2: Mean Value Analysis of Deposit Money Banks Profit After Tax During Pre-merger and Post –merger and Acquisition strategy.

	Mean $\bar{x}$		
Banks	**Pre-merger Period (10 years)**	**Post-merger period (10year)**	**Mean Difference**
UBA	1.49	28.89	27.40
ACCESS Bank	0.21	28.60	28.39
FCMB	0.40	8.42	8.02
Total	**2.1**	**65.91**	**63.81**

Source: Author's Computation, 2018.

Table 2 shows the result of analysis for the three Banks selected for the study. ACCESS Bank shows a pre-merger PAT value of 0.21 and post-merger PAT of 28.60, with a mean difference of 28.39 followed by UBA with a pre-merger PAT of 1.49 and 23.89, post-Merger Value with a mean difference of 27.40, while FCMB has 0.40 for pre-merger PAT, and 8.42 for post-merger period and a mean value of 8.02 respectively. Accordingly, the Deposit money Banks PAT vary significantly in the two periods.

Table 3: Mean value Analysis of Earnings per share (EPs) of Select Deposit Money Banks pre and post merger Periods

	Mean $\bar{x}$		
Banks	**Pre-Merger period (10years)**	**Post-Merger Period (10)years**	**Mean Difference**
UBA	1.23	2.76	1.53
ACCESS Bank	13.50	126.90	113.40
FCMB	8.30	11.46	3.16
Total	**23.03**	**141.12**	**118.09**

Source: Author's Computation, 2018

The above result places ACCESS Bank 1st with a pre-merger and acquisition EPS Value of 13.50 and post – merger and acquisition value of 126.90 with a mean difference of 113.40, followed by FCMB with 8.30 pre-merger value and 11.46 post-merger value, indicating a mean difference value of 3.16 while UBA rank 3rd with a marginal increase giving 1.23 value for pre-merger, 2.76 value for post-merger and a mean difference value of 1.53 respectively. Generally, the overall mean difference value between the pre-merger and post-merger performance value of the select banks is 118. 09, indicating that there is a significant difference between the two periods under study.

Test of Hypotheses

The hypotheses of this study are tested using multivariate Analysis of Variance (MANOVA) Calculated using SPSS Package.

Table 4 : Result for Test of Hypotheses I: Summary of ANOVA of Difference in Gross Earnings of Deposit Money Banks During Pre – and Post – never period

Banks	Source of Variance	Type III Sum of Squares	Mean Squares	F-cal	F-crit	Sig-Level
	Corrected	796839.93	796839.93			
	Intercept	845948.68	845948.68			
	Treatment	796839.93	796839.93	32.88	3.60	.000 Reject Null
(UBA, FCMB, ACCESS BANK)	Error	436173.40	24231.86			
	Total	2078862.005				
	Corrected total	1233013.32				

* P < .05 df (2,17) F-crit. = 3.60.

Source: Author's Computation, 2018

The result of data analysis in Table 4 shows that the calculated F-value for difference in Deposit Money Banks gross earnings due to the pre-merger and post -merger and acquisition strategy period is 32.88, higher than the Critical F-value of 3.60, hence the null hypothesis was rejected and the alternative accepted which states that there is Significant difference in Deposit money Bank gross earnings in the two periods under study.

Hypothesis Two: There is no significant difference in Deposit money Banks pre- merger and Post – merger profit After Tax (PAT).

Table 5: Result for Test of Hypotheses 2: Summary of ANOVA of Difference in Deposit Money banks Profit after Tax Due to Merger and Acquisition Strategy

Banks	Source of Variance	Type III Sum of Squares	Mean Squares	F-cal	F-crit	Sig-Level
	Corrected	20545.13	20545.14			
	Intercept	22961.36	22961.36			
	Treatment	20545.14	20545.14	17.31	3.60	.001 Reject Null
(UBA, FCMB, ACCESS BANK)	Error	21362.42	1186.80			
	Total	64868.91				
	Corrected total	41907.56				

* P < .05 df (2,17) F-crit. = 3.60.

Source: Author's Computation, 2018

The results in Table 5 indicates the calculated F-value of 17.31 which is higher than the critical F-value of 3.60 for difference in Deposit Money Banks Profit after tax between the pre and post-merger and acquisition strategy implementation over the study period. We therefore, reject the null hypothesis and accept the alternative which states that, there is a significant difference in the profit after tax of Deposit Money Banks in Nigeria due to mergers and acquisition strategy.

Hypothesis Three: There is no significant difference in Deposit Money Banks Earnings per Share (EPS) in the pre and post-mergers and acquisition periods.

Table 6: Summary of ANOVA of Difference in Deposit Money Banks Earnings Per Share (EPS) in the pre-and-post-mergers and Acquisition Strategy

Bank	Source of Variation	Type III sum of Squares	Mean Squares	F-cal	F-crit	Sig-level
	Corrected	62678.57	62678.57			
	Intercept	144947.45	144947.45			
(UBA, FCMB, ACCESS BANK)	Treatment	62678.57	62678.57	29.14	3.6	.000 Reject Null
	Error	38717.83	2150.99			
	Total	246343.85				
	Corrected Total	101396.40				

P< .05 df (2, 17) F – Crit = 3.60

Source: Author's Computation, 2018

The Computed F- Value of 29.14 is greater than the Critical F-value of 3.60 for difference in the Deposit Money Bank earnings per share in the pre-and post-mergers and acquisition periods. We therefore reject the null hypothesis and accept the alternative which states that "there is a significant difference in Deposit Money Banks earnings per share in the preand post mergers and acquisition periods.

V. DISCUSSION OF FINDINGS

The major objective of this study was to ascertain the impact of mergers and acquisition strategy on Bank's performance in Nigeria. Three indices – gross earnings, profit after tax and earnings per share were proxied for performance before and after the mergers and acquisition strategy implementation. The result of the investigation in hypothesis one showed that F-value is 32.88, higher than the critical-value of 3.60. This indicates a significant difference in the select Banks performance in terms of gross earnings in the post-merger period. This result collaborates the findings of Onaokepo and Ajala (2012) who observed that post-merger was more financially improved than the pre-merger period of seven selected banks studied in the period 2001 to 2010. The result is also in consonance with the position of Okpanachi (2011) that firms gross earnings improved significantly in the post merger period compare to the result of the pre-merger period. This was also true of the mean ($\bar{x}$) values shown in Table I. The result from the second hypothesis tested showed F-cal value of 17.31 and F-crit. value of 3.60 meaning that there is financial gains when banks merged as the profit after tax figures were higher in the post-merger and acquisition period compare to the pre –merger and acquisition period. This outcome is in line with the study of Kaur and Kaur (2010) which observed that synergy through merger leads to improve performance as measured in profit After Tax and Cost efficiency. The Result also affirms the analysis of Isaac and Agyer (2013) that successful merger often leads to increased profit. The mean values shows in Table 2 also affirm this position.

Finally, the findings in hypothesis three showed that calculated F-value is 29.14 which are higher than the F-value of 3.60. This indicates a significant difference in select banks performance as measured by earnings per share in the post-merger period, which according to Breadley and Myers (2003) managers normally seek to pursue strategy that maximizes the EPs that shareholders received from holding equities in the company. This finding is in line with Onikoye (2012) findings which reveal that gains are far more paramount to share holders than synergistic effects or operational effect.

VI. CONCLUSION

The consolidation programme of the Nigerian banking Sector was aimed primarily at strengthening the sector to offer reasonable protection to depositors, playing developmental roles in the nation's economy and sustaining public confidence in the sector and the financial system as a whole. The results of this study clarifies that mergers and acquisition impacted significantly on banks performance in Nigeria as measured by gross earnings, profit after tax and earnings per share. The overall strategy enhanced shareholders wealth through improved earnings, net worth as well on strong financial system.

It is based on the findings we recommend that banks with weak asset base should consolidate so as to gain competitive advantage and enjoy economy of scale. Also the Central Bank of Nigeria (CBN) should intensify its efforts toward effective monitoring to ensure that gains from mergers and acquisition strategy are sustained; and should encourage those banks found with weak managerial efficiency and capital structure to merge with others in order to strengthen the Nigerian financial system.

REFERENCES

[1] Aaltonen, P and Ikavalko, H. (2002). Implementing Strategies Successfully, integrated Manufacturing Systems. *European Business Review,* 13 (6):415 – 418.

[2] Adegbojega,O. and Awolusi, O. (2014). Effect of mergers and acquisitions on shareholders' Wealth in Nigerian banking industry. *British Journal of Marketing Studies,* 4(2): 240 -271

[3] Adekola, O. (2011). Banking Sector Reforms and Performances of Nigerian Banks. *Journal of finance and Accounting* , 11(4):47 – 62.

[4] Afolabi, E. (2006). Mergers and Acquisition: Capabilities, core competencies, Technology: *Journal of Roundtable International*, Rumford Rhode Islands, 2(1):112 – 132.

[5] Allen, J. (2010). Factors related to performance of Commercial banks Tennessee *CPA Journal*, 48(10):86 – 90.

[6] Agu,C. Olajide, D., Ikenwilo, D, and Orji, A. (2011). Mergers and Acquisition the Nigerian Banking Consolidation program. *International Journal of Banking and Finance,* 8(4):2 -18.

[7] Ayandele, I. and Akpan, I. (2012). Information technology As a predictor of Bank Performance in Nigeria. *International Journal of Advance Research in Development Strategies*, 1(2): 1 – 13.

[8] Bassey, O. U (2012). Foundations of Group Accounts, Owerri, Okson Publishers Breadley, S and Myers, K.(2003). *Mergers and acquisition strategies Journal of Management Sciences,* 8(2):1142 – 1171.

[9] Business Dictionary (2015)www.businessdictionary.com/business

[10] Central Bank of Nigeria (CBN) (2005). *Annual Reports and Accounts* 29(2), Abuja, CBN Press.

[11] Cochran, P.L and Wood, R.A. (2009) Corporate Social Responsibility and financial Performance. *Academy of Management Journal*, 20(2): 42-56.

[12] Deep, A. and Schaefer, G. (2004). Are banks liquidity transformer? Harvard University Faculty Research, Working paper.

[13] Denis, D. K. and McConnel, J. J. (2003). International Corporate Governance. *Journal of Financial and Quantitative Analysis*, 38:1-36.

[14] Donaldson, L., (2008). Ethics problems and problems with ethics: toward a pro-management theory. *Journal of Business Ethics*, 78:299-311.

[15] Etim, E. O. (2015). Accounting for Mergers and Acquisition: The Nigerian Banking sector experience. *Journal of Business Administration and Management*, 10(2):39 – 54.

[16] Ghosh, A. (2001). Does Operating performance really improve following corporate acquisitions*? Journal of corporate finance,* 7 :81 – 96.

[17] Hoskisson, R., Hitt, M. and Johnson, R.A. (2005). Conflicting Voices: The effects of Institutional ownership heterogeneity and internal Governance on corporate innovation strategies. *Academy of Management,* 45:697 – 716.

[18] Isaac, M.O. and Agyer, S.K. (2013). Mergers and acquisition and firm performance: Evidence from the Ghana Stock Exchange. *Research journal of finance and Accounting 2(5): 124 -143.*

[19] Investment and Security Acts (2007). *Section* 123(i), 125(2)(4) 126(6), 127(i).

[20] Kaur , P. and Kaur, G.(2010). Impact of Mergers on cost efficiency of Indian commercial Banks. *Eurasian journal of Business and Economics,* 3(5): 27 -50

[21] Kaznic, A.(2008) *Strategic management and Business policy* (3rd ed). New Deli: Tata Mc Graw – Hill publication Ltd. P.II

[22] Luypaert, M. (2008) *Determinants of growth through mergers and acquisitions.* Empirical results from Belgium, European University College, Brussels.

[23] Okpanachi, J. (2011): Comparative analysis of the impacts of mergers and acquisitions on financial efficiency of Banks in Nigeria., *Journal of Accounting and Taxation, 3:1-7.*

[24] Okwuosa, I. (2005). *Advanced financial Accounting Manual.*, Lagos, Arnold Consulting Ltd Publishers.

[25] Olowe, A. R. (2011). The impact of 2004 Bank Capital announcement on the Nigerian stock market. *Africa Journal of Economic and Management Studies,* 2(2):180 -201

[26] Onaolapo, A. and Ajab, O. (2012) Effects of merger and acquisition on the performance of selected commercial banks in Nigeria. *International Journal of Business and Social Research,* 2:148 – 157

[27] Onele, J. (2015). Law and practice of mergers and acquisition in Nigeria. *International Journal of Business and Social Research,* 2: 148 - 157

[28] Onuorah, A. C.(2016). Comparative analysis of gross earnings performance in Nigeria banking industry. *Imperial Journal of Interdisciplinary Research*, 5 (2): 73-87.

[29] Onikoye, I. A. (2012). Mergers and acquisitions and banks performance in Nigeria. *Journal of Research in National Development*, 4 (2):1-3-121.

[30] Orjih, A. (2001). Financial Reforms and the Nigerian Banking System: An analyis of inter-temporal changes in efficiency,*African Journal of economic Policy,* 2 (2): 35-51.

[31] Pandey, I. M. (2010). *Financial Management* (11th ed). New Delhi, Vikas Publishing.

[32] Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance,*New York: Free Press p. 12.

[33] Rothgermal, K.O. (2012). Financial sector and economic development: *An Empirical analysis. Journal of decision Sciences*, (3(1): 48 – 60.

[34] Sayed, R., Nanil, K., Nabilad, S. and Rajar, N.(2016). Mergers and acquisition : the way forward for ailing business. *Journal of Finance and investment*, 7(2): 423 – 461.

[35] Shelton, L. M. (1988). Strategic business fits and corporate acquisition: An empirical evidence. *Strategic management Journal*, 9(3): 279 – 287

[36] Suff, P. and Reilly, P. (2007). Paying for performance: New trends in performance related pay.*Journal of Management Sciences*, 2 (1) : 48 – 63.

[37] Sudaramanam, S. (2003). Creating value from mergers and acquisitions: "*The Challenge*; London: Prentice Hall Publishers.

[38] Tang, S. A. (2015). Determinants of mergers and acquisitions in Developing countries. *Journal of International Business studies*, 28 (4):5-534

[39] Thompson, A.A. and Strickland, A.J. (2007). Crafting and executing strategy. *The quest for competitive advantage. Concepts and cases.* Irwin: McGraw-Hill

[40] Valarrie, G. (2016). Monitor labor shortage, deficits and Asia economy. www.investmentnews.com/section/

[41] Van Horne(2002).*Financial Management and Policy.*New Jersey: Prentice Hall Inc.

[42] Wikipedia (2008).*Mergers and acquisitions.* Http:iien-wikipedia.org/wiki/.

[43] Winstone, N.M.(2013). Relationship between strategy implementation and performance in commercial banks. MBA Dissertation School of Business, University of Nairobi, Kenya