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An Empirical Investigation of the Effect of Mergers and Acquisition on Shareholders Return in the Nigerian Banking Sector

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Abstract: We conducted an empirical investigation to assess the resultant effects of mergers and acquisitions in the Nigerian banking sector with respect to earnings per share (as a proxy for shareholder's return). From the results and analysis conducted, the paper established that mergers and acquisitions had increased the performance of banks in terms of market shares and capital base. Equally important to note, is the fact that introduction of consolidation through mergers and acquisitions has brought about changes in the ownership structure of Nigerian banks. It has also brought about decentralization of ownership to many shareholders contrary to centralization of ownership structure in the hand of a few shareholders prior to mergers and acquisitions of commercial banks in Nigeria.

Keywords: Mergers and Acquisition, Consolidation, Shareholders, Ownership Structure

1. INTRODUCTION

The relevance of banks in the economy of any nation cannot be overemphasized. They are the cornerstones of the economy of a country. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balanced systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit. Consequently, it is submitted that the economic wellbeing of a nation is a function of advancement and development of her banking industry (Obadan, 1997).

The financial deregulation in Nigeria that started in 1987 and the associated financial innovations have generated an unprecedented degree of competition in the banking industry. The deregulation initially pivoted powerful incentives for the expansion of both size and number of banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions providing financial services led to increased competition amongst various banking institutions, and between banks and non-banking financial intermediaries.

The former CBN governor Soludo released a consolidation reform time table for the banking industry in line with the policy thrust of the National Economic Empowerment Development strategy (NEEDS) document requiring banks in Nigeria to raise their minimum capital base from N2 billion to N25billion within December, 31st as deadline. At the end of 31st December2005,25 groups emerged from 75 banks out of the 89 licensed banks in the country. The consolidation of the banking industry in Nigeria during 2004 and 2005 resulted in the reduction of the numbers of banks from 89-25 as at December 31,2006 and further reduced to 21 as at November 2012 with merging and acquisition of Access bank and Intercontinental bank, Oceanic Bank and Ecobank, etc.

Mergers and acquisition that took place in Nigerian banking industry in 2005 were to create wealth for shareholders, provide solid and reliable banking institutions that can compete favorably with other financial institutions elsewhere. Going by market value of the merged and acquired banks, the wealth of shareholders had been eroded, in some other cases, completely destroyed. the visible problems that confront the shareholders of merged banks today are; firstly, meltdown of market prices of their share on the stock exchange market, secondly, depletion of shareholders fund as result of huge losses incurred by the merged banks, thirdly is lack of dividend pay out to the shareholders and lastly, the fact that banks can be nationalized or forcefully taken over by new management with little or nothing for the old shareholders. for example, in the case of defunct intercontinental bank plc taken over by Access bank plc and defunct oceanic bank plc taken over by Ecobank plc. This has become nightmare for the shareholders.

Inadequate capital base has been the bane of Nigerian banking industry before 2005 consolidation (Soludo 2006). This had hindered the progress and performance of banks: hence there was no capital appreciation to the shareholders. The average capital base of Nigerian banks was US$10 million before consolidation, 2005 which was very low compared to that of banks in other developing countries like Malaysia where the capital base of the smallest bank is US$26 million. similarly, the aggregate capitalization of the Nigerian banking system at N311 billion(US$2.4billion) was grossly low in relation

to the size of the Nigerian economy and in relation to the capital base of US$688 billion for a single banking group in France and US$541billion for a bank in Germany (Imala 2005).

One of the benefits of mergers and acquisition is to eliminate competition and increase market share of the merged companies (pandey, 2005). Thus, by limiting competition, the merged company can earn super normal profits and strategically employ the surplus fund to further consolidate its position and maximize the shareholder's returns. For Nigerian banking industry, the reverse is the case. One potential area of challenge to banks authorities and shareholders of Nigerian banking industry is fierce competition that accompanies bank consolidation and its capacity to trigger unethical practices and poor corporate governance (Adedipe, 2005).

Many of the merged banks employed unethical strategies to beat competition, in the bid to meet profit target. Some of the banks are in the habit of de-marketing the others by adopting dirty strategy of blackmail. The merged banks listed on the stock exchange are cumbered with performance pressures which lead to income inflation, notwithstanding the tax implication thereby eroding and destroying shareholders returns**.**

Banks revenue has been on decline from 2009, this has negative effect on the returns of the bank's shareholders.

The major causes of decline in revenue are largely accounted for by the followings:

The global economic recession that started in 2008 had led to poor turnover and eroded profits of business organization. Many companies have closed shops while those who are still corporate borrowers is worsening, many of the merged banks corporate borrower could not meet their obligations to the banks, l*et al*one take new credit.

Inability of customers to meet their obligations directly increased Non performing Loan portfolio; this in turn eroded the profit reported by the merged banks which automatically reduced shareholder's wealth.

The implication of this is that the shareholder wealth is destroyed through depletion of capital base and revenue of the merged banks.

$H0_1$: There is no significant relationship between increase in merged banks' capital base and increase in shareholders returns.

Ho_2: There is no significant relationship between increase in merged banks' market share and increase in shareholders' returns.

Hypothesis 3

$H0_3$: There is no significant relationship between increase in merged banks' revenue and increase in shareholders' returns.

2. CONCEPTUAL FRAMEWORK

Merger is the combination of two separate companies to form a single company while Acquisition is the outright purchase of a controlling interest in another company(s). In both situations the result is sudden increase in growth which can clearly because corporate indigestion typified by problems of communication, blurring of policy decisions and decline in the staff's identity with company's product. Mergers and acquisitions differ from consolidation, which is a business combination where two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate.

Ganghan (2007) also defines merger as a combination of two or more corporations in which only one corporate survives. Soludo (2004) opined that mergers and acquisitions are aimed at achieving cost efficiency through economies of scale, and to diversity and expand on the range of business activities for improved performance. Numerous studies have empirically examined whether mergers and acquisitions are solutions to bank problems. The studies of Cabral *et al.* (2002), provided the foundation for a research on the linkage between banks mergers and acquisitions and profitability. Evidence as provided by De-Nicolo (2003), suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Surprisingly,the available empirical evidence suggests that mergers and acquisitions operations in the United States banking industry have not had a positive influence on performance in term of efficiency (DeLong and Deyoung, 2007).

3. EMPIRICAL REVIEW

(Kwan and Elsenbeis, 1999). Akhavein *et al.* (1997) analysed changes in profitability experienced in the same set of large mergers as examined by Berger and Humphrey (1992). They found that banking organizations significantly improved their profit efficiency ranking after mergers.

De Young (1993) find that when both the acquirer and target were poor performers, mergers resulted in improved cost efficiency. Healy *et al.* (1992) examined all commercial banks and bank holding company mergers and acquisitions occurring between 1982 and 1986. They found that mergers and acquisitions did not reduce non-interest expenses that could have led to improved efficiency. According to Pilloff and Santomero (1997), there is little empirical evidence of mergers achieving growth or other important performance gains. Their findings undermine a major rationale for mergers and consequently raised doubt about other benefits mergers and acquisitions may provide to businesses. However, Cornett and Tehranian (1992) and Kay (1993) find some evidence of superior post-merger period because of the merged

firms' enhanced ability to attract loans. They also show increased employee productivity and net asset growth. Also, this is evident in the Nigeria's banking industry (Okpanachi, 2006).

Walter and Uche (2005) posited that mergers and acquisitions made Nigerian banks more efficient. They used table to present their data which was analyzed using simple percentage. Akpan (2007), using chi square to test his stated hypothesis found that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit. But, for Sobowale (2004) and Osho (2004), it is expected that the value of the companies that participated in mergers and acquisitions activities would be higher than before because future dividends and earning streams are expected to rise and subsequently improves efficiency. Similarly, Uchendu (2005) and Kama (2007) opined that, the bank consolidation which took place in Malaysia facilitated banks expansion which led to growth. In a related study of the Chilean banking industry, Kwan (2002) found that the high rate of economic activities experienced in Chile was mainly from productivity's improvement from the large banks formed as a result of mergers and acquisitions.

The studies by Berger and Mester (1997) and Stiroh (2002) using data on United States banks suggested that, there may be more substantial scale efficiency from larger sizes of banks as a result of mergers and acquisitions. But for Straub (2007), mergers and acquisitions have often failed to add significantly to the performance of the banking sector. Surprisingly, the majority of studies comparing pre and post mergers performance found that, these potential efficiencies derived from mergers and acquisitions rarely materialize. Towards this end, Beitel *et al.,* (2003) found no gain effect due to mergers and acquisitions, but for Yener and David (2004), mergers and acquisitions played an important role in improving after merger financial performance which is a stimulus for efficiency. Most of the studies examined found that mergers and acquisitions add significantly to the profits of the banking sector, except for Straub (2007) and Rhoades (1993) that have contrary views.

4. METHODOLOGY

This paper carried out, a ten-year (2001 to 2010) cross-sectional trend study of the Nigerian banking industry. The periods under study were divided into two, which were periods from 2001 to 2005 and the period from 2006 to 2010. The period 2001 to 2005 covers five-year pre-merger time while the period 2006-2010 covers a five–year post- merger era. 24 commercial banks that emerged successfully through the N25billion minimum recapitalization exercises that took place between 2005/2006

were selected for study. Hence, they form both the population and sample for this study.

Population and Procedure

For the purpose of this paper, the population of the study is twenty-five (25) consolidated banks as at 1st January, 2006 in the Nigerian Banking Industry (CBN Annual Report, 2006). The sample is made up of four commercial banks selected out of the twenty-five consolidated commercial banks. The banks are Access bank plc, Eco bank plc, UBA Plc, and Zenith Bank Plc.

Model Specifications

For this study, the functional relationship is given as

MODEL I:

SR = f(CB, MS, RV)

Where:

SR =Shareholders Return (dependent variable)

The cause and impact model of the relationship is specified as follows

$$SR = \beta o + \beta 1CB + \beta 2MS + \beta 3RV + U$$

Where

βo= Population's regression constant

Dependent variable

SR =Shareholders Return

Independent variables

CB = Capital base of banks

MS = Market share of the bank

RV = Revenue efficiency

U= error term

5. RESULTS AND DISCUSSIONS

The data set used for this study was presented in Table 4.1 below. It comprises of four (4) years panel data set (both pre and post consolidation) for Ecobank, Access bank, UBA, and Zenith bank.

Table 5.1: Panel Data set used for the Study

		BEFORE MERGER				*AFTER MERGER*				
BANKS	*YEAR*	*EPS*	*CPB*	*REF*	*MKS*	*YEAR*	*EPS*	*CPB*	*REF*	*MKS*
ECOBANK Plc	2001	0.07	0.11	0.03	7.37	2006	0.27	0.08	0.03	5.12
	2002	0.050	0.12	0.02	7.38	2007	0.34	0.03	0.02	5.49
	2003	0.08	0.13	0.03	7.44	2008	0.00	0.008	1E-05	5.64
	2004	0.08	0.14	0.02	7.57	2009	0.01	0.01	0.01	5.55
	2005	0.15	0.15	0.03	7.83	2010	0.12	0.02	0.003	5.66
ACCESS BANK	2001	0.02	0.07	0.009	6.9	2006	0.87	0.012	0.019	8.52
PLC	2002	0.01	0.12	0.005	7.05	2007	0.99	0.0078	0.015	9.01
	2003	0.14	0.06	0.02	7.35	2008	0.128	0.011	0.029	8.85
	2004	0.16	0.05	0.02	7.49	2009	0.23	0.012	0.006	8.84
	2005	0.12	0.06	0.007	7.83	2010	0.63	0.011	0.014	8.91
UBA Plc	2001	0.5	0.0045	0.0067	5.27	2006	0.186	0.004	0.01	5.95
	2002	0.61	0.0042	0.007	5.30	2007	0.261	0.005	0.02	6.08
	2003	1.29	0.0062	0.016	5.31	2008	0.314	0.005	0.02	6.22
	2004	1.48	0.006	0.02	5.33	2009	0.10	0.007	0.002	6.19
	2005	1.61	0.0061	0.02	5.4	2010	0.03	0.008	0.0004	6.21
ZENITH BANK	2001	0.78	0.02	0.04	7.78	2006	0.125	0.007	0.02	5.79
Plc	2002	0.113	0.012	0.037	7.76	2007	0.202	0.005	0.02	5.98
	2003	0.143	0.013	0.039	8.05	2008	0.205	0.005	0.03	6.25
	2004	0.87	0.008	0.027	8.29	2009	0.65	0.008	0.01	6.22
	2005	0.136	0.009	0.022	8.52	2010	0.119	0.008	0.002	6.27

Source: Annual Reports and Statement of Accounts Several Years

RESULTS

The results obtained for the data analysis using Eviews 8.0 were presented in Tables 5.2, 5.3 and 5.4 respectively.

The descriptive statistic was used to describe the data set presented in Table 5.1 above. The descriptive statistic was presented in Table 5.2 below.

Table 5.2: Descriptive Statistic

Panel A: Pre-Merger and Acquisition

	EPS	*CPB*	*REF*	*MKS*
Mean	0.420600	0.054950	0.021285	7.061000
Maximum	1.610000	0.150000	0.040000	8.520000
Minimum	0.010000	0.004200	0.005000	5.270000
Std. Dev.	0.515570	0.053860	0.010875	1.096146
Observations	20	20	20	20

Panel B: Post-Merger and Acquisition

	EPS	*CPB*	*MKS*	*REF*
Mean	0.289000	0.013190	6.637500	0.014021
Maximum	0.990000	0.080000	9.010000	0.030000
Minimum	0.000000	0.004000	5.120000	1.00E-05
Std. Dev.	0.279388	0.016829	1.333507	0.009853
Observations	20	20	20	20

Source: E-views Computations

The Table 5.2 above summarized the descriptive statistic for the panel data set. From Panel A described the basic features of the data set before merger and acquisition, while Panel B summarized that of post-merger and acquisition. From Panel A, the mean entails that before merger and acquisition, the average of earnings per share (EPS), capital base (CPB), revenue efficiency (REF) and market share (MKS) were ¦ 0.42, ¦ 0.05 million, 0.021 percent and ¦ 7.06, respectively. The standard deviation showed that during pre-merger and acquisition period, market share was more volatile with an index point of 1.09, followed by earnings per share, capital base and revenue efficiency with index points of 0.51, 0.05 and 0.01, respectively. On the other hand, the maximum value of earnings per share (EPS) before merger and acquisition was ¦ 1.61 with a minimum value of ¦ 0.01. Capital base (CPB) maintained a minimum value of ¦ 0.004 million and a maximum value of ¦ 0.15 million. Revenue efficiency ratio was 0.04 percent at maximum and 0.005 percent minimum. The market shares were valued at a maximum price of ¦ 8.52 and a minimum of ¦ 5.27.

Panel B revealed the features of the data set after merger and acquisition. It was found that on average earnings per share (EPS), capital base (CPB), market share (MKS) and revenue efficiency (REF) were ¦ 0.28, ¦ 0.01 million, ¦ 6.63 and 0.01 percent, respectively. The standard deviation showed that after merger and acquisition, market shares was more volatile with an index point of 1.33, followed by earnings per share, capital base and revenue efficiency ratio. The maximum value of earnings per share was ¦ 0.99, capital base was ¦ 0.01 million, market shares was ¦ 6.63 and revenue efficiency was 0.09 percent.

5.2.2. Ordinary Least Squares Results

The ordinary least squares results were presented in Table 4.3 below.

Table 5.4: Ordinary Least Squares Results

Panel A: Pre-Merger and Acquisition Results

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
CPB	-3.453898	1.526604	-2.262471	0.0379
REF	15.58678	8.268064	1.885179	0.0777
MKS	-0.326751	0.087550	-3.732147	0.0018
C	2.585815	0.518932	4.982954	0.0001
R-squared	0.662246			
Adjusted R-squared	0.598917			
F-statistic	10.45724			
Prob(F-statistic)	0.000473			

Panel B: Post-Merger and Acquisition Results

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
CPB	1.933096	3.622798	0.533592	0.6010
REF	4.023255	6.010425	0.669379	0.5128
MKS	0.127210	0.043075	2.953210	0.0093
C	-0.637264	0.299035	-2.131066	0.0489
R-squared	0.394375			
Adjusted R-squared	0.280820			
F-statistic	3.472992			
Prob(F-statistic)	0.040972			

Source: Eviews Computations

Panel A: Pre-Merger and Acquisition

From Table 4.4 above, Panel A showed that before merger and acquisition, the independent variables (CPB, REF, and MKS) accounted for approximately 66 percent of the total variations in the dependent variable (EPS), while the remaining 34 percent was due to the error term. The F-statistic shoed that the overall regression was significant at 1 percent level. The constant (C) revealed that if the explanatory variables were held constant, EPS will be increasing by 258 percent at 1 percent significant level.

Pre-merger and Acquisition coefficient of capital base (CPB) showed that earnings per share was decreasing by about 345 percent due to changes in capital base. This entails that before the merger and acquisition, the banks were not adequately capitalized. Furthermore, the P-value showed that the relationship between capital base and earnings per share was significant at 5 percent level.

The revenue efficiency ratio indicated that earnings per share was increasing by 15.58 percent during pre-merger and acquisition. However, the relationship was not significant at 5 percent, but significant at 10 percent. As such, it can be said that revenue efficiency was weak, though positive.

The performance of the market shares was negative in affecting earnings per share. The results showed that about 32 percent decrease in earnings per share was accounted by market shares. This is an indication that the market price of the bank shares was no favorable. This relationship was significant at 1 percent judging from the P-value which is less than 1 percent.

Panel B: Post-Merger and Acquisition

Panel B of Table 4.4 shows that the overall regression explaining the relationship between mergers and acquisition was significant at 5 percent level judging from the F-statistic. With respect to the goodness of fit, the R-squared indicated that the independent variables explained approximately 39 percent of the total variations in earnings per share. The constant (C) revealed that earnings per share will reduce by 63 percent when all other factors are held constant.

$H0_1$: There is no significant relationship between merged banks' capital base and shareholders returns.

The coefficient of capital base (CPB) after merger and acquisition showed that changes in banks' capital base accounted for approximately 193 percent increase in earnings per share (EPS). However, the P-value (0.6010) showed that capital base of banks was not significant in influencing earning per share of banks. Hence, the null hypothesis ($H0_1$) was accepted at 5 percent level that 'capital base have no significant relationship with shareholder's return (proxied by earnings per share).

$H0_2$: There is no significant relationship between merged banks' market shares and shareholders returns.

The post-merger and acquisition coefficient of market shares (MKS) shows that earnings per share (EPS) accelerated by approximately 12.7 percent given changes in market shares. This shows that merger and acquisition strengthened the market shares of these banks. This is further buttressed by the P-value which suggests that the variable (MKS) was significant at 1 percent level. As such, the null hypothesis ($H0_2$) was rejected in favour of the alternative hypothesis that "market shares of the merged banks have a significant relationship with shareholders returns (proxied by earnings per share).

$H0_3$: There is no significant relationship between merged banks' revenue efficiency and shareholders returns.

The revenue efficiency (REF) of the banks post-merger and acquisition suggested a positive relationship. This means that changes in revenue efficiency caused earnings

per share to increase by 42 percent. This relationship was found to be insignificant judging from the P-value. Consequently, the null hypothesis ($H0_3$) of no significance was accepted.

5.2.3. Implications of the Results

The results obtained above implies that, capital base of commercial banks adjusted positively. The negative sign of the capital base coefficient during pre-merger in Panel A, turned to positive during the post-merger years. Revenue efficiency for both periods was positive, meaning that merger and acquisition did not have much effect on the revenue efficiency. Finally, market shares which was negative pre-merger and acquisition was positive in post-merger and acquisition. As such, it was concluded that merger and acquisition have brought more stability to commercial banks in Nigeria.

6. CONCLUSION

In this paper, attempts to assess the resultant effects of mergers and acquisitions in the Nigerian banking sector with respect to earnings per share (a proxy for shareholder's return). From the results and analysis conducted, the paper established that mergers and acquisitions had increased the performance of banks in terms of market shares and capital base. Equally important is the fact that introduction of consolidation through mergers and acquisitions has brought about changes in the ownership structure of Nigerian banks. It has brought about decentralization of ownership to many shareholders contrary to centralization of ownership structure in the hand of a few shareholder's prior mergers and acquisitions of commercial banks in Nigeria. However, mergers and acquisitions had helped to curb the problem of illiquidity characterized by the banks trading with customers' deposits. The idea underlying the consolidation policy was that bank consolidation would reduce the insolvency risk through assets diversification.

7. RECOMMENDATIONS

The following recommendations were made based on the results and findings.

Non-liquid banks should go into recapitalization and consolidation using mergers and acquisitions to enable them attain consistent growth in their total assets, profits and deposits.

Recapitalization through mergers and acquisitions is the best option for Nigerian banking sector, for banks going into combination bid had been evidenced in the improved post-merger performance activities of Ecobank, Access bank, UBA and Zenith bank. Skye Bank Plc. As such, the regulatory authorities should therefore maintain and review bank re-capitalization.

The monetary authority in Nigeria should adopt appropriate policy that would translate into improved performance indicators such as, capital base, market share etc., in future reform of the Nigerian banking system to promote efficiency.

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