

Mergers and Acquisitions: The Trend in Business Environment in Nigeria

Omoye, A. S.¹ (PhD, ACA) & Aniefor, S. J.² (M.SC, ACA)

¹ Department of Accounting, Faculty of management Sciences, University of Benin, Benin City, Nigeria

² Department of Accountancy, Delta State Polytechnic, Ozoro, Delta State, Nigeria

Correspondence: Omoye, A. S. (PhD, ACA), Department of Accounting, Faculty of management Sciences, University of Benin, Benin City, Nigeria.

Received: December 29, 2015

Accepted: January 29, 2016

Online Published: March 7, 2016

doi:10.5430/afr.v5n2p10

URL: <http://dx.doi.org/10.5430/afr.v5n2p10>

Abstract

This paper focused on merger and acquisition in Nigerian business environment. Its specific objectives are to determine implication of merger and acquisition on profitability, leverage buy-out and shareholders' wealth. It is a longitudinal survey covering time period of six years (Pre-merger and acquisition: 2007-2009 and Post-merger and acquisition: 2010-2012). Historical data were obtained from the financial statement and accounts of Access Bank PLC which merged with Intercontinental Bank PLC. Data collected are evaluated and analysed using McNemar test. This study reveals that merger and acquisition has influence on profitability, leverage buy-out and shareholders' wealth. It concluded that merger and acquisition can stimulate economic growth and development of any nation. Hence, recommended that merger and acquisition should be strategically be employed by firms to improve profitability, shareholders wealth and offset accumulated leverage for the interest of dispersed stakeholders and government should create the enabling environment that can enhance merger and acquisition in Nigeria.

Keywords: Merger and acquisition, Profitability, Leverage buyout and Shareholders' wealth

1. Introduction

Merger and acquisition as a strategic intent has been a protracted issue since first merger and acquisition of firms in Nigeria in 1982. Merger and Acquisition deals are more often engineered by offshore parents of the local conglomerates and few other medium size local companies. Mergers and acquisitions are crucial to the growth and health of an economy being a highly attractive means for business owners and entrepreneurs to get value from the wealth they have created. Mergers and Acquisition and the related field of diversities became integral elements in the strategic business initiative of well managed organisations. According to Vyas, Narayanan and Ramanathan (2012), the phenomenon of merger and acquisition was tended to facilitate a reconfiguration of firm's organizational structure and its core competencies.

Successful mergers and acquisitions are governed by laws like Companies and Allied Matters Act (2004 and Investment and Securities Act 2007, and other laws may apply depending on the industry in which the merging and acquiring companies operate (Osayaba & Oluwaseun, 2010). The banks, insurance, oil and gas, telecommunication as well as other industries all have industry-specific legislation and applicable regulatory authorities in terms of merger and acquisition. Afolabi, (2011) defined as a transaction where one entity is combined with another so that one initial entity loses its distinct identity, an acquisition is classified as a transaction where one firm purchases a controlling stake (and/or the whole) of another firm. Corporate restructuring and reorganization through mergers and acquisitions have a lot of potential in stimulating economic growth of corporations as well as promoting the economic prosperity of the country.

There are a major concern on the issue of merger and acquisition in relation to leverage buyout, Shareholders' wealth or equity, firm size and profitability (Gantumur & Stephan, 2007). Mergers and acquisition all over the world are beclouded by so many setbacks as most business owners feel reluctant to dilute their holding for fear of losing control (Soludo, 2004). This fear most times is related to the quest of owners to know the value of the business after the merger deal and the value of the intending parties so as to determine whether the merger was worthwhile. Also Straub (2007) indicated that mergers and acquisitions have often failed to add significantly to the performance of the banking sector.

However, in a developing country like Nigeria, there are lots of setbacks associated with Mergers and Acquisitions; these include the emergence of monopolies, loss of strategic focus, etc. Most studies in developing countries like Nigeria have not given adequate attention to issue of merger and acquisition trends in the banking sector. Given the gap that exists in Nigerian literature in terms of extensive research work on the subject matter, the specific objectives of this study is to determine effect of merger and acquisition on profitability, leverage buy-out and shareholders' wealth. The remaining part of this study is structured as follows: Part II focuses on review of related literature; Part III centres on methods and techniques used in carrying out the study; Part IV succinctly discusses data analysis and interpretation of results; while, Part V is on the conclusion and recommendations.

2. Conceptual Framework on Merger and Acquisition

Merger and acquisition are used interchangeably. Merger and acquisition are viewed in different perspectives and the various views are towards the same direction. Katty (2005) defined merger as the coming together of two or more firms to become one big firm while acquisition is the takeover or purchase of a small firm by a big firm; which are both pursuing akin purposes. Akamiokhor (1989) defines acquisitions as a business combination in which the ownership and management of independently operating enterprises are brought under the control of a single management. Pandey (2005) defines an acquisition as an act of acquiring effective control by one company over assets or management of another company without any combination of companies. Thus, in acquisition two or more companies may remain separate legal entities but the control of companies resides in one place. Acquisition could therefore be seen as a business combination in which ownership and management of independently operating enterprises are brought under the control of a single management and it could take any of three forms; mergers/consolidation, acquisition of stocks, and acquisition of assets (Amedu, 2002; Osamwonyi, 2002).

Merger refers to an amalgamation or 'a combination of two or more companies in which one acquires the assets and liabilities of the other in exchange for cash' (Okafor, 2005). Acquisition on the other hand is a business combination approach where the ownership and management of a distinct, independently operating entity is brought under the control (financial and operating policies) of a simple management and ownership. Consolidation is the same as a merger except entirely new company is created. Both firms terminate their previous legal existence and become part of a new firm (Bigg and Perrins, 1971). The companies are dissolved, and the assets and Liabilities are combined and a new company is formed (Glueck, 1980; Kazmi, 1992). The advantages of this form of acquisition are that it is the least costly to arrange; legally straight forward to package and understand; and it avoids the necessity of transferring title to individual asset of the acquired firm to the acquiring firm. The demerits are that merger must be approved by a vote of two—thirds majority of the shareholders of each firm. In acquisition, two or more companies may remain independent separate legal entities. An acquirer may be a company or persons targeting to hold substantial quantity of shares or voting rights of the Target Company or gaining control over the target company. There are basically two forms of acquisition:

Stock Acquisition: This involves the purchase of the controlling interest (51% and above) of the equity capital of another company in exchange for cash, shares, debentures or a combination of all these. Stock acquisition can be achieved through private arrangement between the managements of companies, friendly acquisition and public offer between the management of one firm (predator) to the shareholders of another firm (prey) in some unfriendly transaction. The unfriendly acquisition can be very expensive. The then acquisition of controlling interest in Continental Trust Bank by Standard Trust Bank before the final merger with United Bank for Africa was an example of stock acquisition.

Asset Acquisition: This involves a situation where one firm acquires the net assets of another company. Unlike the stock acquisition approach, asset acquisition involves transferring legal title of asset owned by the acquired company to the acquirer.

The major types of acquisitions are:

(a) Horizontal Acquisition: This is the acquisition of a competing firm within the same industry (any by implication similar product) and same level of operation. The principal objective of horizontal merger is expansionary motive. Firms in the same line of business compete with each other for share of the market. One good example of horizontal acquisition is the acquisition as Schweppes by Nigerian Brewery Plc.

(b) Vertical Acquisition: This involves the acquisition of one firm by another in the same line of business but at different levels of operation. Vertical acquisition can involve expanding operations back-ward into a business that produces raw materials for the company's product or expanding operations forward into a firm that distributed or utilize the company's products. Concentric acquisition is the acquisition of firms related by technology, production

processes, or market, while Conglomerate acquisition is the combination of firms engaged in unrelated lines of business activities (Okafor and Eiya, 2005).

2.1 Merger and Acquisition and Nigerian Business Environment

In Nigeria, there were no successful mergers and acquisitions in the real sector of the economy until 1982 and 1996. The year 1982 was a landmark year in the history of mergers and acquisitions in Nigeria. The first merger attempt was in 1982 between United Nigeria Insurance Company Limited and United Life Insurance Company Limited, which was, however, not consummated. Between 1982 and 1988, the SEC supervised thirteen mergers- including the mergers of Lever Brothers Nig Ltd and Lipton Nigeria Ltd, SCOA Nigeria Ltd and Nigeria Automotive Components Ltd, John Holt Ltd and John Holt Investment Ltd- only two of which were unsuccessful. Prior to 1982 the concept of mergers and acquisitions had minimal actual significance in Nigeria. One of the very few major mergers that took place before that time was the amalgamation of three companies- Re Bendel Co Ltd, Bendel Intra-city Bus Service Ltd and Trans-Kalife Ltd- to form the Bendel Transport Service Ltd. This situation changed significantly after the Securities and Exchange Commission (SEC) began its operations in 1982, marking the beginning of regulated business combinations in Nigeria.

In the 2002 merger between Unipetrol Plc and Agip Nigeria Plc, the resultant entity became Oando Plc Fox (2004). An international example is the acquisitions of Superior Oil Company by Mobil in 1984. This is the option that several banks (including foreign-owned banks) took following the recent capitalization programmes in the banking and insurance industries (Akintoye & Somoye, 2008). Acquisition has been classified (Osaze & Anao, 1990; Kazim, 1992) into horizontal, vertical, concentric, and conglomerate. Horizontal acquisition is the acquisition of a firm in the same industry, while, Vertical acquisition involves firms at different stages of the production process. Examples include: Cadbury Nig Plc. s. acquisition of Stanmark Cocoa Processing Co Ltd; and AfprintNig Plc's acquisition of SunseedNig Plc.

Between 2004 and 2005, the wave of mergers and acquisitions was high though mainly in the banking sector (Acha, 2006). The prospects of mergers and acquisitions in Nigeria have continued to evolve since then. Different legislation have been passed to regulate business combinations, including the Companies and Allied Matters Act of 1990 and the *Investment and Securities Act* of 2007, as well as some sector-specific Acts, such as the Banking and other Financial Institutions Act of 1991, the Insurance Act of 2003 and the Electric Power Sector Reform Act of 2005. In 2002, there was a merger of two important petroleum companies; Agip Nigeria Plc and Unipetrol Plc to form Oando Plc.

According to Soludo (2005), these trends of cost saving due to economies of scale enhanced efficiently in resources allocation and risk reduction arising from improved garment. Taking a historical run down on this, mergers and acquisitions in the banking industry is now a globalized phenomenon. Looking at this trend, it is visualized that Nigeria and the world economy in 2025 and 2050 would have no more than 10 to 20 mega banks all over the world. Accordingly, the M&A waves in the Nigerian banking sector, which was a response to shocks sparked by CBN directive to raise share capital to N25 billion within 18 months, could be situated as one with a regulatory motive. However, the most striking activities in mergers and acquisitions in Nigeria were undoubtedly the 2005 mergers that took place in the banking sector. These mergers were driven by the Central Bank of Nigeria's 2004 directive to all Nigerian banks to increase their shareholders fund to a minimum of NGN25 Billion (twenty-five billion naira), from the previous minimum shareholders fund of NGN2 Billion (two billion naira). The deadline for this increase was December 31, 2005. Few Nigerian banks had this new minimum capital base, as a result, several mergers and acquisitions emerged, with only 25 out of 89 banks surviving the conditions and operating after 2005. Some of the banks formed as a result are Unity Bank Plc, Fin Bank Plc, Sterling Bank Plc, Fidelity Bank Plc, IBTC Chartered Bank Plc, Skye Bank Plc, Bank PHB and the United Bank for Africa.

2.2 Relationship between Merger and Acquisition and Firm Specific Factors

2.2.1 Merger and Acquisition and Profitability (Firm Performance)

In the world of business, mergers and acquisitions constitute a powerful growth tool used by companies to achieve long-term growth and increased revenue or profitability. Michel and Shake (2007) discover that synergy created by related mergers and acquisitions positively influence the profit streams of the firms. They believe that profit of firms tend to increase in relation to the degree of relatedness of companies in merger and acquisition activities. On the contrary, Mahesh (2007) finds that mergers and acquisitions fail to make positive contributions in respect of return on capital employed. Guo and Petmezas (2012) find with UK data that to an extent, corporate acquisitions are the effect of good performance rather than the cause. However, the findings also imply that acquisitions also drive performance. The mixed and overall evidence suggests that acquisition returns cannot be solely based on the market driven explanation.

Osamwonyi (2002:207) opines that mergers and acquisitions 'provide the fastest ways to achieve growth or capitalise the firms' accumulated assets in order to attain critical mass and strategic positioning'. In making its entry decision, a profit-oriented firm would always compare the desirability of entry by internal means and entry by acquisition and then choose the means most consistent with its corporate objective of sustaining or increasing profitability. Akpan (2007), using chi square to test his stated hypothesis indicated that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit. Okafor and Eiya (2005), they found that acquisition could be a beneficial strategy for enhancing the corporate performance of the acquired companies. Walter and Uche (2005) study using percentage in analyzing data revealed that mergers and acquisitions made Nigerian banks more efficient. Okpanachi (2011) and Sanni (2009) studies found that the post mergers and acquisitions periods has a higher performance in gross earnings and low performance in profit after tax while net assets has a better performance than the pre mergers acquisitions period. De Long & De Young (2007) established that mergers and acquisitions in the United States banking sector did not have a positive influence on performance in term of improved financial efficiency.

Odetayo, Sajuyigbe A.S. & Olowe S.O. (2013) study using multiple regressions Ordinary Least Squares (OLS) with aid of STATA software and that post-merger has not significantly impacted on banks profitability. Olagunju and Obademi(2012), Onikoyi (2010) and Omah, Okolie and Durowju (2013) supported that banking organizations significantly improved their profit efficiency ranking after mergers and they agreed that mergers and acquisitions has helped Nigerian banks to wax stronger. Owolabi and Ogunlalu, (2013) argument and contrary view, was that it is not all the time that consolidation transforms into good financial performance of bank and it is not only capital that makes for good performance of banks.

Hence we hypothesized that, H_1 : *Merger and acquisition has no significant effect on firm profitability.*

2.2.2 Merger and Acquisition and Shareholders' Wealth

The shareholders of the merged firms still retain part of their ownership in the new firm; in the case of an acquisition, the shareholders of the acquired firms are paid off and the acquirer becomes the owner of all, or a substantial part of, the assets of the acquired company. The major difference between mergers and acquisitions is essentially what the fate of shareholders becomes in the new firm that emerges. The argument stresses that M&A is a strategic decision through which firms combine or acquire assets to create value and maximize the existing shareholders wealth. Pazarskis et al. (2010) argue that merger and acquisition is one of the mechanisms by which firms gain access to new resources via resource redeployment, increased revenues and reduced cost. Given the complexity of the concept, this research adopts the generic concept of M&A as strategic decisions through which firms combine or acquire assets to form one larger organization (Alao, 2010).

This supports Poposki's (2007) classification of M&A motives broadly into financial and non-financial. The financial motive is the firm's desire to achieve risk reduction while maintaining its rate of return; it is also a desire to grab the improved financing position that a merger can create as a result of expansion in size and the tax loss-carry-forward that might be available in a merger. The non-financial motives for mergers include the desire to expand management and marketing capabilities as well as the acquisition of new products. The overriding relevance of the former over the latter may be evoked from Glezakos (2012) findings that increasing explanatory powers of accounting parameter is becoming stronger with time, in increasing number of countries.

Merger and acquisition is investment with expectation of future stream of incomes. It will therefore be beneficial if the present value of the target merger or acquired firm over a period is greater than the cost of merger or acquisition, Ball (2004). Also, Okafor and Eiya (2005) concluded that acquisition has impact on shareholder's wealth. Jenson (1988) observed that mergers and acquisitions are recognized all over the world as mechanisms for maximization of company's share of the market to ultimately increase the market value of company's share enhance profitability and in addition, they provide financial and fiscal gains such as economies of scale, risk diversification, taxation, improvement of equity base, increase in earnings per share, access to rare management talent and employment opportunities. Based on the above, we hypothesized that, H_2 : *Merger and acquisition has no significant influence on shareholders' wealth.*

2.2.3 Merger and Acquisition and Leverage Buy-out

Leverage buyout are commonly used as a restructuring strategy to correct managerial mistakes or because the firm's managers are making decisions that primarily serve their own interest rather than those of shareholders. A leverage buyout (LBO) strategy is a restructuring strategy whereby a party buys all of a firm's assets in order to take the firm private. Once the transaction is completed the company's stock is no longer traded publicly. Leveraged buyouts are quite popular. A leveraged buyout occurs when an entity primarily borrows money (sometimes 90% or more) in order

to buy another company. Typically, the acquiring company uses as collateral the assets of the acquired business. Generally, repayments of the debt will be made from the yearly operating funds flow of the acquired company. A leveraged buyout may also be made when the acquiring company uses its own assets as security for the loan. It may also be used if a firm wishes to go private.

The typical leverage buy out (LBO) in recent years has two interesting characteristics that distinguish it from other takeover and merger activities. First, the equity of the target firm usually is held by fewer individuals following the financial reorganization. This increased concentration of ownership is especially typical of a “going-private” transaction in which the stock is no longer publicly traded. Second, although alternative sources of funds are available to obtain corporate ownership, going-private transactions usually are financed heavily with debt, leaving the target firm in a highly leveraged position. In essence, the transaction involves a substitution of debt for equity (Lehn, 1988). The higher degree of leveraging means that a larger proportion of claims against the target firm’s assets and operations are fixed obligations. Because holders of these claims can push the firm into bankruptcy if these obligations are not met fully, the greater leveraging, holding all else constant, erodes the target firm’s insulation from unexpected declines in earnings and, hence, increases the firm’s risk of bankruptcy.

H₃: Merger and acquisition has no significant effect on leverage buy out.

3. Design and Methods

The study is longitudinal survey of a quoted bank in the Nigerian Stock Exchange (NSE) covering a period of three years (2007-2009) for Pre and (2010-2012) for Post- merger and acquisition. Historical data are obtained from financial statements and accounts of Access Bank PLC which merged with Intercontinental Bank in 2010. Data are analysed using tables, dichotomous variables and tallies. Specifically, some financial ratios were computed. These ratios were grouped in three segments in relation to specific objectives and hypotheses formulated. These ratios are:

(a) Profitability Ratios:

(i) ROE = Return on Equity (ii) ROCE = Return on Capital Employed.

(iii) ROAM = Return on Asset Margin (iv) NPM = Net Profit margin

(v) GPM = Gross Profit Margin (vi) IPTD = Interest Paid to Total Deposit

(b) Shareholders Ratios (Investment Ratios)

(i) EPS = Earnings Per Share (ii) DPS = Dividend Per Share

(iii) PER = Price Earnings Ratio (iv) DPR = Dividend Payout Ratio

(v) DY = Dividend Yield (vi) EY = Earnings Yield

(c) Leverage ratios

(i) TDSF = Total debt to shareholders ratios (ii) LTDSF = Long Term debt to shareholders funds

(iii) GR = Gearing Ratio (iv) FIC = Fixed Interest Cover

(v) PR Proprietary Ratio (vi) FDC = Fixed Dividend Cover

In analysing the ratios, the McNemar test for the significance of changes that might have occurred in ACCESS BANK Plc’s performance after the acquisitions was used. The test is primarily used in before- after studies to test for the effectiveness of a particular event, and in this case the acquisitions of INTERCONTINENTAL BANK by ACCESS BANK Plc’s. The general feature of the McNemar test is that of a four fold table in which positive and negative sign are used to signify different terms.

| | | | |
|--------|---|-------|---|
| | | After | |
| | | - | + |
| Before | - | A | b |
| | + | c | d |

Those cases where changes occurred between before and after are tallied in cells ‘a’ and ‘d’. Cell ‘a’ is tallied, if it is a change from positive to negative and cell ‘d’, if it is a change from negative to positive. Note, in this test, we are only interested in cell ‘a’ and ‘d’.

The test uses the Chi – square distribution based on this formula:

$$\begin{array}{ccc} a & b & r_1 \\ c & d & r_2 \\ c_1 & c & n \end{array}$$

$$\text{Chi – square } (x^2) = \frac{(a-d)^2}{(a+d)}$$

$$\text{Degrees of freedom} = (\text{row}-1) (\text{columns}-1) = 1$$

Tallied data collated in pre and post periods based on the three ratios computed were estimated with computer software SPSS 20.

When the value of Chi – square as computed is greater than the critical values of Chi-square which stood at 3.84 at 0.05 (5%) significance level and at one (1) degree of freedom., we accept the alternative hypothesis; otherwise the null hypothesis is accepted.

4. Analysis and Interpretation of Results

This section examines the various ratios computed. These are presented in tables and briefly interpreted below accordingly.

Table 1a. Profitability Ratios: Access Bank PLC Pre-Acquisition and Merger (2007-2009)

| Years | ROE | ROCE | ROAM | NPM | GPM | IPTD |
|-------|-------|-------|-------|-------|-------|------|
| 2007 | 12.03 | 24.86 | 12.05 | 13.32 | 24.19 | 5.1 |
| 2008 | 21.26 | 21.67 | 16.54 | 12.49 | 24.60 | 6.5 |
| 2009 | 26.86 | 26.45 | 11.68 | 15.93 | 25.38 | 4.6 |

Source: *Researcher's computation (2015)*

Table 1a: Highlights profitability ratios of Access Bank Plc for the Pre – year (2007-2009). It was observed that the year 2009 has the highest ratio values except for ROAM which was the lowest in the period.

Table 1b. Profitability Ratios: Access Bank PLC Post-Acquisition and Merger 2010-2014

| Years | ROE | ROCE | ROAM | NPM | GPM | IPTD |
|-------|-------|-------|-------|-------|-------|------|
| 2010 | 21.15 | 18.86 | 18.25 | 14.13 | 27.24 | 4.3 |
| 2011 | 27.24 | 22.37 | 13.68 | 11.79 | 22.05 | 5.1 |
| 2012 | 22.25 | 21.05 | 21.89 | 13.11 | 24.19 | 6.7 |

Source: *Researcher's computation (2015)*

Table 1b: Revealed that in Post –year, ROE and ROCE recorded the highest in 2011, ROAM recorded the highest in 2012 while, NPM and GPM were highest in 2010 respectively.

Table 2a. Leverage Ratios: Access Bank PLC Pre-Acquisition and Merger (2007-2009)

| Years | PR | FIC | GR | LTDSF | TDSF | FDC |
|-------|------|------|--------|-------|------|------|
| 2007 | 0.52 | 8.71 | 0.37:1 | 1.56 | 2.68 | 6.87 |
| 2008 | 0.48 | 6.15 | 0.38:1 | 1.78 | 1.89 | 8.56 |
| 2009 | 0.37 | 5.76 | 0.26:1 | 1.69 | 2.79 | 5.67 |

Source: *Researcher's computation (2015)*

Table 2a indicated that the highest proprietary ratio and fixed interest charges were in 2007 respectively, similarly, GR, LTDSF were high in 2008 while TDSF and FDC were high in 2008 and 2009 respectively.

Table 2b. Leverage Ratios: Access Bank PLC Post-Acquisition and Merger

| Years | PR | FIC | GR | LTDSF | TDSF | FDC |
|-------|------|------|--------|-------|------|------|
| 2010 | 0.32 | 4.85 | 0.24:1 | 0.98 | 1.45 | 5.44 |
| 2011 | 0.35 | 5.18 | 0.31:1 | 1.86 | 0.98 | 5.98 |
| 2012 | 0.39 | 7.59 | 0.35:1 | 1.57 | 2.98 | 6.42 |

Source: *Researcher's computation (2015)*

Table 2b deduced that in the post period, PR FIC, GR and TDSF were highest in 2012 while LTDSF was highest in 2011 with ratio of 1.86 compared to others with ratios of 0.98 and 1.57.

Table 3a. Investment Ratios: Access Bank PLC Pre-Acquisition and Merger (2007-2009)

| Years | DPS | EPS | PE | EY | DPR | DY |
|-------|------|------|------|-------|------|------|
| 2007 | 1.00 | 2.37 | 6.97 | 14.34 | 0.42 | 6.85 |
| 2008 | 1.00 | 2.65 | 6.75 | 14.80 | 0.38 | 8.77 |
| 2009 | 0.75 | 0.00 | 0.00 | 0.00 | 0.00 | 6.98 |

Source: *Researchers' computation (2015)*

Table 3a indicated that there were increase in investment or shareholders ratios in the pre-acquisition period between 2007-2008, while 2009 pre period witnessed sharp decrease.

Table 3b. Investment Ratios: Access Bank PLC Post-Acquisition and Merger

| Years | DPS | EPS | PE | EY | DPR | DY |
|-------|------|------|-------|-------|------|------|
| 2010 | 0.10 | 0.00 | 0.00 | 0.00 | 0.00 | 5.84 |
| 2011 | 0.05 | 0.09 | 62.22 | 1.61 | 0.56 | 6.82 |
| 2012 | 0.05 | 0.67 | 6.81 | 14.69 | 0.08 | 7.75 |

Source: *Researchers' computation (2015)*

Table 3b revealed that the investment or shareholders ratios completely dropped to zero (0) in 2010 post period with gradual improvement in the ratios especially DPS and EPS while price earning ratio (PER), Earning Yield (EY), and DPR greatly improved.

4.1 The Test Hypotheses

The test statistic employed is McNemar test. The result of the test revealed 4.167 and probability value of 0.041 (4%) which is less than 5% critical significant level (See appendix for result). This shows that result is statistically significant. Following our decision rule, we therefore reject all the hypotheses formulated and accept indicating that; Merger and acquisition has significant effect on profitability, there are strategic advantages arising from leverage buy out following merger and acquisition, and Merger and acquisition has significant influence on shareholders' wealth.

4.2 Discussion of Findings

Having analysed the various ratios and test hypotheses using McNemar test, the findings were discussed as follows:

Firstly, Mergers and acquisition have significant effect on profitability or firm performance. This was proved based on the McNemar test carried out in the study. There was great improvement mostly of the profitability ratios in the post year, with most of the improvement in 2011. This indicated there will be gradual improvement in the Merger/Acquisition bank (Access Bank Plc) profitability. This view is in line with the findings of Michel and Shake (2007) that synergy created by related mergers and acquisitions positively influences the profit streams of the firms. Consequently, Okpanachi (2011) finding insinuated that bank efficiency by way of profitability (gross profit, net profit and net asset) stimulate merger and acquisition in the banking sector.

Secondly, there is strategic advantage arising from leveraged buyout following merger and acquisition. This was proved in table 4.2b which indicated sharp decline in most of the leverage ratios in the post period compared to the pre period with few exceptional cases of the case organization Access bank Plc leverage ratios examined. However, the higher degree of leveraging means that a larger proportion of claims against the target firm's assets and operations are fixed obligations. Because holders of these claims can push the firm into bankruptcy if these obligations are not met fully, the greater leveraging, holding all else constant, erodes the target firm's insulation from unexpected declines in earnings and, hence, increases the firm's risk of bankruptcy. This finding is consistent with Okafor and Eiya (2005).

Thirdly, Merger and Acquisition have significant influence on shareholders wealth, although investment ratios indicated great improvement in the pre period when compared to the post period. The decline in the post period was as a result of the financial crisis that occurred in 2009 immediately after the banking reforms. There is likely tendency that in the future shareholders wealth of the bank (Access bank Plc) would improve. This finding support the views of Pazarskis et al. (2010) who argued that M&A is one of the mechanisms by which firms gain access to new resources via resource redeployment, increased revenues and reduced cost. Finally, Okafor and Eiya (2005) posited that mergers and Acquisition has significant impact on shareholders wealth.

5. Conclusion and Recommendations

Issue of merger and acquisition has been a major strategy employed by firms in modern business environments like Nigeria for competitive advantage in banking, technology, oil and gas and manufacturing. Many firms like banks resolve to merger or acquisition with the expectation of achieving increase in shareholders wealth or market capitalization, leverage buyout, increase in performance, dominate the market and expansion. Many bench racer banks or firms today gains from experience of merger and acquisition. Merger and acquisition, as trend in business environment would enhance profitability, shareholders wealth, leverage buy-out and as well could increase bank or firm size. Therefore, with merger and acquisition as a trend in modern economies is employed to stimulate economic growth and development of any nation.

Hence, the following recommendations are put forward:

- Merger and acquisition should always be last resort for banks to improve profitability (performance), increase in size, leverage buyout and shareholders wealth.
- Companies taking part in mergers and acquisitions should involve all shareholders in the proposed deal. Consequently, thorough study should be carried out so as to consider all factors relevant to the success or failure of these corporate strategies.
- The government should encourage declining or distressed companies to engage in merger/acquisition by providing incentives such as tax holiday, loss relief and capital allowance. Above all, government should constantly provide the enabling and conducive environment for mergers and acquisitions.
- Merger and acquisition should be a continuous trend in Nigerian business environment especially the banking sector so as to eliminate weak banks and form stronger ones until at most 5 mega banks come to stay.

References

- Aborode R. (2004). *A practical approach to advanced financial accounting*. Lagos: El toda ventures Limited.
- Acha, I. A. (2006). Bank consolidation is not a panacea. *Journal of Business Management*, 1(2), 108 – 121.
- Adebite, L. (1989). Mergers and acquisitions: Some legal issues. *The Nigerian Banker (May- August)*, 7-14.
- Afolabi J.A (2011). Merger and acquisitions in the Nigerian banking system: Issues and challenges. A paper presented at the workshop for business editors and finance correspondents association of Nigeria at Manpower Development Institute, Dutse, Nigeria.
- Agbonifoh, B.A. (2008). *Strategic Management: Concepts, Principles and Decisions*. Benin City: Mindex Publishers.
- Akamiokhor, G. A. (1995). Mergers and acquisitions. *The Nigerian Banker (September – October)*.
- Akinsulire, O. (2008). *Financial management*. Lagos: CeemolNig Ltd.
- Akintoye, I. R. & Somoye, R. O. C. (2008). Corporate governance and merger activity in the Nigerian Banking Industry: Some Clarifying Comments. *International Research Journal of Finance and Economics*, 19(1), 136-152.
- Akpan AB (2007). Effectiveness of bank capitalization and consolidation in building market confidence: An assessment of customers perception in Nigeria. *Abuja J. Bus. Admin.*, 1(2), December.
- Alao, R. E. (2010). Merger and acquisition the Nigerian banking Industry: An advocate of 3 mega banks. *European Journal of Social Sciences*, 15(1), 554.
- Amedu, S (2002). Issues in takeovers, acquisitions and mergers. *Nigerian Stock Broker*, 3(2) 11-20.
- Amos, O. (2005). Seven reasons for merger failure, financial standards, October 19th, 2005.
- Ball, A. D., McCulloch, F, P. L., Geringer, J. M., & Minor, M. S. (2004). *International Business: The challenge of global competition*. Boston: McGraw Hill Publishers.
- Bhattacharyya, H. K. (1988). Amalgamation and takeovers, *company news and notes*. 1-11.
- Browne, L. & Rosengren, C. (1987). *The merger boom: An overview in the mergers boom*, edited by Browne and Rosengreen.
- Companies and Allied Matters Act 1990, Section 590.
- Cooke, T. & Young, L. (1989). *International mergers and acquisitions*. Oxford: Basil Blackwell Incorporated.

- De Long, G. & De Young, R. (2007). Learning by observing: Information spillovers in the execution and valuation of commercial bank merger and acquisitions. *Journal of Finance*, 62, 181-216. <http://dx.doi.org/10.1111/j.1540-6261.2007.01205.x>
- Dess, G. G. & Alex, M. (1993). *Strategic management*, New York: Mcgraw- Hill Inc.
- Earl, P. & Fisher, J. (1986). *International mergers and acquisitions*. London: Euro money publications.
- Federal Government of Nigeria. (1979) *Securities and exchange act*. Lagos.
- Federal Government of Nigeria. (1968). *The companies act*. Lagos.
- Federal Government of Nigeria. (1977). *The Nigerian enterprise promotion act (Amendment)* Lagos.
- Gbede, G.O. (2000). *Strategic mergers and acquisition: The Nigerian perspective*. Lagos: West Bourne Business School.
- Gantumur, T. & Stephan, A. (2007). Mergers & acquisitions and innovation performance in the telecommunications equipment industry. *Electronic Working Paper Series, CESIS*, no.111.
- Kathy, L. (2005). Mergers and acquisitions – Another tool for traders. Investopedia.
- Iiaboja O.J. (2006). *The abc of mergers and acquisition*. Benin City: O'Jay Whyte Global Consult.
- Jensen C. M. (1988). Takovers: Their causes and consequences. *Journal of Economic Perspectives*, 2(1), 21 – 48. <http://dx.doi.org/10.1257/jep.2.1.21>
- Morgan, O. (2004). *Due diligence in mergers and acquisitions*. Lagos: Financial Standards.
- Nwoji B.I. (1991). *Corporate finance guide to application in banking and financial services in Nigeria*, Lagos: Malthouse.
- Odetayo T.A., Sajuyigbe, A. S. & Olowe, S. O. (2013). Empirical analysis of the impact of post-merger on Nigerian banks profitability. *Research Journal of Finance and Accounting*, 4(17), 91-98.
- Okafor, C & Eiya, O (2005). Strategic impact of acquisition on corporate performance: A case study of Wapic plc. *Journal of Economics and Management Sciences*, 1, 111-121.
- Okafor, C. (2005). Turnaround management in Nigeria: A conceptual framework. *Knowledge review: A multidisciplinary Journal*, 11(1).
- Okpanachi, J. (2011). Comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. *Journal of Accounting and Taxation*, 3(1), 1-7.
- Olagunju, A. & Obadami. O. (2012). An analysis of the impact of the impact of mergers and acquisitions on commercial banks performance in Nigeria. *Research journal of finance and accounting*, 3(7), 19-101.
- Omah,I.P, Okolie, J. P. & Durowoju, S. T. (2013). Mergers and acquisitions effects on shareholders value evidence from Nigeria. *International Journal of Humanities and Social Science*. 3(6), 151-159.
- Onikoyi, I. A. (2012). Merger and acquisitions and banks performance in Nigeria. *JORIND*, 10(2), 1596-8308.
- Osamwonyi, I. O. (2002). Mergers and acquisition: The anatomy and the Nigerian Case' in Ezejuele, A.C. and A.E. Okoye (eds) *Accounting: The Nigerian Perspective*, Nigerian Accounting Association (NAA), 207-223.
- Osayaba O. O. (2010). *Investment guide to sub Saharan Africa*.
- Osaze B.E & Anao, A. R. (1990) *Managerial finance*. Benin City: Uniben Press.
- Owolabi, S.A & Ogunlalu, A. E. (2013). Banking industry consolidation and financial performance of selected quoted banks in Nigeria. *Journal of applied finance and banking*, 3(3), 219-238.
- Pandey, I. M. (2005). *Financial management*, 9th edition New Delhi: Vikas publishing house PVT Ltd.
- Penrose, T. E. (1980). *The theory of growth of the firm*. London: Billing and Sons Limited.
- Peter, I. & Kenneth, O. (2006). *Essays on banking consolidation in Nigeria: Mergers motive and consequences*.
- Soludo, C.C. (2004) Consolidating the Nigerian banking industry to meet the development challenges of the 21st century. A speech (unpublished)
- Soyode, L. (2004). *Accounting for consolidation, merger and consolidation schemes*. Ibadan.

- Sanni, M. R. (2009). Short Term Effect of the 2006 Consolidation on Profitability of Nigerian Banks. *Nig. Res. J. Accountancy, Instituted of Chartered Accountant of Nigeria.*, 1(1), October.
- Straub, T. (2007). *Reasons for frequent failure in mergers and acquisitions – A comparative analysis*. Deutscher Universitats Verlag, Wiesbaden. <http://dx.doi.org/10.1007/978-3-8350-9637-0>
- Van Horne J. C. (1990). *Financial management policy*. New Delhi: Prentice Hall.
- Vyas, V., Narayanan, K., & Ramanathan, A. (2012). Determinants of mergers and acquisitions in Indian pharmaceutical industry. *Eurasian Journal of Business and Economics*, 5(9), 79-102.
- Walter, C. N. & Uche, U. (2005). New capitalization for banks: Implication for the Nigerian economy. *Adamawa State University of Business Journal*, 1(1), January.
- Weston, J.F. & Brigham, E. (1982). *Essentials of managerial finance*. Chicago: Dryden Press, 6th edition.
- William, R. (1990). *Finding and facilitating mergers and acquisition*: Edited by Robert L. Hahu, the Library of investment banking, 4(1), U.S.A: Business one Irwin.

APPENDIX

GET DATA

/TYPE=XLSX

/FILE='C:\Documents and Settings\My Documents\data.xlsx'

/SHEET=name 'Sheet1'

/CELLRANGE=full /READNAMES=on

/ASSUMEDSTRWIDTH=32767. NPAR TESTS

/MCNEMAR=PRE WITH POST (PAIRED)

/MISSING ANALYSIS.

McNemar Test

Crosstabs

| PRE & POST | | |
|------------|------|----|
| | POST | |
| PRE | 0 | 1 |
| 0 | 0 | 19 |
| 1 | 35 | 0 |

| Test Statistics ^b | |
|------------------------------|------------|
| | PRE & POST |
| N | 54 |
| Chi-Square ^a | 4.167 |
| Asymp. Sig. | .041 |
| a. Continuity Corrected | |
| b. McNemar Test | |