Effect of Merger and Acquisition of Deposit Money Banks on Nigeria's Economic Growth: A Pre and Post Analysis

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Abstract: *The study examined the effect of Mergers and Acquisitions (M&As) of Deposit Money Banks (DMBs) on Nigeria's economic growth. Pre-M&As period lasted from 1990–2004, while the Post-M&As spanned from 2005–2019. Data was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin and tested with Ordinary Least Square Regression Analysis. The results indicated that in the Pre-M&As era, bank's capital base, credit granted to the private sector and bank spread positively, enhanced economic growth howbeit and bank's gross credit adversely affected economic growth. Findings also revealed that Post-M&As era contradicted the Pre-M&As effect on DMBs, with all the bank indicators showing negative connection with economic growth, except credit granted to the private sector. These findings led to the conclusion that M&As had little impact on the country's economic growth during the period under consideration. As a result, the study recommendedthat the CBN issue a special directive to the DMBs to extend more credit to the private sector as a means of accelerating economic growth.*

Key words: Gross Credit**,** Mergers and Acquisitions, Deposit Money Banks, Economic Growth
JEL Classification: D21, D4, L1, L2

INTRODUCTION

Banks contribute significantly to the economic growth of any nation. Through banks, mobilization of savings serves as a catalyst for investment (Abdullahi, 2002; Mordi, 2004), thus, creating wealth through capital formation, stimulating economic growth and providing risk management services (Dogarawa, 2011). Nevertheless, for banks to achieve these goals optimally, they must be reordered through reform processes targeted towards revamping and incorporating the banking sector into an all-inclusive financial system. These reforms may be introduced in both advanced and emerging economies so as to rectify the observed inadequacies impairing the financial sector (Dogarawa, 2011; Ebimobowei and Sophia, 2011). In terms of institutional numerical strength, board composition, as well as the entire operations, these reforms involve remarkable changes. The process of bank consolidation is an indication of an effective reform strategy. Consolidation is the process of integrating many elements into a single unit. In the financial sector, consolidation is similar to merging. According to Adegbaju & Olokoyo (2008), when company A purchases company B in a merger, the existing company is buyer A, and when A and B merge, company C is formed. In Nigeria, the banking consolidation operation in 2012 resulted in the formation of 21 commercial banks from 89 banks in existence before 2004. Since 1980, approximately 7,000 bank mergers have occurred in the United States, with a similar pattern emerging in the United Kingdom and other parts of Europe. In 1997, the Eurozone experienced 203 bank mergers and acquisitions (M&As). In 1998, a bank with a capitalisation of US $688 billion was established in France, while a merger of two banks in Germany resulted in Germany's second largest bank with a capitalisation of US $541 billion in the same year. (Ikpefan, 2012). Banking institutions around the world have been expanding through M&As, in the hopes of lowering costs, increasing earnings and enhancing market share (Coccorese & Ferri, 2019). These strategies give merging firms a competitive advantage (Khan, et al., 2020).

Akinsulire (2002) pointed out that M&As is a technique for achieving a synergistic impact that has been carefully planned. Li, Qiu & Shen (2018) asserted that it bring about increased economic growth and also enhances market share. Gomes et al. (2017) stressed that M&As impact on the firm's local, as well as worldwide, operations, result in cost efficiency and the associated benefit of economies of scale inside the organization. Furthermore, Oloye & Osuma (2015) reported that M&As are important in boosting public trust, growing stakeholder assets, and improving operational productivity and economic stability. M&As, according to the Central Bank of Nigeria (2005), improve bank sustainability and performance while also expanding the economy's potential. However, in Nigeria, Soludo (2006) asserted that though consolidation which occurred in the financial industry was done exclusively to re-capitalize banks and strengthen their financial position yet its economic impact was negligible as there are still insolvent banks because of enormous non-performing loans. As a result, it is necessary to study the effect of M&As on the Nigerian economy.

Additionally, studies on M&As in Nigerian banks generate diverse range of outcomes. As an example, Altunbas & Ibanez (2004) reported that M&As improves banks ’profitability. Ahmed, Manwani & Ahmed (2018) also opined that M&As increased the performance and productivity of banking organization. Olagunju & Obademi (2012) concluded that M&As play a crucial role in the financial sector. However, some studies have mentioned the issue of M&As failure rates like Warter & Warter (2017) who admitted that the central issue in M&As remains the high rate of failure. Goyal & Joshi (2012) also agreed that failure rates of M&As have remained consistently high. Puranam, Singh, & Chaudhuri (2009) reported failure rates of between 60 % and 80%. Appah & John (2011) also commented that M&As failure rates are generally far above 50 % in the banking sector, Beitel et al (2003) reported that M&As have no substantial effect on DMBs. Arising from the inconsistencies in these findings; this work seeks to investigate the effect of Pre and Post M&A of banks on the Nigerian Economy.

In view of this, the research provided answers to the following questions:

i. What had been the effect of Pre- M&As of DMBs on Nigeria's Economic growth?
ii. Did Post-M&As of DMBs affected Nigeria's Economic growth?

Hypotheses of the Study
The following hypotheses were tested in the null form:

$^{1}H_0$: Pre- M&As of DMBs had no effect on Nigeria's Economic growth

$^{2}H_0$: Nigeria's Economic growth was not affected by Post-M&As of DMBs

Literature Review

This section presents the review of literature for this study. The chapter is presented in three sections consisting of the conceptual, theoretical and empirical reviews.

Conceptual Review

Mergers and Acquisition

A merger, according to Owokalade (2006), is a form of corporate pairing in which two or more entities integrates to constitute one, with one firm's equity being obtained by another and the owners of the smaller firm becoming shareholders in the larger company. An acquisition is referred to as a merger (Alao, 2010, Dubey, 2007). The acquirer maintains ownership of the purchased firm and can engage in competitive or friendly operations with it. Consolidations are not the same as M&As, which are corporate mergers in which two or more firms unite to establish a larger firm. Only the new entity remains active once all of the merging companies have been dissolved (Okonkwo, 2004). The two companies get a competitive edge in terms of performance, capital, and resources when they merge their activities. This lowers the number of competitors in the market, giving them an advantage over others (Geln, 2011; Okonkwo, 2004). When one firm buys the controlling shareholding interest of another, this is known as an acquisition. Two autonomous entities or corporations are normally formed at the end of the process.

Mergers and Acquisition Transactions in Nigeria

It is undeniable fact that Nigeria has progressed in recent years in terms of adopting mergers and acquisitions for the goals of restructuring firms or improving investment returns. It's a welcome change from previous years, when foreign-owned corporations accounted for the majority of M&As. The earliest case of M&As in Nigeria in 1912 is that of Anglo African Bank, formed by British Bank of West Africa, founded in 1892. These institutions spawned the First Bank of Nigeria Plc. Since then, several businesses have followed suit. The most notable M&As in Nigeria's private sector happened in the banking sector in 2005. The Central Bank of Nigeria (CBN) implemented policies to consolidate DMBs, facilitating their contribution towards economic growth. The CBN instructed banks that their shareholders' funds should be increased from two billion naira to twenty-five billion naira (25 billion naira). The population of Nigerian banks has declined as a result of this policy, from 89 in 2005 to twenty-five in 2006, then to twenty-four in 2004. The incumbent banks' failure to meet the new policy's financial requirements caused the decrease. Following the Nigerian merger wave of 2005, another wave of mergers emerged in the banking sector in 2011, with the purpose of addressing operational issues such inadequate governance, poor financial planning, operational inefficiencies, and financial deepening (Ajayi, 2005).

The Nigerian Banking Industry before Mergers and Acquisitions

Before the recent bank M&As, which was propelled by the CBN 13-point reform plan and launched on July 6, 2004, DMBs in Nigeria had monopolistic tendencies, with noticeable qualities of market structure and dominance. According to Lemo (2005), the top ten (10) banks hold more than half of total assets, half of all deposit liabilities, and more than half of total credits. Accordingly, small banks with capital of less than $10 million (N1.4 billion) dominated the sector, making it heavily reliant on the government.

Effect of Mergers and Acquisitions on the Nigerian Economy

Mergers and Acquisitions or any other means of consolidation may have an impact on bank interest rates, competitiveness, and the working capabilities of monetary policy in the sense that increased size and reorganization potential may result in efficiency benefits that lower marginal costs, enhanced market power, or both. Enhanced performance would be achieved by broadening the scope of activities if there are economies of scale. Because reform is intended to improve effectiveness both in procedures and in the economy as a whole.

Theoretical Review

This study is hinged on Synergy Gain Theory.

Synergy Gain Theory

In 1955, Gunther proposed the Synergy Gain theory. He propounded the theory that 2+2 =5. In general, M&As happen because it produces 'synergy' between the acquirer and the target, which enhances the company's worth (Kathy 2005). M&As are embarked upon to achieve strategic advantages from the combined enterprises. The valuation of the combined company is assumed to outperform the value of the acquiring and acquired firms separately. Operating and financial synergies are developed as a result of economies of scale. That is to say, when the two firms link up, their fixed costs are spread across a wider manufacturing scale, therefore lowering fixed costs. Aside from economies of scale, there are also economies of scope, which include integrating acquirer's and target firm's matching resources to create synergy gains. Synergies, according to Kathy (2005), are advantages that can only be realized through the process of merging, rendering them merger-specific.

Empirical Review

Umoren & Olokoyo (2007) examined the effect of M&As on DMBs performance in Nigeria. Profitability, liquidity and solvency were the dependent variables with M&As being the independent variable. The study collected secondary data from the thirteen sampled (13) mega banks. Results showed that M&As resulted into improved financial performances on average. Okpanachi (2011) made a comparison between Pre and Post-M&As of DMBs in Nigeria. The study employed gross earnings, profit after tax, and net assets of some DMBs as indicators to measure performance of DMBs after M&As. The data showed that DMBs performance improved when evaluating the Pre and Post-M&As periods. Bakare (2011) investigated the pattern and economic implications of bank mergers in Nigeria using Sample Test methodologies and E-view statistical tools. The analysis discovered that banks are better capitalized and less volatile as a result of the M&As. It showed that recapitalization has a small but considerable impact on the economy. Kanu & Anyanwu (2015) investigated the post consolidation review of M&As and banking sector performance in Nigeria from 1999 to 2014. Findings revealed that M&As improved bank performance in terms of profit before taxes and total assets in a positive and significant way. Omoye & Aniefo (2016) studied the effects of M&As in the Nigerian corporate climate on performance, liquidity buy-outs, and share prices.

The research was conducted over a period of time. Findings revealed that M&As have considerable and positive influence on Nigerian businesses. In an exploratory study, Okafor (2019) investigated the performance enhancing components in M&As. Low acquisition purchase premiums, the timing of M&As, as well as related business purchases, were discovered to considerably boost the success rate of M&As. In contrast, Somoye (2008) researched into the effect of Post-M&As of government-induced banks in Nigeria. He discovered that M&As alone might not be sufficient to guarantee sustainable growth. According to the report, the consolidation program has had minimal impact on the banking industry's overall performance and has also contributed little to the real sector's long-term development. Suberu & Aremu (2010) investigated corporate governance and M&As of DMBs in Nigeria. They employed 25 DMBs stemming from regulatory pressure for M&As. The main conclusion was that DMBs are responsible for the economy's dismal performance due to their reliance on imports rather than long-term investment thus maximizing shareholder’s profit. Appah & John (2011) researched into how M&As affected DMBs profitability. Ex-post facto research design was employed with a sample size of ten banks. Findings revealed that DMBs performed better during Pre-M&As period. Owolabi & Ogunlalu (2013) discovered that M&As of DMBs doesn’t necessarily enhanced financial position of DMBs, DeLong & Deyoung (2007) and Amel et al. (2004) asserted that M&As have no meaningful effect on DMBs profitability. In the Post-M&As era of the Nigerian banking sector, Akinbuli (2013) explored the effects of M&As on the profitability of corporate organizations. Findings demonstrated that, while M&As are not a panacea for corporate financial hardship, they are a viable option. M&As were found to be simply a temporary remedy to financial difficulties, not a long-term answer.

Methodology

This section identifies the processes that were followed while conducting this study. This chapter's basic features are research design, population and sampling, data collection and analysis respectively.

Research Design

The research used *expo* facto design to examine the effect of M&As of DMBs on the economy. Data was collected for Pre-M&A period from 1990- 2004 as well as Post M&A period from 2005-2019. The data was analyzed, and performance in these areas? were compared to estimate the Pre- and Post M& As effect on Nigeria's economy.

Population of the Study

These are the entire Twenty- four (24) DMBs in Nigeria which have gone through M&As and hold the operating license issued by the CBN as at December, 2019.

Model Specification

This study adopted the model specified by Busari and Adeniyi (2017) and adapted it to suit the purpose of this study. Hence, the adapted study is specified thus:

RGDP = f(BCAP, BGC, BDE& CPS)………………………………Eq(1)

Eq (1) can be transformed into econometric model thus:

$RGDP = \beta0 + \beta1BCAP + \beta2BGC + \beta3BDE + \beta4CPS + ut$……………….Eq (2)

Taking the natural logarithm of Eq (2) produces:

$logRGDP = \beta0 + \beta1logBCAP + \beta2logBGC + \beta3logBDE + \beta logCPS + ut$………Eq(3)

Where:

RGDP = Gross Domestic Product

BCAP = This is the total capitalization of all DMBs in Nigeria

BGC = Gross credit (or loans) given to the Economy by DMBs.

BDE = Density of DMBs operating in Nigeria

CPS = Credit granted to the private sector by DMBs in Nigeria

$\beta_0$denotes the regression constant.
$\beta 1$- $\beta 4$ = coefficients of the variables to be evaluated

Sources of Data

The CBN's Statistical Bulletin and the Annual Financial Statements of the selected DMBs provided secondary data for this study, which spanned for fifteen (15) years from 1990 to 2004 for the Pre-M&As era and 2005 to 2019 for the Post-M&As era. The Ordinary Least Square Regression Technique was used for data analysis.

Results and Discussion

Table1: Summary of Descriptive Statistics

	LRGDP	LBCAP	LBGC	LBDE	LCPS
Mean	10.04219	2.892059	5.388687	7.788155	12.81369
Median	9.989165	2.871670	5.609089	7.765569	12.81187
Maximum	10.46369	4.958110	7.325967	8.158230	14.23372
Minimum	9.862617	1.311759	3.258100	7.569928	11.23131
Std. Dev.	0.188548	1.367209	1.339798	0.167944	0.965563
Skewness	1.086478	0.237653	0.364755	1.063692	0.475997
Kurtosis	2.962860	1.517701	1.791312	2.133335	1.935674
Jarque-Bera	2.951948	1.514453	0.980940	2.839713	0.680708
Probability	0.428556	0.468965	0.612338	0.441749	0.711519
Sum	150.6328	43.38089	80.83030	116.8223	166.5779
Sum Sq.Dev.	0.497706	26.16964	25.13084	0.394874	11.18774
Observations	15	15	15	15	15

Source: Author’s Computation (2021)

Table 1 shows the results of the descriptive analysis performed in this study. It also displayed an overview of statistics, such as the mean, median, standard deviation, and metrics of the distribution's symmetry and normality.

Table 2: Summary of Regression Result (Pre-M&As Period)

Dependent Variable: LRGDP
Method: Least Square
Date: 08/06/21 Time: 09:36
Sample (adjusted): 1992 2004
Included observations: 13 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.100260	0.705750	7.226724	0.0001
LBCAP	0.116097	0.030088	3.858590	0.0048**
LBGC	-0.074422	0.047791	-1.557254	0.1580
LBDE	0.554471	0.056909	9.743182	0.0000**
LCPS	0.054295	0.062860	0.863743	0.4129

R-squared	0.788081	Mean dependent var	10.06939
Adjusted R-squared	0.782122	S.D. dependent var	0.188316
S.E. of regression	0.025180	Akaike info criterion	-4.241826
Sum squared resid	0.005072	Schwarz criterion	-4.024538
Log likelihood	32.57187	Hannan-Quinn criter.	-4.286489
F-statistic	165.7998	Durbin-Watson stat	2.057247
Prob(F-statistic)	0.000000		

LRGDP: Gross Domestic Product of Nigerian economy; LBCAP: Total capitalization of the entire DBMs; LBDE: Density of the DMBs; LCPS: Credit extended to private sector by DMBs : BGC gross credit (or loans) granted by the DMBs to Nigerian economy

Notes: ** 5% level of significance * 10% level of significance

Source: Author's Computation (2021)

The result of the Pre- M&As effect of the DMBs on the Nigerian economy was as indicated in Table 2 is stated as: $RGDP = 5.100 + 0.1161BCAP – 0.0744BGC + 0.5544BDE + 0.0543CPS + e_0$

From the above equation, all the proxies of banks' performances in the Pre- M&As era are positively associated with RGDP except BGC. In other words, banking capitalization (BCAP), bank density and expansion (BDE) and credit granted to private sector (CPS) are positively related to RGDP. However, while the relationship of BCAP and BDE are significant, that of CPS is not significant. Moreover, gross credit granted by the banks to economy maintains negative and insignificant relationship with RGDP.

Table 3: Summary of Regression Result (Post- M&As era)

Dependent Variable: LRGDP
Method: Least Squares
Date: 08/06/21 Time: 11:03
Sample: 2005 2019
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.171848	0.685532	9.003005	0.0000
LBCAP	-0.036971	0.171070	-0.216114	0.8332
LBGC	-0.073503	0.039953	-1.839742	0.0956*
LBDE	-0.012261	0.020911	-0.586361	0.5706
LCPS	0.354839	0.068756	5.160847	0.0004**

R-squared	0.734656	Mean dependent var	10.94125
Adjusted R-squared	0.708519	S.D. dependent var	0.220258
S.E. of regression	0.066619	Akaike info criterion	-2.318456
Sum squared resid	0.044381	Schwarz criterion	-2.082440
Log likelihood	22.38842	Hannan-Quinn criter.	-2.320970
F-statistic	35.75928	Durbin-Watson stat	0.883697
Prob(F-statistic)	0.000007		

LRGDP: Gross Domestic Product of Nigerian economy; LBCAP: Total capitalization of the entire DBMs; LBDE: Density of the DMBs; LCPS: Credit extended to private sector by DMBs: BGC gross credit (or loans) granted by the DMBs to Nigerian economy

Notes: ** 5% level of significance * 10% level of significance

Source: Author's Computation (2021)

The result of the Post- M&As effect of the DMBs on the Nigerian economy is as indicated in Table 2 which isstated as follows:

$$RGDP = 6.17 - 0.0369BCAP - 0.0735BGC - 0.0123BDE + 0.3548CPS + e_0$$

Findings revealed that all the banks' performance indicators in the Post-M&As era were negatively related with RGDP except CPS. On the other hand, credit granted to the private sector (CPS) still maintained considerable and positive relationship with RGDP, in such a manner that 1% increase in CPS produces 35% increasing resultant effect on RGDP and vice versa. Also, the relationship shown by CPS in the Post- M&As era was the only statistically significant relationship recorded in this period. On the other hand, gross credit granted by the banks to the economy remains negative and statistically insignificant.

Discussion of Findings

According to the descriptive analysis given in Table I, CPS had the highest mean score (12.81), followed by RGDP (10.04), BDE (7.79), and BGC (5.39), with BCAP having the lowest mean value (2.89). Also, the deviations from the mean values revealed that all the parameters cluster closely around their means values as they all had low values of standard deviations when compared with their mean values. The result of the skewness and kurtosis which measure the symmetry of the variables and the tail shape of the variables are also indicated in the table. Findings on skewness showed that all the variables under study were positively skewed which implies that their normal curve have long right tails. The coefficients of kurtosis showed that all the variables under consideration had tiny tails as their kurtosis coefficient were less than three. The Jarque-Bera statistics which is a test of normality revealed that all the variables had probability values that were greater than 0.05 critical values. Thus, the results demonstrated that all the parameters studied were properly distributed. The result of the regression analysis in Table 2 for the Pre-M&As era showed that the parameters tested accounted for 78.8% of changes in GDP while 21.2% is due to unspecified components in the model. The F-statistic value of 165.799 was significant. The constant parameter being 5.100 implies that economic growth would have increased by 5.100 units if all external factors were kept constant.

Total capitalization of banks (BCAP) was positively and significantly associated with economic growth in the Pre-M&As era. A unit increase in BCAP equals a 0.1161 increase in the economic growth indicator. Also, the density of banks (BDE) positively and significantly affected GDP in the Pre-Merger era. Having a value of 0.5544 revealed that a unit increase in BDE enhances GDP by 0.5544 units. This might be that as the number of banks increase, economic growth is also enhanced. Many people will have easy access to financial institutions thus increasing the rate of financial inclusion. Credit or loans granted to the economy (BGC) whose value is -0.0744 have no significant effect on GDP at the Pre-M&As era. This means that when BGC increases by one unit, GDP is reduced by 0.0744. Credit to Private Sector (CPS) has a value of 0.0543. This demonstrates that CPS has a small but positive influence on economic growth. GDP increases by 0.0543 units for every unit increase in CPS. As a result, bank credit to private businesses had not been efficiently channeled, and bank funds intended to them had not been optimally employed to boost economic growth during the Pre-M&As period. This outcome corroborates the results of Appah & John (2011) and Adeusi & Oke (2013) who reported similar findings. Moreover, in Table 3, for the Post-merger era, findings revealed that the parameters tested accounted for 73.5% of changes in GDP while 26.5% was due to unspecified components in the model. The F-statistic value of 35.79 was significant. The constant parameter shows that if all external factors remain constant, economic growth will increase by 6.172 units. BCAP is inversely proportional to economic growth, with a value of -0.036 indicating that a unit rise in BCAP caused a 0.036unit decrease in economic growth. Also, the coefficient of BDE which is -0.0123 portends a negative effect on GDP which signifies that a unit increment in BDE reduces economic growth by 0.0123 units. A possible explanation was that there were fewer banks in the country as a result of M&As. Thus, this could have affected the rate of financial inclusion, which might have detrimental effects on the economy. At 10% significance level, BGC with coefficient of -0.0735 had a noticeable but adverse effect on GDP. This indicated that every unit rise in BGC causes 0.0735 reductions in GDP. CPS had a positive and strong influence on GDP, with a coefficient of 0.354. This could be because M&As had repositioned Nigerian DBMs to lend more credit to the private sector in order for it to carry out productive activities, leading to a rise in GDP. Furthermore, gross credits created by the banks (BGC) was negative both in the pre as well as the post-merger and acquisition period. This showed clearly that loans and advances made by the Nigerian DMBs had not contributed significantly to economic growth. This could be owing to the discriminatory priority given to unproductive sectors in loan administration, resulting in ineffective credit utilization by the recipients. Finally, findings revealed that M&As have had minimal effect on Nigeria's economic progress. These findings are consistent with those of Sowore (2008), Bakare (2011), and Delong & Deyoung (2007), who concluded that DMBs mergers add very little to the country's economic growth.

Summary, Conclusions and Recommendations

Mergers and Acquisitions are strategic tools which improve operational efficiency and financial stability of an organization. In Nigeria, many researches on M&As had focused on manufacturing companies, very few studies analysed its effect on service industries especially banking sector as it relates to the Pre and Post M&As periods. Therefore, this research evaluated the effect of Pre and Post M&As of DMBs on Nigeria’s economic growth. The Pre-M&As effect of the DMBs was measured from 1990 – 2004 while the Post-M&As effect was from 2005 -2019. Data was analyzed with ordinary least square regression analysis. The research employed some performance indicators of DMBs to proxy M&As which other authors had not given attention over the years. These indicators were gross credit granted by DMBs, credit granted to private sector, the capital base of DMBs as well as density and population of DMBs in the Pre and Post M&As era. Findings revealed that, against theoretical expectation and postulations, the Post-M&As era contradicted the Pre-M&As effect on DMBs, with all bank indicators, except loans to the private sector, showing a negative connection with economic growth. This implies that M&As have had minimal effect on Nigeria's economic progress. In view of the findings, the study recommends that the CBN issue a special directive to the DMBs to extend more credit to the private sector as a means of accelerating economic growth.

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