**MERGERS AND ACQUISITIONS IN THE BANKING INDUSTRY IN NIGERIA**

**(CASE STUDY OF SELECTED BANKS IN OYO STATE)**

**ADELERU, GRACE FOLASHADE**

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**CERTIFICATION**

This thesis was written by **ADELERU, Grace Folashade** for the award of Master of Science in Accounting of the Bowen University, Iwo, Nigeria.

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**PROF. P. E. ORIBABOR DATE**

**(SUPERVISOR)**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_

**MR. E. O. ADELEKE DATE**

**(AG. HEAD OF DEPARTMENT)**

**POSTGRADUATE SCHOOL**

This Thesis was accepted in partial fulfillment of the requirements for the award of Master of Science (M.Sc.) degree in Accounting in the Department of Accounting, Faculty of Social and Management Sciences, Bowen University, Iwo.

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**CHIEF. O. O. ODUNEWU DATE**

**(THE SECRETARY, POSTGRADUATE SCHOOL)**

**DEDICATION**

This project work is dedicated to GOD ALMIGHTY, the sustainer of life and giver of wisdom. To my parents, Rev. Dr. and Mrs. J. ‘Dele Adeleru and my sisters, Adewemimo, Adetola and Mopelade Adeleru who have been wonderful to me all through my life’s journey.

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**ABSTRACT**

Mergers and acquisitions in the Nigerian banking industry are reforms strategies used by the apex bank, Central Bank of Nigeria (CBN) to reposition the nation’s banking industry. Mergers and acquisitions occurred as a result of recapitalization and consolidation of banks in Nigeria. This study assessed the effects of mergers and acquisitions in the banking industry in Nigeria. The research sought to find out how mergers and acquisitions have positively improved bank efficiency and competitiveness since the Nigerian bank recapitalization and consolidation of 2005.

Primary and secondary data were used for this study. Primary data were sourced through questionnaire, purposively administered on 75 respondents from Skye Bank Plc. and Access Bank Plc. in Oyo state. Secondary data were obtained from banks financial records and internet. The descriptive statistics (frequency and percentage) were used for analysis of the data.

The result of the analysis indicated that mergers and acquisitions have impacts on the banking industry in Nigeria. The findings further revealed that mergers and acquisitions increased the bank operating efficiency and competitiveness

The study concluded that with good corporate governance in place, the Nigerian banking industry can greatly benefit from mergers and acquisitions. This is because, with the mergers and acquisitions banks will be more financially efficient, more competitive and this in turn will improve banking industry performance and the country’s economy.

**CHAPTER ONE**

**INTRODUCTION AND LITERATURE REVIEW**

* 1. **Background of the study**

The banking sector plays a germane role in the economic development of a nation. The banking sector in any economy serves as a catalyst for growth and development through its financial intermediation functions. Banks also provide an efficient payment system and facilitate the implementation of monetary policies. They help to stimulate economic growth by directing funds from the surplus unit of the economy to the deficit unit that need the funds for productive activities (Umoren, 2007). Abdullahi(2006) says that the banking industry in particular play crucial role in the economic development by mobilizing savings and channeling them for investment especially in the real sector which increases the quantum of goods and services produced in the economy, thus national output increases and the level of employment improves. The above statements show that the contributions of the banking industry in any economy cannot be overemphasized. The banking industry stands as the backbone of any nation’s economy. When an economy is therefore facing some challenges, it is advisable to first look at its banking industry policies to know whether there is need for adjustment, reorganization, recapitalization and even consolidation.

Objectives of the banking industry are to ensure economic stability and facilitate sustained rapid economic development. According to Soludo (2004), these objectives often remain largely unattained as a result of some deficiencies such as persistent illiquidity, under capitalization, high level of non-performance, weak Corporate Governance, poor operational performance, insider abuse, negative net-worth and so on. He further said that the deficiencies necessitated the consolidation and recapitalization of the banking industry in Nigeria in the year 2005 (Soludo, 2004).

Banks consolidation was as a result of too many banks that were too weak with small capital base in which majority of these banks were non-performing (Soludo, 2004). Soludo (2004) states that in Nigeria, we have 89 banks with many banks having capital base less than US$10million and about 3,300 branches. List of the 89 banks is shown on Table 1.1 below.

**TABLE 1.1**

List of Banks before 2005 Consolidation and Recapitalization

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S/N | NAME OF BANK |  | S/N | NAME OF BANK |
| 1 | ACB International Bank Plc. |  | 32 | First Interstate Bank Plc |
| 2 | Access Bank Nig. Plc |  | 33 | Fortune International Bank Plc |
| 3 | AfribankInterntional |  | 34 | Fountain Trust Bank Plc |
| 4 | Afribank Nigeria Plc |  | 35 | Fsb International Bank Plc |
| 5 | African Express Bank Plc |  | 36 | Gateway Bank of Nig. Plc |
| 6 | African International Bank Ltd |  | 37 | Global Bank Plc |
| 7 | Allstates Trust Bank Plc |  | 38 | Guaranty Trust Bank Plc |
| 8 | Assurance Bank Nig. Ltd |  | 39 | Guardian Express Bank Ltd |
| 9 | Bank of the North Ltd |  | 40 | Gulf Bank Nigeria Plc |
| 10 | Bond Bank Ltd |  | 41 | Habib Nigeria Bank Limited |
| 11 | Broad Bank of Nig. Ltd |  | 42 | Hallmark Bank Plc |
| 12 | Bank of Industry |  | 43 | IMB International Bank Plc |
| 13 | Chartered Bank Plc |  | 44 | Inland Bank (Nigeria) Plc |
| 14 | Citibank Nigeria Ltd |  | 45 | INMB Bank Limited |
| 15 | Citizens International Bank Ltd |  | 46 | Intercity Bank Plc |
| 16 | City Express Bank Plc |  | 47 | Intercontinental Bank Plc |
| 17 | Center Point Bank Plc |  | 48 | International Trust Bank Plc |
| 18 | Continental Trust Bank Ltd |  | 49 | Lead Bank Plc |
| 19 | Cooperative Bank Plc |  | 50 | Liberty Bank Plc |
| 20 | Cooperative Dev. Bank Plc |  | 51 | Lion Bank of Nigeria Plc |
| 21 | Devcom Bank Limited |  | 52 | Magnum Trust Bank Plc |
| 22 | Diamond Bank Limited |  | 53 | Manny Bank Nigeria Plc |
| 23 | Eagle Bank Limited |  | 54 | Mbc International Bank Nig Ltd |
| 24 | Eco Bank Nigeria Plc |  | 55 | Metropolitan Bank Ltd |
| 25 | EIB International Bank Plc |  | 56 | Midas Bank Limited |
| 26 | Equitorial Trust Bank Limited |  | 57 | Nal Bank Plc |
| 27 | Equity Bank Of Nigeria Limited |  | 58 | National Bank Of Nigeria Ltd |
| 28 | FBN (Merchant Bankers) Limited |  | 59 | NBM Bank Limited |
| 29 | Fidelity Bank Plc |  | 60 | New African Merchant Bank Plc |
| 30 | First Atlantic Bank Plc |  | 61 | New Nigeria Bank Plc |
| 31 | First City Monuments Bank Plc |  | 62 | Nigeria Bank For Comm. & Ind. |
| 63 | Nigeria Export & Import Bank |  | 77 | SocieteBancaire Nigeria Ltd (Merch.) |
| 64 | Nigerian Agr. Co-Op. and Rural Dev. Bank |  | 78 | Trade Bank Plc |
| 65 | Nigerian-American Bank Ltd |  | 79 | Trans International Bank Plc |
| 66 | NUB International Bank Limited |  | 80 | Triumph Bank Plc |
| 67 | Oceanic Bank International Plc |  | 81 | Tropical Commercial Bank Plc |
| 68 | Omega Bank Plc |  | 82 | Trust Bank of Africa Ltd |
| 69 | Pacific Bank Limited |  | 83 | Union Bank Of Nigeria Plc |
| 70 | Platinum Bank Limited |  | 84 | Union Merchant Bank Limited |
| 71 | Prudent Bank Plc |  | 85 | United Bank for Africa Plc |
| 72 | Regent Bank Plc |  | 86 | Universal Trust Bank Nig. Plc |
| 73 | Reliance Bank Limited |  | 87 | Urban Developmental Bank NigPlc |
| 74 | SocieteGenerale Bank (Nigeria) Ltd |  | 88 | Wema Bank Plc |
| 75 | Stanbic Bank Limited |  | 89 | Zenith International Bank Ltd. |
| 76 | Standard Chartered Bank Ltd |  |  |  |

Source:Elumilade, D. O. (2010)

The table 1.1 above shows the list of all the banks operating in Nigeria before the consolidation and recapitalization of 2005. In the beginning of the year 2006, some of these banks were having problems that later resulted in inefficient and ineffective financial operations.

Professor Soludo (2004) compared the Nigeria banking industry to that of South Korea and South African Banks. In South Korea, there were 8 banks with 4500 branches; while in South Africa, a bank assets were larger than all the Nigerian 89 banks assets put together. Soludo discovered that foreign banks were more efficient and effective with fewer banks with more branches and higher capital base. Table 1.2 below depicts size of banking industry in Nigeria from 1970- 2006.

TABLE 1.2

Size of Banking Industry in Nigeria from 1970 to 2006

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Number of Banks | Number of Branches | Total Bank Assets (Nb) |
| 1970 | 15 | 273 | 1.2 |
| 1975 | 22 | 436 | 4.5 |
| 1980 | 26 | 745 | 17.3 |
| 1985 | 40 | 1316 | 37.0 |
| 1986 | 41 | 1387 | 48.1 |
| 1987 | 50 | 1509 | 62.1 |
| 1988 | 66 | 1705 | 75.2 |
| 1989 | 81 | 1905 | 86.7 |
| 1990 | 107 | 2008 | 110.4 |
| 1991 | 119 | 2102 | 155.5 |
| 1992 | 119 | 2385 | 201.3 |
| 1993 | 119 | 2476 | 279.9 |
| 1994 | 116 | 2541 | 357.4 |
| 1995 | 115 | 2506 | 465.1 |
| 1996 | 115 | 2546 | 548.8 |
| 1997 | 115 | 2546 | 694.9 |
| 1998 | 89 | 2293 | 821.2 |
| 1999 | 90 | 2293 | 1195.9 |
| 2000 | 88 | 2444 | 1704.3 |
| 2001 | 90 | 2994 | 2167.3 |
| 2002 | 90 | 3018 | 2705.7 |
| 2003 | 89 | 3247 | 3047.9 |
| 2004 | 89 | 3309 | 6489.1 |
| 2005 | 25 | 3522 | 8545.9 |
| 2006 | 25 | 3914 | 9737.7 |

Source: CBN Supervision Annual Report (2001), CBN Statistical Bulletin (2001) and CBN, Annual Report and Statement of Accounts (Various Issues).

The table 1.2 above shows the numbers, branches and total assets of banks in Nigeria from 1970 to 2006. Nigeria had the highest number of banks (119 banks), 2476 branches and capital base of N155.5 billion between 1991 and 1993. Since 1994, numbers of banks in Nigeria have been reducing while both number of bank branches and capital base have been increasing. Compared to other banking industries around the world, we can say that the Nigerian banking industry was too large which later resulted in cost and operating inefficiency.

Soludo (2004) concluded that the Nigerian banking industry was facing some challenges (such as cost and operating inefficiency) that need quick attention in order to save the nation’s economy. Further, Bakare (2011) mentioned that Soludo identified some of the problems of the banks, as persistent illiquidity, unprofitable operations and poor asset base.

Recapitalization was used as a major reform strategyto revivethe Nigerian banking institutions. Recapitalization according to Adegbaju and Olokoyo (2008) means increasing the amount of long term finances used in financing the organization. This means thatto meet up with the global standards there must be increases in the banks initial capital investment.Bank recapitalization of 2005 objectives includes increasing the debt stock of the banks, issuing additional shares through existing/new shareholders or combinationof the two. Asedionlen (2004) opines that recapitalization may raise liquidity in the short term but will not guarantee a conducive macroeconomic environment required to ensure high asset quality and good profitability. To recapitalize and consolidateof banking, capital base was raised to minimum of N25billion. The minimum paid-up capitals for banks since 1952 are shown on Table 1.3 below:

**TABLE 1.3**

Minimum paid-up capital for Banks in Nigeria (1952 – 2005)

|  |  |  |
| --- | --- | --- |
| Year | Type Of Bank | Minimum Amount |
| 1952 | Commercial Banks | 12,500 |
| 1969 | Commercial Banks | 300,000 |
| 1979 | Commercial Banks | N600,000 |
|  | Merchant Banks | N2,000,000 |
| 1988 (February) | Commercial Banks | 5,000,000 |
|  | Merchant Banks | 3,000,000 |
| 1988 (October) | Commercial Banks | 10,000,000 |
|  | Merchant Banks | 6,000,000 |
| 1989 | Commercial Banks | 20,000,000 |
|  | Merchant Banks | 12,000,000 |
| 1991 | Commercial Banks | 50,000,000 |
|  | Merchant Banks | 40,000,000 |
| 1997 | Commercial Banks | 500,000,000 |
|  | Merchant Banks | 500,000,000 |
| 2000 | Commercial Banks | 1,000,000,000 |
|  | Merchant Banks | 1,000,000,000 |
| 2001 | Commercial Banks | 2,000,000,000 |
|  | Merchant Banks | 2,000,000,000 |
| 2005 | Commercial Banks | 25,000,000,000 |
|  |  |  |

Source: FBN Business Report, June 2005

Table 1.3 above shows the trend of bank recapitalization and historical minimum paid-up capital since 1952. Table 1.3 above revealed that the first recapitalization took place in Nigeria in 1952 with minimum paid-up capital of 12,500 pounds. By the year 2005, the minimum capital paid-up had increased to N25 billion

At the end of 2005 consolidation and recapitalization, 25 banks were able to meet up with the requirements of the Central Bank of Nigeria (CBN). According to CBN report, 25 banks emerged at the end of the consolidation exercise from the previous 89 banks while 14 banks were liquidated, (Soludo, 2004). Table 1.4 below shows the list of 25 Nigerian banks with their capital bases after consolidation and recapitalization

**TABLE 1.4**

List of Banks in Nigeria after Consolidation and Recapitalizationof 2005

|  |  |  |  |
| --- | --- | --- | --- |
| S/N | Bank New Name | Former Banks In The Group | Capitali-Zation In Billions |
| 1 | First Bank | First Bank Plc, MBC Int.  Bank, FBN (Merchant) Bankers | 48.7 |
| 2 | Union Bank | Union Bank, Union Merchant,  Broad Bank, Universal Trust Bank | 43.2 |
| 3 | United Bank for  Africa | United Bank for Africa,  Standard trust Bank | 50.0 |
| 4 | Diamond Bank | Diamond Bank, Lion Bank | 28.6 |
| 5 | Oceanic Bank | Oceanic Bank, Int. Trust Bank | 58.9 |
| 6 | Intercontinental Bank | Intercontinental Bank, Global  Bank, Gateway Bank and Equity Bank | 30.2 |
| 7 | Fidelity Bank | Fidelity Bank, FSB International  Bank, Manny Bank | 29.0 |
| 8 | First City  Monument Bank | FCMB, Cooperative Devcom  Bank, Nigerian American Merchant | 29.0 |
| 9 | Spring Bank | Citizens Bank International,  Guardian Express Bank, Omega  Bank, ACB International  Bank and Fountain Trust Bank | 26.4 |
| 10 | Access Bank | Access, Marina Int. Bank and Capital  Bank International | 29.4 |
| 11 | Unity Bank | Intercity, First Interstates,  Tropical Commercial Bank, Central  Point Bank, SocieteBancaire and  Pacific Bank, NNB Int. Bank of the  North, New Africa Bank | 27.8 |
| 12 | Equitorial Bank | Equitorial Trust Bank and Devcom | 29.3 |
| 13 | First Inland Bank | First Atlantic, Inland Bank, IMB, NUB | 27.5 |
| 14 | Afribank | Afribank Int. (Merchant) Bank,  Afribank of Nigeria | 26.64 |
| 15 | IBTC Chartered | IBTC Chartered Bank and Regent  Bank | 31.3 |
| 16 | Skye Bank | Prudent Bank, EIB Int. Bank, Bond  Bank, Elience Bank and Cooperative  Bank | 35.00 |
| 17 | Wema Bank | Wema Bank and National Bank | 37.7 |
| 18 | Sterling Bank | Trust Bank, NBM Bank, Magnum  Bank, NAL Bank, Indo Nigeria Bank | 26.9 |
| 19 | Platinum Habib Bank | Habib and Platinum | 26.9 |
| 20 | Stanbic Bank | Alone | 36.10 |
| 21 | Zenith Bank | Alone | 26.7 |
| 22 | Nigeria Int.Bank | Alone | 37.79 |
| 23 | Eco Bank Nigeria | Alone | 25.7 |
| 24 | Standard Chartered Bank | Alone | 32.3 |
| 25 | Guaranty Trust Bank | Alone | 27.5 |

Source: NSE Book (2006) and Financial Standard Jan 30, 2006

The table 1.4 above shows the list of banks in Nigeria after consolidation and recapitalization of 2005. After the Central Bank of Nigeria deadline for recapitalization the banks listed above were able to meet up with the N25 billion minimum recapitalization requirements. Table 1.4 above also revealed that 19 new banks were developed through mergers and acquisitions. The remaining 6 bank (listed at the bottom of table 1.4) had more than N25 billion as their capital bases.

Bank consolidation was at the core of banking system reform programs. Sometimes, consolidation is independent of any banking crises. This means that consolidation does not necessarily have to result from crises, it can happen when there is no crisis in the organization (hostile take-over).

Bank consolidation also brought about many benefits to the nation. Ningi and Dutse, (2008) wrote that the CBN decision changed the market structure of the banking sector, increased the efficiency and reliability of the banks, created opportunities for financial institutions and market participants and raised their intermediation potentials.

Mergers and acquisitions according to Ammer and Ammer (1986) is the union of two or more formerly independent business firms under a single ownership accomplished by the complete acquisition of one company’s stock by another, either for cash or for stock in the acquiring company. The purpose of a merger may be to increase efficiency by eliminating duplication and thereby enabling capital assets to be reallocated so as to increase sales and profit.

During recapitalization and consolidation of the Nigerian banking industry, mergers and acquisitions were used as reform strategy. Ningi and Dutse, (2008) posited that the sector was characterized by small sized banks with high overheads, low capital base averaging less than $10million, heavy reliance on government patronage and loss making. Since some banks were unable to meet their financial obligations, they had to merged while others were acquired as intermediation mechanism

The then CBN governor (Professor Charles ChukwumaSoludo) took the initiative to reform the Nigerian banking sector through consolidation and recapitalization. The CBN governor’s focused onimprovingthe patronage of foreign investors and developing a mission to drive rapid and sustainable economic growth in Nigeria and Africa.

* 1. **Statement of the research problem**

Bank consolidation and recapitalization are not new. Consolidation and recapitalization are strategiesused to prevent banking sector crisis and failures. Nigerian banking reform was therefore, a product of global efforts at revamping the world economy, (Emeni and Okafor, 2008).

Though it has become a global phenomenon, mergers and acquisitions in the Nigerian banking industry were not different from that of other nations. In the United States of America, there had been over 7,000 cases of mergers since 1980. Also, in the United Kingdom, between 1997 and 1998, 203 bank mergers and acquisitions took place. Soludo (2004) mentioned that even in many emerging markets, including Argentina, Brazil and Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasingly globalized banking system. In essence, bank consolidation or mergers and acquisitions are not new to the world market economies. But, became one of the strategies nations used to survive and be more competitive in the challenging global economy.Soludo, (2004) opines that mergers and acquisitions represent the most widely used corporate strategies to penetrate into new markets, new geographical regions, gain management expertise/knowledge or allocate capital.

Before the year 2004/2005 Bank reforms, the total number of banks in Nigeria was 89. After consolidation and recapitalization, the number of banks reduced to 25. Reduction in the number of banks was used to strengthen the capital base and bank so that they can withstand the test of time or challenges of the global market, (Soludo, 2004).

Bank consolidation was implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve profitability, (Adegbaju and Olokoyo, 2008).

Despite the reduction in the number of banks in Nigeria, the banking sector faced various challenges such as banks inability to meet their financial obligations, illiquidity, unprofitable operations and poor asset base, (Abdullahi, 2006). The study focus on those challenges faced by banks after consolidation and tried to validate the efficacy of consolidation in the Nigerian banking industry.

Scholars have done many studies on mergers and acquisitions around the world. In Nigeria for example, Abdullahi (2006) wrote on bank consolidation and recapitalization in Nigeria: an evaluation of mergers and acquisitions option. Ebimobowei and Sophia, (2011) wrote on mergers and acquisitions in the Nigerian Banking Industry: An Explorative Investigation. Gunu (2009) researched the impact of the banking industry recapitalization on employment in Nigerian banks. Okpanachi (2011) studied comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. Elumilade (2010) wrote on mergers and acquisitions and efficiency of financial intermediation in Nigeria banks. Okpanachi(2011) discovered that an enhanced financial performancewill leadto improved financial efficiency. Elumilade’s (2010) revealed that consolidation program induced mergers and acquisitions,improved competitiveness, efficiency of the borrowing and lending operations of the Nigerian banking industry. The studies mentioned above shows that financial performance and operation efficiency of the Nigeria banking industry needed to improve for better performance and higher profits. This study therefore, intends to examine the effects of mergers and acquisitions on performance, competitiveness and operating efficiency of the banking industry in Nigeria.

* 1. **Research questions**

This study focus is on mergers and acquisitions in the banking industry in Nigeria. The researcher will find answers to the following questions:

1. Have mergers and acquisitions affect bank operating efficiency?
2. Does mergers and acquisitions affect competitiveness of the banking sector in Nigeria?
3. What are the implications of bank mergers and acquisitions on the Nigerian banking industry?
4. What are the constraints of mergers and acquisitions on banking industry?

Answering the above questions will help us to understand how the mergers and acquisitions have benefited the Nigerian banking industry. We will also find out what the Nigerian banking industry is doing differently compared to its counterparts around the world that are making a success of their own bank mergers and acquisitions.

* 1. **Objectives of the study**

The general objective of this study is to assess the impact of mergers and acquisitions in the Nigerian banking sector since recapitalization of the Nigerian banking industry in the year 2005. Specific objectives are to:

1. investigate the effects of mergers and acquisitions on the Nigerian bank operating efficiency
2. determine the level of competitiveness of the Nigerian banking industry with regards to the mergers and acquisitions.
3. examine the implications of mergers and acquisitions on the Nigerian banking industry.
4. Identify the constraints of mergers and acquisitions on banking industry.

The objectives listed above will help researcherunderstand how mergers and acquisitions havebeen positively or negatively influencing the Nigerian banking industry operating efficiency and performance. The study will provide useful insights into the need for more studies on recapitalization and consolidation of banks for stronger performance, better competitive advantages and survival strategy in the global market.

* 1. **Research hypotheses**

For the purpose of this study, the study hypotheses will establish how mergers and acquisitions affect the Nigerian banking industry especially after bank consolidation and recapitalization of 2005. To this end, the following hypotheses will be tested:

Ho: Mergers and acquisitions do not have significant effect on the operating efficiency of the Nigerian banking industry, i. e.

Ho: µ = 0

H1: Mergers and acquisitions have significant effect on the operating efficiency of the Nigerian banking industry, i.e.

H~~1~~: µ ≠ 0

Ho: There is no significant difference betweenmergers and acquisitions and competitiveness ofthe Nigerian banking industry, i. e. H0: λ = 0

H1: There is significant difference between mergers and acquisitions and competitiveness of the Nigerian banking industry, i.e H1: λ≠ 0

* 1. **Significance of the study**

This study is very significant to everybody. To the corporate world, the study will show the importance and benefits of bank mergers and acquisitions to the economy of our nation, Nigeria. Though mergers and acquisitions do not necessarily have to occur due to bank crises, they are needed in order for banks to be able to reposition their operations and cope with the challenges of the increasingly globalized banking systems.

The study is also important to the academic world because it will show that more research is still needed in the area of bank mergers and acquisitions. The study will challenge the academic world to increase their research efforts in order to discover how the Nigerian banking industry can maximally benefit from the use of mergers and acquisitions as strategy for better and higher performance.

Moreover, the study is important to everybody including the government. This is because performance of the Nigerian banking industry is an indicator of how well the Nigerian economy is. If the economy of a nation is good or otherwise, it is through the banking sector performance that the investors will know whether to invest their capital or move to a more reliable and better economy. The study will help the government to know how often recapitalization is needed and how well the banking industry is performing when compared with other market economies around the world.

* 1. **Limitations of the study**

In study of this kind, there is bound to be limitations. For this study, the topic is mergers and acquisitions in the banking industry in Nigeria. Though mergers and acquisitions are not new yet, the experiences are different from bank to bank. Therefore, because of not so pleasant experience of banks after mergers and acquisitions, the researcher may likely experience some challenges especially in gathering data to be used for this study. Other limitation to this study is that some respondents may not to supply accurate information due to secrecy in the sector and or return completed questionnaire under the belief that information supplied are confidential.

Hence, the researcher will try to enlighten respondents on the necessity and significance of completing the questionnaire and granting oral interview. In addition, some of the questionnaire copies can be misplaced or mishandled by the respondent. This can leads to additional cost of photo-copying more questionnaires for the researcher.

* 1. **History of some of the case studies**

**Case study 1: Access Bank, Nigeria**

Access Bank Plc., commonly known as Access Bank, is a [commercial bank](http://en.wikipedia.org/wiki/Commercial_bank) in [Nigeria](http://en.wikipedia.org/wiki/Nigeria). The bank is one of the commercial banks licensed by the [Central Bank of Nigeria](http://en.wikipedia.org/wiki/Central_Bank_of_Nigeria), the national banking regulator. The bank's headquarters is located in [Lagos](http://en.wikipedia.org/wiki/Lagos), Nigeria's commercial capital. Access Bank has in excess of 300 bank branches in Nigeria's major commercial centers.

Access Bank is a large financial services provider, with an asset base in excess of US$12.6 billion (NGN2.02 trillion), as of February 2012. The shareholders' equity in the bank is valued at approximately US$2.33 billion (NGN:373.5 billion)

Starting in 2007, Access Bank began an International expansion drive. As of February 2012[[update]](http://en.wikipedia.org/w/index.php?title=Access_Bank_(Nigeria)&action=edit), it has subsidiaries in Burundi, Côte d'Ivoire, the Democratic Republic of the Congo, Ghana, Rwanda, Sierra Leone, The Gambia, Tanzania, United Kingdom, and Zambia.

[Burundi](http://en.wikipedia.org/wiki/Burundi) - Finbank Burundi

[Côte d'Ivoire](http://en.wikipedia.org/wiki/C%C3%B4te_d%27Ivoire) - Omnifinance Bank.3

[Democratic Republic of the Congo](http://en.wikipedia.org/wiki/Democratic_Republic_of_the_Congo) - BanquePrivée du Congo.

[The Gambia](http://en.wikipedia.org/wiki/The_Gambia) - Access Bank Gambia

[Ghana](http://en.wikipedia.org/wiki/Ghana) - Access Bank Ghana

[Rwanda](http://en.wikipedia.org/wiki/Rwanda) - [Access Bank Rwanda](http://en.wikipedia.org/wiki/Access_Bank_Rwanda)

[Sierra Leone](http://en.wikipedia.org/wiki/Sierra_Leone) - Access Bank Sierra Leone

[Tanzania](http://en.wikipedia.org/wiki/Tanzania) - Access Bank Tanzania

[United Kingdom](http://en.wikipedia.org/wiki/United_Kingdom) - Access Bank has a head office and one branch.

[Zambia](http://en.wikipedia.org/wiki/Zambia) - Access Bank Zambia

The bank received its license from the [Central Bank of Nigeria](http://en.wikipedia.org/wiki/Central_Bank_of_Nigeria) in 1989, and listed on the [Nigerian Stock Exchange](http://en.wikipedia.org/wiki/Nigerian_Stock_Exchange) in 1998.

2002: Access Bank was taken over by a core of new management lead by Aig and Herbert.

2005: Access Bank acquired Marina Bank and Capital Bank (the former Commercial Bank ([Crédit Lyonnais](http://en.wikipedia.org/wiki/Cr%C3%A9dit_Lyonnais) Nigeria)) by merger.

2007: Access Bank established a subsidiary in [Banjul](http://en.wikipedia.org/wiki/Banjul), The Gambia. This bank now has a head office and four branches, and the bank has pledged to open another four branches.

2008: Access Bank acquired 88% of the shares of Omnifinance Bank, which was established in 1996. It also acquired 90% of BanquePrivée du Congo, which South African investors had established in 2002. Access Bank acquired 75% of the shares of Bancor SA, in [Rwanda](http://en.wikipedia.org/wiki/Rwanda). Bancor had been established in 1995 and reorganized in 2001. In September Access Bank opened a subsidiary in [Freetown](http://en.wikipedia.org/wiki/Freetown), Sierra Leone, and then in October, the bank opened subsidiaries in [Lusaka](http://en.wikipedia.org/wiki/Lusaka), Zambia and in London, United Kingdom.

2009: Finbank (Burundi) joined the Access Bank network

2011: Access Bank in talks with the Central Bank of Nigeria to acquire Intercontinental Bank Plc.

Further to the approval of the shareholders of both banks, court sanction of the Federal High Court of Nigeria and approval of the Central Bank of Nigeria and the Securities & Exchange Commission, Access Bank Plc (“Access”) and Intercontinental Bank Plc (“Intercontinental Bank”) announce the completion of the recapitalization of Intercontinental Bank and the acquisition of 75% majority interest in Intercontinental Bank by Access Bank Plc. Effective today, Intercontinental Bank (including all its assets, liabilities and undertakings) becomes a subsidiary of Access Bank Plc.

The combined effect of the restoration of Net Asset Value (NAV) to zero by AMCON and N50billion capital injection by Access Bank Plc is that Intercontinental Bank now operates as a well-capitalized bank, with shareholders’ funds of N50billion and Capital Adequacy Ratio (CAR) of 24%, well above the 10% regulatory threshold.

January 2012: Access Bank announced the conclusion of its acquisition of the former [Intercontinental Bank](http://en.wikipedia.org/wiki/Intercontinental_Bank), creating an expanded Access Bank,one of the largest four commercial banks in [Nigeria](http://en.wikipedia.org/wiki/Nigeria) withover 5.7million customers, 309 branches and over 1,600 [Automated TellerMachines](http://en.wikipedia.org/wiki/Automated_teller_machine) (ATMs).

Access Bank Plc. is the flagship company of the financial [conglomerate](http://en.wikipedia.org/wiki/Conglomerate_(company)) known as [Access Bank Group](http://en.wikipedia.org/wiki/Access_Bank_Group). The member companies of the group include the following businesses: The stock of the Group trades on the [Nigerian Stock Exchange](http://en.wikipedia.org/wiki/Nigerian_Stock_Exchange) (NSE), under the symbol: ACCESS.

[Access Bank Plc.](http://en.wikipedia.org/wiki/Access_Bank_Plc.) - Nigeria

Omnifinance Bank - Côte d'Ivoire

BanquePrivée du Congo - Democratic Republic of the Congo

[Access Bank Rwanda](http://en.wikipedia.org/wiki/Access_Bank_Rwanda) - Rwanda

Access Bank Sierra Leone - Sierra Leone

Access Bank Gambia - The Gambia

Access Bank United Kingdom - United Kingdom

[Access Bank Zambia](http://en.wikipedia.org/wiki/Access_Bank_Zambia) - Zambia

Finbank Burundi - Burundi

Access Bank Ghana - Ghana

Access Bank Tanzania - Tanzania

United Securities Limited - Nigeria

Access Homes & Mortgages Limited - Nigeria

Access Investment & Securities – Nigeria

**Case study II: Skye Bank Plc., Nigeria**

Skye Bank Plc., commonly known as Skye Bank, is a [commercial bank](http://en.wikipedia.org/wiki/Commercial_bank) based in [Nigeria](http://en.wikipedia.org/wiki/Nigeria). It is one of the twenty-six (25) commercial banks licensed by the [Central Bank of Nigeria](http://en.wikipedia.org/wiki/Central_Bank_of_Nigeria), the country's banking regulator.

Skye Bank is a large financial services provider in [West Africa](http://en.wikipedia.org/wiki/West_Africa) and [Central Africa](http://en.wikipedia.org/wiki/Central_Africa). With headquarters in [Nigeria](http://en.wikipedia.org/wiki/Nigeria), the bank maintains subsidiaries in[Sierra Leone](http://en.wikipedia.org/wiki/Sierra_Leone), [The Gambia](http://en.wikipedia.org/wiki/The_Gambia), the [Republic of Guinea](http://en.wikipedia.org/wiki/Republic_of_Guinea), [Liberia](http://en.wikipedia.org/wiki/Liberia), [Angola](http://en.wikipedia.org/wiki/Angola) and [Equatorial Guinea](http://en.wikipedia.org/wiki/Equatorial_Guinea). As of September 2010[[update]](http://en.wikipedia.org/w/index.php?title=Skye_Bank&action=edit), the bank's total assets were valued in excess of US$3.9 billion (NGN:611.5 billion), with shareholders' equity of approximately US$630 million (NGN:98.4 billion).

The origins of Skye Bank date back to 1989 when Prudent Bank Plc., was incorporated as a limited liability company. In 1990, the bank was issued a license as [merchant bank](http://en.wikipedia.org/wiki/Merchant_bank). That same year, it rebranded as Prudent Merchant Bank Limited. In 2006, Prudent Merchant Bank Limited merged with four other banks to form Skye Bank Plc., namely:

EIB International Bank Plc.

Bond Bank Limited

Reliance Bank Limited

Co-operative Bank Plc.

In January 2011, the bank introduced a Niara-denominated MasterCard [debit card](http://en.wikipedia.org/wiki/Debit_card), called "MasterCard Verve.", the first of its kind in Nigeria. The bank also offers Internet banking and mobile banking.

As of February 2011[[update]](http://en.wikipedia.org/w/index.php?title=Skye_Bank&action=edit), Skye Bank Plc. maintains the following subsidiaries:

1. Skye Mortgage Bankers Limited - Paid up share capital of US$6.42 million (NGN:1 billion)
2. Skye Stockbrokers Limited - Dealing member at [Nigerian Stock Exchange](http://en.wikipedia.org/wiki/Nigerian_Stock_Exchange) (NSE)
3. Law Union and Rock Insurance Plc. - 51.95% shareholding in 2007
4. Apex Integrated Technologies Limited - IT Solutions Company
5. Skye Trustees Limited - Licensed by the [Securities and Exchange Commission](http://en.wikipedia.org/wiki/Securities_and_Exchange_Commission_(Nigeria)) (SEC) to function as a *Trustee* and *Funds Manager* in the capital market.
6. Skye Financial Services - Paid up capital of US$12.84 million (NGN:2 billion). Asset management, corporate finance and securities underwriting
7. Skye Bank Sierra Leone Limited - 95% shareholding by Skye Bank Plc. 5% owned by [Sierra Leonean](http://en.wikipedia.org/wiki/Sierra_Leone) investors. Paid up capital of US$3.1 million (SLL:13.85 billion) in 2008.
8. Skye Bank Gambia - Paid up capital of US$3.1 million (GMD:87.8 million) in 2008.
9. Skye Bank Guinea - Opened in April 2010.

The shares of [stock](http://en.wikipedia.org/wiki/Stock) of Skye Bank Plc. are listed on the [Nigerian Stock Exchange](http://en.wikipedia.org/wiki/Nigerian_Stock_Exchange), where they trade under the symbol: SKYBANK. The detailed shareholding in the bank is not publicly available at the moment.

Skye Bank Plc. maintains an interlinked branch network of over two hundred and sixty (260) branches in all parts of Nigeria. The bank maintains her headquarters at 3 Akin Adesola Street, [Victoria Island](http://en.wikipedia.org/wiki/Victoria_Island), [Lagos](http://en.wikipedia.org/wiki/Lagos), [Nigeria](http://en.wikipedia.org/wiki/Nigeria).

Effective July 2009, the [Chairman of the Board](http://en.wikipedia.org/wiki/Chairman_of_the_Board) is Mrs. MoronkejiOnasanya, who chairs the sixteen (16) member[Board of Directors](http://en.wikipedia.org/wiki/Board_of_Directors). The [Chief Executive Officer](http://en.wikipedia.org/wiki/Chief_Executive_Officer) and [Group Managing Director](http://en.wikipedia.org/wiki/Managing_Director) is KehindeDurosinmi-Etti.

* 1. **Definition of key terms**

Acquisition:Purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm.

Consolidation: The union of two or more formerly independent business firms into a third, new firm under single ownership. It involves the liquidation or dissolution of the old companies which cease to exist when it takes effect.

Merger: Combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations).

Recapitalization:Changing capital structure of a corporation by readjustingthe securities outstanding. It may reflect the company’s desire either to reduce its tax liability or to improve its credit rating.

The year 2005 witnessed a new beginning in the history of the Nigerian banking institution. It was the year (2005) that the then Governor of the country’s apex bank(Central Bank of Nigeria), declared that there must be recapitalization of all banks in the country. The banking industry recapitalization started in 2004 and ended in December 2005.

Before the recapitalization of the banks in 2004/2005, Nigerian banking sector had experienced a boom-and bust cycle in which new banks proliferated, driven by attractive arbitrage opportunities in the foreign exchange market, (Heiko, 2007). Ningi and Dutse opines that the sector was characterized by small sized banks with high overheads, low capital base averaging less than $10 million, heavy reliance on government patronage and loss making. Nigerian banking sector was characterized by a high degree of fragmentation and low levels of financial intermediation up till 2004.

The Nigerian banking industry became fragile and marginal. The system faced enormous challenges which if not addressed quickly, could result to a serious financial crisis in the future for the nation’s economy, (Bakare, 2011). To correct the pending bank crisis, the Central Bank of Nigeria on July 6, 2004 announced a reform program for the nation’s banking industry. The main goal of the reform was to raise banks capital bases to a minimum of N25billion. This was done through injection of fresh capital and/or mergers and acquisitions. 25 banks were able to meet up with the CBN new requirement. Recently, the number of active banks in Nigeria has reduced to 22. The new list of bank is shown below on Table 1.5:

**TABLE 1.5**

Current List of Banks in Nigeria

|  |  |
| --- | --- |
| S/N | New List Of Banks In Nigeria |
| 1 | Access Bank – Acquired Intercontinental Bank |
| 2 | Citibank Nigeria Limited |
| 3 | Diamond Bank |
| 4 | Ecobank Nigeria – Acquired Oceanic Bank |
| 5 | Enterprise Bank United – Formerly Spring Bank |
| 6 | Fidelity Bank Nigeria |
| 7 | First Bank of Nigeria |
| 8 | First City Monument Bank – Acquired FinBank |
| 9 | First Inland Bank Plc |
| 10 | Guaranty Trust Bank |
| 11 | Keystone Bank Limited – Formerly Bank PHB |
| 12 | Mainstreet Bank Limited – Formerly Afribank |
| 13 | Stanbic IBTC Bank Nigeria Limited |
| 14 | Standard Chartered Bank |
| 15 | Sterling Bank – Acquired Equitorial Trust Bank |
| 16 | Skye Bank |
| 17 | United Bank for Africa Plc |
| 18 | Union Bank for Africa |
| 19 | Union Bank of Nigeria |
| 20 | Unity Bank Plc |
| 21 | Wema Bank |
| 22 | Zenith Bank |

Source: Field study (2013)

Table 1.5 above presents the list of banks currently operating in the Nigerian banking industry. The remaining 3 banks have merged or been acquired by bigger banks.

Alao (2010) puts it this way that on one month assumption of the office, Charles ChukwumaSoludo worked out details of an agenda for repositioning the CBN and the financial system for the 21century with an outcome of pruning the Nigerian eighty nine (89) banks to twenty five (25) on or before December 31, 2005. This resulted in mergers and acquisitions of many ailing banks.

A merger is essentially a fusion of two or more companies in which one of the combining companies legally exist and the surviving company continues to operate in its original name, (Umoren, 2007). Osamwonyi, (2002, 2008) also defines merger as the pooling together of the resource of two or more corporate bodies, resulting in one surviving company while the other is absorbed and ceases to exist as a legal entity or remains a subsidiary if it survive.

Gaughan, (2007) further defines merger as a combination of two or more corporations in which only one corporation survives. Section 590, of Companies and Allied Matters Act (1990), states that mergers are any amalgamation of the undertakings or part of the undertakings of one or more companies and one or more bodies corporate. This means that a merger is the coming together of two companies to become an entirely new company in which all of the combining companies are dissolved and only the new entity continue to operate, (Okonkwo, 2004)

Acquisition on the other hand is described as a business combination in which the ownership and management of independently operating companies are brought under the leadership of single management, (Umunnaehila, 2001). Both mergers and acquisitions go hand in hand. Acquisition is not as common or frequently occurslike mergers. This is because acquisitions have more challenges than mergers.

Investment and Securities Act, (ISA 1990) defines ‘takeover’ to mean the acquisition by one company of sufficient share in another company to give the acquiring company control over the other company.

Though mergers and acquisitions are not new to the developed economy such as America, United Kingdom, Korea, China, They are new phenomenal to our economy in Nigeria. Alao, (2010) postulated that mergers and acquisitions are global phenomenal, with estimated 4000 deals taking place every year. However, they are not a recent development. Four periods of high merger activity, also known as merger waves occurred in the United States in 1897-1904; 1916-29; 1965-69; 1984-89 and 1993-2000, (ILO,2001; Jimmy, 2008; Mangold and Lippok, 2008). This shows how long the United States of America have been experiencing merger in their economy. Soludo, (2004) also mentioned that mergers and acquisitions especially in the banking industry are global phenomenon.

**1.10 Objectives of Mergers And Acquisitions**

There are many reasons why organizations merge. One of the major reasons is that the merged companies are better off compared to the un-merged company. Gain from merger may reflect economic of scale, improve efficiency and equity base, full use of tax shield and the combination of complementary resources of redeployment of surplus funds, (Abdullahi, 2006).

Another major objective is the creation of competitive advantages that leverage on the strengths of the combining entities while minimizing their weaknesses, (Salako, 2012). This lead to injection of much-needed capital, improved liquidity and competitive positions, economy of scale and synergies, significant cost reduction, more robust banking platforms and product offerings, improved corporate governance and banking best practices, immediate reclamation of eroded shareholders’ values while kick-starting the gradual build-up of future shareholders’ values, (Salako, 2012).

Abdullahi (2006) further explain other objectives of mergers and acquisitions below as:

* + 1. Improvement of equity base: In a situation where a company has a lot of liabilities, if such company combines with another company with less liabilities, the consequence is a broadened base and improved borrowing power
    2. Economic of scales: A company which has surplus capacity might consider combining its operations with another company thereby, be in a position to spread its fixed cost over larger units of production
    3. Maximization of Company’s value: Maximization of the market price of a company’s share is one of the objectives of merger. Although the immediate effect of a merger and acquisition is the dilution of the earning per share of the surviving company, the earning per share rises thereafter because the demand for the share is likely to strengthen in expectation of improved earnings per share and consequently the market price is likely to rise
    4. Company’s growth: A company may achieve growth through acquisition more cheaply than through internal expansion
    5. Tax reduction: Tax reduction could be another objective of mergers particularly in developing countries where a loss making company sells it assets, liabilities and operationsto another company in the same line of operation to enable the merged companies minimize its tax bill.

Mergers and acquisitions were then used as intervention mechanism for banks to meet their financial obligations. Mergers and acquisitions can be influenced by factors such as cost-savings due to economies of scale as well as more efficient allocation of resources, enhanced efficiency in resource allocation and risk reduction arising from improved management. Accordingly, Soludo (2004) opined that mergers and acquisitions were aimed at achieving cost efficiency through economies of scale, to diversity and expansion of business activities for improved performance.

In other word, all the objectives mentioned above were used to fine-tune the banking sector to meet the challenges of economic stability and development goals which are not only limited to domestic savings mobilization and financial intermediation, but also the elimination of financial inefficiency, (Okpanachi, 2011). Mergers and acquisitions were also used to arrest system decay, restored public confidence, built strong, competent and competitive players in the global arena, ensuredlongetivity and higher returns to investors, (Soludo, 2004).

**1.11 Types of Mergers And Acquisitions**

There are four types of mergers and acquisitions prevalent in the financial market around the world. These types of mergers and acquisitions have been discussed previously by other writers. They are: vertical, horizontal, conglomerate and concentric.

Vertical Merger is a merger in which one firm supplies its products to the other. A vertical merger results in the consolidation of firms that have actual or potential buyer-seller relationship, (Gaughan, 2007)

Horizontal Merger is the merger of two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service, (Gaughan, 2007; Brealey et all., 2006: 871; Okonkwo, 2004:3). In order words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical markets, (Alao, 2010).

Conglomerate merger occurs when unrelated enterprises combine or firms which compete in different product markets and which are situated at different production stages of the same or similar products combine to enter into different activity fields in the shortest possible time span and reduce financial risks by portfolio diversification, (Brealey, et al., 2006: 871; Cartwright and Cooper, 1992; Gaughan, 2007; Okonkwo, 2004:4).

Concentric merger involve firms which have different business operation patterns, though divergent, but may be highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation or technologies of the acquiring firm under concentric mergers and acquisitions, (Cartwright and Cooper, 1992; Fisher, 2007; Sharma, 2007).

Globally, the activities of banks reflect their unique roles as the engine of growth in any economy. Bank activities in any economy cannot be overemphasized. Also, financial intermediaries, monetization and capital formation determines the path and pace of economic growth and development of any nation. Therefore, when this important role of banking industry is being negatively reflected in a nation’s economy, then some critical steps must be taking in order to place the nation’s economy on the right path. According to Soludo (2004), the Nigerian Banking system today is fragile and marginal. The system faces enormous challenges which if not addressed urgently, would snowball into a crisis in the near future. Some of the ways to do this are through recapitalization, consolidation and mergers and acquisitions.

To be able to correct the situation, problems or cause of these crises must be identified. Mergers and acquisitions cannot occur without any cause. The general cause or reason for the banking industry mergers and acquisitions is reform. As the nation’s and global financial system experience crisis, there is definitely need for the financial system reforms, (Gunu, 2009). Gunu, (2009) further posit that banking industry recapitalization was intended to improve so many indices in the banking industry. Some of the indices affected were: shareholders fund, total assets, number of branches and employment. Soludo, (2004) states that the goal of the reforms is to help you (banks) become stronger players and in a manner that will ensure longetivity and hence higher returns to shareholders over time and greater impacts on the Nigerian economy. Bakare, (2011) puts it this way, that the policy directives of this initiative according to the CBN governor are ita alia:

* 1. To strengthen the commercial banks, thereby intensifying the growth of the economy
  2. To be tuned with the global requirement of minimize capitalization of $500million
  3. To encourage in conformity with the new trend of globalization.

In order word, the reform process of the banking sector is part and parcel of the government strategic agenda aimed at repositioning and integrating the Nigerian banking sector into the African regional and global financial system. To make the Nigerian banking sector sound, (Akpan, 2007).

**1.12 Benefits of Mergers And Acquisitions**

There are many benefits attached to mergers and acquisitions. Afolabi, (2011) classified the benefits in to two which are motives and environmental factors. Motives deals with cost savings and revenue enhancement while environmental factors involves improvement in Information and Telecommunication Technology (ICT), Deregulation, Shareholders’ Pressure and Common Currency. Other benefits of mergers and acquisitions are as follows:

1. It ensures a diversified, strong and reliable banking industry where there is safety of depositors’ money and position banks to play active developmental role in the Nigerian economy, (Soludo, 2004)
2. Recapitalization will enhance liquidity, corporate governance and capital adequacy and restore the company strong competitive position.

**1.13 Differences between Merger and Acquisition**

Though merger and acquisition are often used inter-changeably, there are some differences between the two concepts. Some of the differences between mergers and acquisitions are shown on Table 1.6 below:

**TABLE 1.6**

Differences between Merger and Acquisition

|  |  |  |
| --- | --- | --- |
| S/N | Merger | Acquisition |
| 1. | Separately owned organizations  become jointly owned and obtain  a new single identity | One organization takes over another organization and establishes its power as the single owner. |
| 2. | Stocks of both organizations  are surrendered and new stocks  in the name of the new organization  are issued | Stocks are not surrendered but bought through public offer and the organization continues to trade in the stock market. |
| 3. | Take place between two organizations  of more or less same size (Merger  of Equals) | Bigger and stronger organization takes over smaller and weaker organization. Organization taking over runs the whole business with its own identity |
|  | Friendly deal between two  companies can be referred to as  merger | Unfriendly deal to as acquisition deals can be referred to as acquisition |

Source: Field study, (2013)

Table 1.6 above show the differences between mergers and acquisitions in organizations. As for merger, the separately owned organizations become jointly owned and obtain a new single identity, while in acquisition; one organization takes over another organization and establishes its power as the single owner. When two organizations merger, stocks of both organizations are surrendered and new stocks in the name of the new organization are issued.

**1.14 Challenges of Bank Mergers and Acquisitions**

Banks during mergers and acquisitions can go through a lot of challenges. This is because merging or consolidating two different companies with different organization structure and culture is bound to be difficult. The two organizations can also have different product line. In essence, one organization will be stronger than the other with more market presence. But both organizations will have their own advantages and disadvantages which they will bring with them to the bargaining table. The coming together of these two organizations is therefore bound to create new challenges. Some of the challenges that can result from bank mergers and acquisitions are as follows:

* 1. Creating right culture to allow innovation to continue under a different company regime.
  2. Resistance to big subversive tendencies of aggrieved parties
  3. Under or over estimation of assets and liabilities by the appraisal team(s)
  4. Concealment of strategic information
  5. Lack of competence to manage diversification resulting from the merger
  6. Cultural barriers between the companies
  7. Difficulty of terminating or sustaining existing contractual obligations
  8. Problems of settlement of outstanding financial obligations

More so, Agbakoba (2005) explained that mergers entail both risk and opportunities for banks. According to him, mergers and acquisitions involves operational risks arising from:

* Difficulty of integrating different management systems as well as different accounting and control procedures.
* Problem of reconciling the different Corporate culture, including differences in working culture and practices among the staff and business units of the two entities
* Risk of loss of key Employee and/or clients
* Risk of failing to achieve the expected gains owing to the complexity of the operation
* Labor market rigidities.

The problems, risks and challenges mentioned above are associated with mergers and acquisitions that later have negative result on the structure of the financial services. This is because the institutions may be less transparent and incoherent in their business activities. This can later result in crisis for the company as well.

**1.15 Theoretical Literature**

Banking industry is very important to the growth and development of any nation’s economy. The importance of financial sector in stimulating economic growth of any nation is widely recognized especially in developed countries. Many developing countries implemented financial reforms as part of broader market oriented economic reforms since the late 1980s (Uboh, 2005). This means that banking industry reform has been going on for a long time around the world.

**1.16 Empirical Framework / Review**

The empirical literature review deals with the review of those literatures that serves as evidence of the research which has been done on the research topic around the world. This study reviews those researches that have been done on the impact of mergers and acquisitions on the banking institutions in the developed, developing and Nigerian economies.

**1.16.1 Evidence from developed economies**

Globally, mergers and acquisitions are not new trends. In the United States of America and Europe, mergers were recorded as far back as 1897 and 1904. In the 1950s and 1960s under the influence of common market, United State, Britain and Western Europe witnessed a very considerable increase in mergers and acquisitions activities, (Abdullahi, 2006).

Over the years, the banking industry has also experienced mergers and acquisitions activities around the world. Ottawa, Mckinsey et al., (1998) wrote that “there have been over 700 cases of bank mergers since 1980 worldwide. For instance, in the United Kingdom and other European countries; specifically between 1997 and 1998, 203 bank mergers and acquisitions took place.” Also, according to Soludo (2004) in 1998 a merger in France resulted in a mega bank with a capital base of US $688billion. The merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US $541billion. He went further to reveal that as a result of mergers and acquisitions, 80 banks in Malaysia shrunk to 12 banks within one year in order to meet the minimum paid-up capital from $526million to $870million (Abdullahi, 2006).

**1.16.2 Evidence from Nigeria**

The Nigerian experience of mergers and acquisitions is recent and limited. The earliest experience of mergers and acquisitions in Nigeria was between West African Soap Company Limited and Van Berg Limited (Producers of Margermet) to form Lever Brothers Limited in 1962, (Onwu, 1994). Other mergers and acquisitions include that of A G Leventis Company Nigeria Limited and Leventis Stores Limited.

In recent times and sequel to the new banking reforms, the Nigerian banking and oil industries witnessed mergers and acquisitions activities which may have been the beginning of many mergers activities in Nigeria, (Abdullahi, 2006). The above statement was validated with recent reform in the banking industry when banks were required to recapitalize their capital base either through mergers, acquisitions or both. It was observed that at least nine cases of mergers and acquisitions proposals were recorded in the first half of the year 2004. It was further observed that more consolidating groups are beefed up with those already on ground, (Bamidele, 2005).

**1.17 Theoretical Framework**

To fully understand the topic of this study, the researcher will look at those management theories that relates to the topic. There are many theories in management, but to clearly grasp the impact of mergers and acquisitions on banking industry in Nigeria, the study will review the following theories of bank mergers and acquisitions: Efficiency theory of merger and acquisitions, Market Power Effect theory of merger and acquisitions, Management Greed and Self-Aggrandizement theory of merger and acquisitions and Obtaining a Good Buy theory of mergers and acquisitions.

**Efficiencies Theory of Mergers and Acquisitions**

Efficiency theory of mergers and acquisitions deals with a situation when organizations combine their operations through mergers and acquisitions. Corporate assets will be combined to reduce production costs, increase output, improve product quality, obtain new technologies, or provide entirely new products. The potential efficiency benefits from mergers and acquisitions include both operating and managerial efficiencies. Operational efficiencies may arise from economies of scale, production economies of scope, consumption economies of scope, improved resource allocation (e.g., more resources in the hands of better managers), moving to an alternative less costly production technology or asset configuration, improved use of information and expertise, improved focus on core skills of the firm, a more effective combination of assets, improvements in the use of brand name capital, and reductions in transportation and transaction costs. It may be that mergers or acquisitions are the quickest, cheapest or only way to attain these benefits. The gains from mergers and acquisitions are not, however, limited to narrowly considered gains to the organizations (and ultimately to consumers). The ability of one organization to merge with another organization or acquire its assets also creates a market for corporate control. Many economists consider an active market for corporate control an important safeguard against inefficient management. An active market for corporate assets can also provide benefits in the form of more efficient reallocation of resources from relatively inefficient to efficient organizations during periods of industry contraction or industry turmoil.

**Market power effects theory of Mergers and Acquisition**

This theory explains that some mergers may result in market power which rebounds to the benefit of the merging organizations. Such effect might have been a primary motivation for many of the mergers and acquisitions during the last quarter of the nineteenth century and the first half of the 20th century. Mergers of the 1887-1904 were called "mergers for monopoly" and the 1916-1929 wave "mergers for oligopoly”. Regardless of whether market power was or was not a major motivation for mergers in the first-half of the century, the bulk of more recent merger activity could not be attributed to an effort to secure market power. Following the passage and enforcement of effective ant-merger legislation in 1950, mergers between competing organizations with significant market shares (those mergers most likely to be anticompetitive) became relatively rare, and those that did occur (mainly in the 1980s and 1990s) were allowed only after review by the U.S. antitrust agencies or other regulatory agencies (e.g., FCC for telecommunications, FERC for electricity, State Attorneys General, etc.).

**Management greed and self-aggrandizement or hubris theory of Mergers and Acquisitions**

Morck, Shleifer, and Vishny (1990) presents evidence consistent with the notion that managerial incentives may drive some mergers that ultimately reduce the long-run value of the organization. The managers may over diversify, overemphasize growth, or simply make bad acquisition decisions. Although self-aggrandizement by managers may motivate some mergers and acquisitions, Mitchell and Lehn (1990) provide evidence that managers who make poor acquisitions increase the likelihood that they will, themselves, become acquisition targets. If so, the market for corporate control will tend to reduce the scope of self-aggrandizing behavior. In addition, Matsusaka (1993) provides evidence from the conglomerate merger era (1968-74) that at the time these diversifying deals were struck, the market favored the transactions. Thus, a characterization of this period as one filled with "run-away" managers, would be incorrect. For better or worse, the market apparently approved of thediversification.

**Obtaining agood buy theory of Merger and Acquisitions**

While acquiring organizations cite "obtaining a good buy" as a reason for their acquisitions, the underlying implication that markets may consistently undervalue corporate assets is questionable. If all potential acquirers have similar perceptions about the value of potential targets and the market for corporate control is competitive, then the potential acquirers would bid up the price of targets which appeared to be bargains until the acquiring organizations would, at the margin, expect to receive only.

There are many motives that might play a role in merger activity. The most general motive is simply that the purchasing organization considers the acquisition to be a profitable investment. The most common theme found in the work of economists who have written about merger activity is that mergers are often thought of as an alternative form of investment. Organizations will undertake acquisitions when it is the most profitable means of enhancing capacity, obtaining new knowledge or skills, entering new product or geographic areas, or reallocating assets into the control of the most effective managers/owners. Thus, many of the same factors that influence major investment decisions would also influence merger activity. This view of mergers as a special case of business investment is not universally accepted, however. For example, Scheffman argues that managers seldom consider static cost reductions or price increases in making merger decisions. Rather, decisions to merge are part of a broader strategic plan aimed at positioning the organization to achieve some long-term goal. In a related vein, Andrade and Stafford find that the timing of mergers is much different than the timing of general no merger business investment. At the industry level, general business investment is fairly stable through time, whereas merger activity is much more concentrated in small time periods. In addition, Andrade, Mitchell, and Stafford note that much merger activity occurs as a reaction to deregulation and thus is clustered in the post-deregulatory period.

**1.18 Summary to the chapter**

Different researchers have given their reports on the impact of mergers and acquisitions on banking institutions in Nigeria. Amongst such researcher is the former governor of the apex bank, Professor Charles Chukwuma Soludo (2004).

The highlight of researchers report reveals that as there are benefits to be gained from bank mergers and acquisitions, banks are also facing some challenges. One of the conclusions of those researchers on mergers and acquisitions in the Nigerian banking industry revealed that mergers and acquisitions increases shareholders’ funds, investor’s confidence as well as financial stability and operational efficiency of the consolidated banks, (Adegboyega,2012).

Another conclusion by Alao (2010) revealed that takeovers/mergers do not waste resources; rather they generate substantial gains that represent gains to economic efficiency.

In order for the Nigerian banking industry to be more competitive and perform at their maximum level especially with their counterparts around the world, banking institution in Nigeria needs constant recapitalization and consolidation.

**CHAPTER TWO**

**METHODOLOGY**

**2.1 Introduction**

This section of the study describes all the steps to be taken in gathering and analyzing the data which involve research design, sources of data and data collection techniques, population of the study, sample and sampling procedure, instruments for data collection, reliability of research instruments and methods of data analysis.

In carrying out this study, certain methods will be used to arrive at a conclusive result. In essence, this section will explain in depth the procedures that will be followed in order to collect the data to be used for the study. This is to examine how mergers and acquisitions affects the performance of banking industry in Nigeria. The research will also find answers to the research questions, find out how mergers and acquisitions influenced or improved financial institution operating efficiency and performance after consolidation and recapitalization of 2005.

**2.2 Research Design**

Descriptive research design will be used in carrying out this study. This means that survey will be used to gather data for this study. In this section, data will be collected from Access Bank Plc. and the Skye Bank Plc. These two banks will be our sample and represents the population of the study.

The choice of this research design is its ability to provide comprehensive analysis of the study and interrelationship among the factors behind the study (Dionco-Adetayo, 2001).

**2.3 Sources of data and data collection techniques**

Data will be collected for this study from two main sources which are the primary and secondary sources. Primary data will be generated through questionnaire which will be distributed to the top management staff of Access Bank and Skye Bank. Secondary sources of data to be collected will focus on previous research work, published and unpublished records, academic journals,banks annual financial reports and internet sources. The research instrument (questionnaire) will be personally administered on the respondents by the researcher. The respondents will be given ten (10) working days to complete the questionnaire after which they will be collected.

The researcher will also conduct oral interview possibly with the executive directors and top management officers of the case study organizations. The oral interview will focus on bank’s performance, competitiveness and efficiency since mergers and acquisitions took place.

**2.4** **Population of the study**

This research work will focus on the impacts of mergers and acquisitions on the Nigerian banking industry since the consolidation and recapitalization of 2005 using Access Bank and Skye Bank as case studies. In this case, the population of this study will be the Nigerian banking industry. The sample of this study on the other hand will be the selected banks namely: Access Bank Plc. Nigeria and Skye Bank Plc.Nigeria.

**2.5 Area of study**

For this study, two banks will be selected as sample case studies. Oyo state has quite a large number of banking institution. The state is located in the Southwestern part of the country (Nigeria). Oyo state is divided into three (3) senatorial districts (Oyo North, Oyo Central and Oyo West). From these senatorial districts, Ogbomoso, Oyo and Ibadan will be selected. Access Bank Plc. and Skye Bank Plc. will be selected as our sample. Five (5) bank employees of executives and top management levels will be selected from each bank and each district. The total sample size for this study will be 75 respondents. Stratified random sampling technique will be used in selecting respondents, which will form the sample size.

**2.6 Instruments for data collection**

Questionnaire and oral interview will be the adopted research instrument for this study. The questionnaire will be constructed by the researcher to examine the effects of mergers and acquisitions on performance, competitiveness and efficiency of banking industry in Nigeria.

Questionnaire is selected to avoid biases as much as possible. The questionnaire will be categorized into three (3) sections labeled A, B and C respectively.

SECTION A:Section A will focus on the bio-data of the respondents. It will contain five (5) questions which will be given different options from which the respondents are to select their answer.

SECTION B:This section will focus on the bank efficiency after consolidation and recapitalizations of 2005. The researcher will seek information on the various ways banks in Nigeria tries to be efficient and effective in performance, challenges or constraints faced by banking institutions during the period of mergers and acquisitions and benefits or advantages gained from the same. This section will contain ten (14) questions and each question will have five options from which the respondents are to choose.

SECTION C: Section C will deal with how mergers and acquisitions have improved the competitiveness of banking industry in Nigeria. The study will examine how mergers and acquisitions have affected banks’ performance after the consolidation and recapitalization of 2005. The study will also examine if the goals of the Central Bank of Nigeria have been achieved through consolidation and recapitalization. The section will have ten (9) questions. Respondents will be required to choose from a five (5) options in each item to answer the question. A copy of the questionnaires is located at the appendix.

**2.7 Reliability of research instruments**

Information gathered through the oral interview with the top level management staff of the case study organizations will be used to validate those information gathered through the questions raised from the questionnaire. This means that oral interview responses will be compared with the responses to the questions in the questionnaire.

The research instrument will also be subjected to some validation processes. The instrument will be read by experts (including my supervisor) in the fields of Banking and Finance and Management Accounting. Copies of questionnaire will be submitted to the experts for examination and about twenty (20) copies of the questionnaire will be pilot-tested in order to be very sure that the same will capture what it has been designed to capture.

Validation process will determine the adequacy of the contents in the questionnaire in relation to the research topic and in line with the objectives of the research. After experts’ approval, necessary modification will be made in line with the comments and suggestions of the experts before administration of questionnaire and use of data collected.

**2.8 Methods of data analysis**

The researcher will collect data from and interview top level management staff of Access Bank Plc. and Skye Bank Plc., Nigeria on how mergers and acquisitions affect or impact the performance and competitiveness of their organization. The use of survey and interview will aid the researcher to have a clear understanding of the research topic. Since this is a descriptive and inferential study, respondent responses will be analyzed through inferential statistics.

The descriptive statistics to be used include tables, frequency distributions and simple percentages to make possible the process of summarizing raw data in tabular form and present them for quick analysis.

T-test analysis will be used as an inferential statistics to evaluate the relationship between mergers and acquisitions and bank efficiency and performance. Also, degree of freedom (df) at a given percentage (5%) of significance will be found and the results will confirm whether the relationship is significant or not to the Nigerian banking industry better performance especially in the global market. The research questions for this study will be compared with the analyzed results.

**CHAPTER THREE**

**RESULTS**

**3.1 Introduction**

The pattern of administration and retrieval of questionnaire for this study provides very useful insights into the mergers and acquisitions in the banking industry in Nigeria. The summary of the responses to the distributed questionnaire is presented below.

Seventy-five (75) questionnaires were administered among the staffs of Access Bank Plc., Nigeria and Skye bank Plc., Nigeria in Oyo state. Sixty-eight (68) questionnaires were successfully retrieved. This represents ninety-one percent (91%) retrieval rate.

**3.2 Data presentation**

Percentage distribution of respondents’ bio-data for Access Bank Plc. and Skye Bank Plc. Nigeria

**TABLE 3.1**

Percentage distribution of the respondents according to their age

|  |  |  |  |
| --- | --- | --- | --- |
| Age Range | Frequency | Percentage | Cumulative Percentage |
| 25 – 30 | 20 | 29.4 | 29.4 |
| 31 – 35 | 11 | 16.2 | 45.6 |
| 36 – 40 | 27 | 39.7 | 85.3 |
| 41 – 45 | 8 | 12 | 973 |
| 46 – 50 | 2 | 3 | 100 |
| 51 + | 0 | 0 | 100 |
| TOTAL | 68 | 100 |  |

Source: Field survey, 2012

Table3.1 above shows that the respondents within the age range of 36-40 years are 39.7% followed by the respondents within the age range of 25-30years with 29.4% and none of the respondents is above 51years of age. This explains the simple fact that majority of the Nigerian bank workers were within the age range of 25years and 40years and every few of the Nigerian bank workers are above 41years of age.

**TABLE 3.2**

Rank of the respondents in both Access and Skye Banks

|  |  |  |  |
| --- | --- | --- | --- |
| Rank | Frequency | Percentage | Cumulative Percentage |
| Executive Director | 21 | 31 | 31 |
| Top Management | 47 | 69 | 100 |
| TOTAL | 68 | 100 |  |

Source: Field survey, 2012

Table 3.2 shows that majority of the respondents selected to complete the questionnaires were people occupying top management level in the Nigerian banking industry. For this study, 69% of the respondents were top management staff, while 31% of them were Executive Directors. This is to show that the respondents have knowledge about mergers and acquisitions in the Nigerian banking industry and are the worst affected.

**TABLE 3.3**

Percentage distribution of respondents’ highest educationattainment

|  |  |  |  |
| --- | --- | --- | --- |
| Education | Frequency | Percentage | Cumulative Percentage |
| BA/BSc. | 50 | 73.5 | 73.5 |
| MBA/MA/MSc. | 18 | 26.5 | 100 |
| PHD | 0 | 0 | 100 |
| TOTAL | 68 | 100 |  |

Source: Field survey, 2012

Table 3.3 above reveals that 73.5% of the respondents were either BA or BSc. degree holder, while 26.5% percent of the respondents hadMBA, MA or MSc. degree. None of the respondents holdPhD degree. This shows that majority of the Nigerian bank workers were BA or B.Sc. degree holder. Very few of the respondents with higher degrees were found in the banking industry. This implies that respondents were qualified to take part in this study.

**TABLE 3.4**

Percentage distribution of respondents’ length of service with theirbank

|  |  |  |  |
| --- | --- | --- | --- |
| Length in service | Frequency | Percentage | Cumulative Percentage |
| 1 – 3years | 24 | 35 | 35 |
| 4 – 6years | 34 | 50 | 85 |
| 7–10years | 10 | 15 | 100 |
| 11+ years | 0 | 0 | 100 |
| TOTAL | 68 | 100 |  |

Source: Field survey, 2012

Table3.4 above shows that at least 50% of the respondents have served in the banking industry for maximum of 6years; 15% of the respondents have worked in the Nigerian banking industry for at least 10years, while 35% of the respondents have only worked in their banks for a maximum of three years. This shows that at least 50% of our respondents have experienced mergers and acquisitions which came into effect in the Nigerian banking industry. The respondents who have been with their various banks for the maximum of 6years can probably tell us their views based on their experiences during the mergers and acquisitions of the bank they work for and can boldly speak on mergers and acquisitions.

**TABLE 3.5**

Percentage distribution of respondents’ years of experience inthe banking industry

|  |  |  |  |
| --- | --- | --- | --- |
| Years of experience | Frequency | Percentage | Cumulative Percentage |
| 1 – 5years | 46 | 67.7 | 67.7 |
| 6 - 10years | 22 | 32.3 | 100 |
| 11 – 15years | 0 | 0 | 100 |
| 16 + years | 0 | 0 | 100 |
| TOTAL | 68 | 100 |  |

Source: Field survey, 2012

Table 3.5shows the percentage distribution of respondents’ years of experience in the banking industry. Majority of the respondents only have maximum of 5years working experience and 32.3% of the respondents have been working in the Nigerian banking industry for the maximum of 10years. None of the respondents have been in the Nigerian banking industry for more than 10years. This means that it is rare to find a staff of a bank that has been in the system for more than 10years.

**Banks performance through cost efficiency**

This section assessedthe banks performances through their cost efficiencies. According to Swannell (1986), efficiency is defined as being productive with minimum waste of efforts and producing desired results. This section reviewed total assets, total liabilities, gross earnings, profit before tax, and profit after tax and earnings per share of Skye Bank Plc. and Access Bank Plc.The study compared the performances of the financial activities of the Skye Bank and Access Bank for the period of five (5) years to know if there is any significant effect of mergers and acquisitions on the financial performance of the Nigerian Banking sector. The study also assessed Skye Bank and Access Bank financial activities to know if the banks are achieving desired results and are being productive with minimum efforts since the Nigerian Banking sector reforms.

**TABLE 3.6**

Five Years Financial Summary of Skye Bank Plc. andAccess Bank Plc.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| YEARS | 2007  (~~N~~m) | | 2008  (~~N~~m) | | 2009  (~~N~~m) | | 2010  (~~N~~m) | | 2011  (~~N~~m) | |
|  | Skye  Bank | Access Bank | Skye  Bank | Access Bank | Skye  Bank | Access Bank | Skye  Bank | Access Bank | Skye  Bank | Access Bank |
| Total Assets | 446,114 | 328,614 | 784,878 | 1,031,842,021 | 622,164 | 647,574,719 | 674,064 | 726,960,580 | 893,856 | 945,966,603 |
| Total Liabilities | 416,939 | 300,230 | 691,025 | 859,839,995 | 534,132 | 474,423,696 | 566,310 | 544,455,766 | 783,754 | 760,130,148 |
| Gross Earnings | 39,367 | 27,881 | 74,615 | 57,627,098 | 126,665 | 84,643,020 | 80,118 | 79,065,123 | 101,657 | 96,234,017 |
| Profit Before Tax | 7,519 | 8,042 | 20,425 | 19,042,106 | 2,148 | 41,723 | 11,445 | 17,668,584 | 8,022 | 16,016,762 |
| Profit After Tax | 5,517 | 6,082 | 15,126 | 16,056,464 | 1,130 | (880,752) | 9,308 | 12,931,441 | 6,640 | 13,660,448 |
| EPS (kobo) | 73.52 | 87 | 172.53 | 99 | 9.76 | (5) | 70.41 | 72 | 50.23 | 76 |

Source: Skye Bank Plc. and Access Bank Plc. Annual Audited Financial Statement (2009-2011)

The Table 3.6 above shows the financial summary of the Skye Bank Plc and the Access bank Plc. Nigeria. Table 3.6 assessed the cost efficiency of the Nigerian banking sector by looking at the Skye Bank and Access Bank total assets, total liabilities, gross earnings, profits before tax, profit after tax and earnings per share in five years after the Nigerian banking sector reforms. The studyresults revealed that there were increases in both the Skye Bank and Access Bank financial activities from the year 2007 to 2008. In 2009, there weredecreases in the financial activities of the same banks. The reason for this was that the Skye Bank and Access Bank experienced some financial challenges such as reduction in the shareholders investments due to the 2009 banking industry reform programs (bank recapitalization and consolidation) of the Central Bank of Nigeria. The five (5) year financial summary also revealed that the bank’s financial activities performance was positive which indicated that Skye Bank and Access Bank were efficient in performing their duties.

The Table 3.6 above also shows that there were increases in Access Bank financial activities from the year 2007 to 2008. In 2009, the bank had losses after tax which resulted in losses on the earnings per share. In 2010, there were increases in the bank financial activities. This implies that Access Bank also experienced some challenges possibly because of the global financial crisis (such as economic downturn which resulted from risk management weaknesses at some large US and European financial institutions and disclosure requirements that failed to mitigate risk management weaknesses);AccessBank was able to survive the crisis for the better. Therefore, Access Bank Plc., Nigeria performance efficiency has shown improvement since the mergers and acquisition.

**3.4 Competitive level of the banks**

For this section, the researcher grouped the questions into two. Those questions related to the competitiveness of the banks after mergers and acquisitions were grouped in the first section. The remaining questions were grouped under the second section that dealt with the efficiency of the bank operational activities. The researcher chooses to pair the questions together in order to help understand whether or not the banks operational activities have increased through their competitive strategies since the mergers and acquisitions. Table 3.7 below shows the percentage distributions of each question. This will aid us in understanding respondents’ views concerning the competitive level and efficiency of the bank they work for.

**TABLE 3.7**

Percentage distribution of respondents to statements on the bank competitive level

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| STATEMENT | SA |  | A |  | U |  | SD |  | D |  |
|  | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. | % |
| The bank is strong enough and able to survive bank reforms of 2005 and beyond | 26 | 38.24 | 24 | 35.29 | 8 | 11.76 | 6 | 8.82 | 4 | 5.88 |
| There has been improvement and great compliance with the practices of Corporate Governance in our bank | 16 | 23.53 | 24 | 35.28 | 22 | 32.35 | 6 | 8.82 | 0 | 0 |
| Mergers and acquisitions have given the bank the opportunity to achieve most of our organization goals and objectives | 28 | 41.18 | 22 | 32.35 | 4 | 5.88 | 4 | 5.88 | 10 | 14.71 |
| Our staff are more effective in the use of organization resource and their performances have increased | 14 | 20.59 | 24 | 35.29 | 16 | 23.53 | 10 | 14.71 | 4 | 5.88 |
| In order to take part in the economic growth and development of our nation, our bank is efficient and capable of providing timely and quality services to our clients | 20 | 29.41 | 32 | 47.06 | 16 | 23.53 | 0 | 0 | 0 | 0 |
| Our bank is more focused on protecting shareholders investment and small and medium class savers | 18 | 26.47 | 18 | 26.47 | 22 | 32.35 | 10 | 14.71 | 0 | 0 |
| Since bank recapitalization and consolidation of 2005, our bank expenses and earning volatility have reduced while our market power and economies of scale and scope has been increased. | 10 | 14.71 | 22 | 32.35 | 14 | 20.59 | 14 | 20.59 | 8 | 11.76 |

Source: Field survey, 2012

From the table 3.7 above, statement number two sampled the opinions of the respondents concerning the banks strength in terms of their competitiveness after the capitalization and consolidation in the Nigerianbanking industry. As the result shows 74% of the respondents agreed that Skye Bank and Access Bank became stronger with the bank reforms. 16% of the respondents did not agree that the reforms have anything to do with the bank competitiveness. Majority of the respondents agreed that bank reforms make positive impactson the performance activities of the Nigerian Banking sector. We can conclude that the Nigerian bank reforms have strengthened bank performance through its activities.

Further, the result revealed that 35% of the respondents believe that there have beenimprovements in the compliance with the practice of corporategovernance in both Skye Bank and Access Bank. 32% of therespondentswereundecided and only 9% of the respondents strongly disagreed with the statement. The study revealed that few of the respondents have seen the improvement on their bank compliance with the corporate governance. This means that the Nigerian banking sector need to see to it that they comply with international financial standards so that they will be able to compete at the international level.

On the benefits of mergers and acquisitions tothe Nigerian banking industry, the result shows that 74% of the respondents agreed with the statement that mergers and acquisitions have given the banks opportunities to achieve most of their goals and objectives. This implies that mergers and acquisition have positively affected the competitiveness of thebank by providing them with many opportunities in order for them to be able to achieve their goals and objectives. In essence, mergers and acquisitions have helped banks toachieve their organizational set goals and objectives.

For staff effectiveness, performance and theiruseof bank resources, the statement examined staff contributionsto the competitiveness of the banks in attaining their goals andobjectives.Very few of the respondents (6%) strongly disagreedwith the statement that staffs are more effective in the use oforganization resources; the study revealed that 56% of the respondents agreed withthe statement. This showed that mergers andacquisitions have positively increased the staff performances (which can be measured through increase in the organization productivity, increase in revenue, decrease in cost of production and attainment of other organizational goals and objectives) in theNigerian banking industry.

Table 3.7 further revealed the respondents reactions towards bank efficiency in providing quality and timely service to their clients. As the result shows, 76% of the respondents agreed that their bank is more efficient to contribute to the economic growth and development of Nigeria.Interestingly, none of the respondents disagreed with the statement. This implies that majority of the respondents know that efficiency is very important to the success,growth and development of any organization.

Moreover, protecting the shareholders investment and small and medium class savers is another statement. The result shows that 32% of the respondents cannot decide whether there have been improvements in protecting shareholders’ investments and small and medium class savers since bank reforms. This shows that a high percentage of the respondents have no idea of how investments of their shareholders and small and medium savers are being protected. None of the respondents disagreed with the statementand 53% of the respondents agreed withthe statement. Though more than 50% of the respondents agreed that there have been improvement in protecting shareholders investments, there is still need for improvement in order to secure shareholders investments.

The last statement on table 3.7dealt with the operating expenses and earning volatility of the banks in Nigeria. This is to show that mergers andacquisitions have greatly increased the market power and the economies of scale and scope of the Skye bank and Access bank in Nigeria. The result revealed that 71% of the respondents agreed with the statement that bank expenses and earning volatility have reduced while market power and economies of scale and scope have been increased.6% of the respondents disagreed with the statement. From this we can see that mergers andacquisitions have also increased the competitiveness of the Nigerian banking industry.

Further, the other section of the questionnaire dealt with open-ended questions. Open-ended questions were used in order to see if we can get more information concerning the competitive advantages being enjoyed by banks since the consolidation. The study revealed that 67% of the respondents responded to this section. Therefore, the analysis of this section will be based on those responses gathered for this section. The analysis is as follows:

An overview of the data gathered shows that mergers and acquisitions have improve the competitive advantages of the banks through:

* Improvement on customer service, better products and new market penetrations
* Advancement on the electronic banking services
* Enhancement of banking sector standards
* Increase in bank income (revenue), number of shareholders, employment opportunities
* Provision of better working environment for employees by the employers

The study also revealed that mergers and acquisitions have enhanced the financial strength and performance of the banks by increasing bank capital investments, employee skills and knowledge. Through mergers and acquisitions, bank market power has also increase. This means that bank customer, shareholder, investment opportunities and competitive advantages have increase in number and sizes; which in turn reflects positively on the bank capital investments, revenue and profit.

Moreover, the study shows that banks are experiencing some challenges of mergers and acquisitions. Some of the challenges mentioned by the respondents include:

* Security problems
* Slow Internet Network (Slow connectivity)
* Software and Hardware Upgrading problems
* Increase in Electronic fraud (ATM Problems)
* Poor Management Policies
* Change in Leadership styles

Further, weak Corporate Governance is one of the challenges the banking industry is facing. To improve on their practice of Corporate Governance, the banks have put in place some things such as being:

* Transparent in the declaration of banks’ financial reports to the regulatory authorities and shareholders
* Constant Provision of workshop, Training and Seminar programs for employees
* Improvement on organization policy making, checks and balance and internal control systems.

Other things put in place by the banks in order to improve the risk management culture in developing strong asset quality measures for the banks are:

* Enlightenment program
* Proactive credit control and administration scheme that checkmate the occurrence of imminent organization credit facility.
* Proper guarantor and good collateral
* Better software packages
* Elimination of redundant facilities
* Insurance and increase in capital investments and bonds
* Set up of new committee that will constantly critically analyze credit before approval
* Tight security alert

The banks have minimize the issue of corruption, fraud and insider abuses by employing qualified and efficient staff, put in place control system that frequently check, supervise, and audit staff activities and performance. The banks also provide good welfare packages, favorable working condition and environment for their employees. And is zero tolerant where fraudulent activity is concern. This means that there is stringent punishment for any staff found involved in the fraudulent activity.

**TABLE 3.8**

Percentage distribution of respondents onbank efficiency

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| STATEMENT | SA |  | A |  | U |  | SD |  | D |  |
|  | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. | % |
| The bank was doing perfectly well before the bank reform of the year 2005 | 32 | 47.1 | 26 | 38.2 | 2 | 2.9 | 0 | 0 | 8 | 11.8 |
| Majority of the problems and challenges being faced by the bank before reforms of 2005 have been resolved | 18 | 26.5 | 14 | 20.6 | 32 | 47.1 | 2 | 2.9 | 2 | 2.9 |
| With the recapitalization and consolidation of banks, we are able to serve our clients better | 16 | 23.5 | 28 | 41.2 | 18 | 26.7 | 6 | 8-8 | 0 | 0 |
| Government policies have helped our bank to achieve capital adequacy, liquidity and good banking practices | 26 | 38.2 | 20 | 29.4 | 14 | 20.6 | 8 | 11.8 | 0 | 0 |
| To our bank, mergers and acquisitions represents corporate strategy that is widely used to penetrate new markets, new geographic regions, gain management expertise and knowledge or allocate capital | 16 | 23.5 | 26 | 38.2 | 16 | 23.5 | 8 | 11.8 | 2 | 2.9 |
| Mergers and acquisitions has helped our bank to achieve economies of scale and scope, diversifications of our products which has also helped to reduce risk | 24 | 35.3 | 22 | 32.4 | 10 | 14.7 | 6 | 8.8 | 6 | 8.8 |
| Mergers and acquisitions activities have significantly reduce our operating costs and made us to be more efficient through elimination of redundant facilities | 22 | 32.4 | 26 | 38.2 | 12 | 17.6 | 4 | 5.9 | 4 | 5.9 |

Source: Field survey, 2012

The table 3.8 above shows the distribution of the respondents on their bank efficiency after bank mergers and acquisitions. The study revealed that 85.3% of the respondents agreed that their banks were doing well before the bank reforms. Only 11.8% of the respondents felt otherwise. The study also revealed that majority of the problems and challenges being faced by the banks have not been resolved even after the bank reforms. It was gathered from the study that only 47.1% of the respondents agreed that majority of the problems have been resolved. This implies that the Nigerian banking sector is gradually resolving the problems and challenges experienced through mergers and acquisitions.

Further, the study shows (through table 3.8 above) that the banks provision for customer service has improved in which because of the mergers and acquisitions banks are able to serve their clients better. In short, customer satisfaction has become one of the major goals of the bank in achieving efficiency. This also shows that there are improvement in the services banks provides for their customers. The study revealed that 65.4% of the respondents agreed that banks services have improved after the mergers and acquisitions, while 8.8% of the respondents disagreed.

Moreover, as the result shows from the table 4.8 above, 67.6% of the respondents agreed that government policies have helped the banks to achieve capital adequacy, liquidity and good banking practices. This also reflected in the banks’ corporate strategies which have helped the banks to penetrate new markets, new geographical regions, gained management expertise and knowledge. Mergers and acquisitions have helped banks to achieve economies of scale, diversification of products and reduce risk. In essence, the result of the study from the table 3.8 above shows that bank mergers and acquisitions have improved the banks efficiency by positively increasing the banks competitive advantages and improved its operational efficiency.

**4.5 Testing of the Hypotheses**

T-test will be used to test one of the hypotheses of this study. The hypothesis that will be tested states that there is no significant difference between mergers and acquisitions and competitiveness of the Nigerian Banking industry. The null hypothesis states that there is significant difference between mergers and acquisitions and competitiveness of the Nigerian banking industry. The hypothesis will establish how mergers and acquisitions affect the competitiveness of the Nigerian banking industry since bank consolidation and recapitalization.

**Hypothesis to be tested:**

Ho: There is no significant difference between mergers and acquisitions and competitiveness of the Nigerian banking industry, i. e. H0: λ = 0

H1: There is significant difference between mergers and acquisitions and competitiveness of the Nigerian banking industry, i.e H1: λ ≠ 0

**TABLE3.9**

T-test

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | T | Df | Level of significance | Mean of  difference | 95% confidence lower | 95% confidence upper |
| Mean of Skye Bank | 13.381 | 14 | q.00 | 20.429 | 12.154 | 23.703 |
| Mean of Access Bank | 31.161 | 14 | 0.00 | 11.892 | 11.074 | 12.714 |

Source: Field survey, 2012

Table3.9 above revealed that there is significant difference between mergers and acquisitions and competitiveness of the Nigerian banking industry. This implies that the mergers and acquisitions have increased the performance activitiesand the competitive advantages of the Nigerian banking industry.

From the table 3.9 above, we can see that the relationship between competitiveness and bank mergers and acquisitions is significant for both Skye and Access banks in Oyo State. This means that mergers and acquisitions have positive impact on the competitiveness of banks since the consolidation and recapitalization.

**CHAPTER FOUR**

**DISCUSSION**

**4.1 Introduction**

This chapter summarizes the previous chapters and emphasized the effects of mergers and acquisitions on the banking industry in Nigeria. The general objective of this study assessed how mergers and acquisitions have affected the Nigerian banking industry efficiency and competitiveness. Financial statements of the case study banks were used to evaluate their cost efficiency. The study also identified competitive level of the banks when compared with other banks around the world.

**4.2 Discussion of research findings**

Mergers and acquisitions mean different thing to different people. To some people, it is a way to enhance liquidity, corporate governance and capital adequacy of their company in the financial market. The driving force in the bank mergers and acquisition is therefore improvement in the bank competitiveness and operating efficiency. This study used descriptive research and relied on both primary and secondary data to analyze the findings.

From the analysis of the information gathered, it was revealed that mergers and acquisitions have positive impact on the Nigerian banking industry. It was also discovered that through bank mergers and acquisitions, banks financial efficiency increased as well as their competitiveness. Also, since bank reforms through recapitalization and consolidation, banks have been putting in place good corporate governance. This is done by setting up different committees with clearly defined purposes, composition, structure and reporting lines to the board. The committees focus on risk management, audit, governance and remuneration and credit and finances of the companies. The committees carry out monthly internal reviews of compliance with the Central bank of Nigeria (CBN) code and submit reports to the CBN. Ongoing reviews of the banks’ compliance with the Security Exchange Commission (SEC) code are also carried out by the Risk Audit Unit and reported to the Board through the Risk Management Committee. All of these are being done in order to provide checks and balances and to safeguard the financial institution against fraud.

**4.3 Summary of findings**

The data collected by the researcher was through the use of questionnaire as the primary source of data. A total number of 75 questionnaires were administered to executive directors and top management staff of Skye Bank Plc. and Access Bank Plc., in Oyo state.

The questionnaires administered were thoroughly analyzed using the t-test statistical analysis method. The study revealed that mergers and acquisitions have greatly increased the Nigerian banking industry performance and improved bank competitiveness.

The study further revealed that though there was global economic crisis, the Nigerian banking industry was strong enough to survive the financial turbulence for the better.

**CHAPTER FIVE**

**CONCLUSION**

Mergers and acquisitions are very significant to bank reforms either in Nigeria or around the world. This is because mergers and acquisitions aided banks in restructuring their policies, refocusing their goals and objectives and be more effective and efficient in their operating activities. The study shows that mergers and acquisitions in the Nigerian banking industry have impacted positively on our nation’s economy.

The study identified that as there are benefits of the mergers and acquisitions, there are constraints as well. One of the constraints of the mergers and acquisitions discovered through the study is the inability of the industry and the regulators to sustain and monitor the sector’s explosive growth which as a result lead to risk-build in the system (Sanusi, 2010). The level in which each bank enjoys the benefits and experienced the constraints of mergers and acquisitions depends on the bank effectiveness and efficiency.

Further, the study revealed that the implications of mergers and acquisitions to the banking industry are that it demonstrates that fewer banks with high capital base can improve the economy (Mustapha, 2011). This means that mergers and acquisitions can contribute to the economy by increasing shareholders’ confidence to invest in the banking industry. This will also increases the bank performance in relation to their operating activities such as customer service. The study finally revealed that there is improvement in the practice of corporate governance in the banking industry in Nigeria. This in turn shows that mergers and acquisitions can be used to help guide the activities of the Nigerian banking industry in order for them to comply with international standards.

**CHAPTER SIX**

**RECOMMENDATIONS**

Sequel to the findings and conclusion of the study regarding the highlighted effects of mergers and acquisitions in the Nigerian banking industry, the researcher hereby makes the following recommendations that:

* 1. The Central bank of Nigeria (CBN) should establish a monitoring team that will be assessing the banks’ financial activities and performance. This means that more efforts should be put on supervisory and regulatory agencies of the financial institutions. What this means is that strict and constant monitoring of the banks’ financial activities and performance will curb and possibly reduce the fraudulent activities in the Nigerian banking industry.
  2. Bank reforms should be an ongoing exercise. This will help in curbing the fraudulent activities and other negative practices in the Nigerian banking industry. Constant bank reform will also give investors and shareholders more courage and security concerning their investments.
  3. Banks should be more effective in their performances and efficient through their cost of operations and other operating activities;so that they will be able to compete globally and withstand the test of time during crisis. When annual cost savings of the company is increased and there is reduction of redundant facilities and personnel, there will be increase in the bank performance which will also lead to increase in the company’s revenue.
  4. Bank should be more cost efficient by increasing their financial efficiency for an improved financial position in term of gross earnings and profit after tax in order to be able to reap the benefits of mergers and acquisitions.
  5. Good corporate governance should be enforced by the regulatory agencies with stringent penalties. This will increase financial confidence of the banks and shareholders. Good corporate governance will also allow transparency and minimize fraud in the bank
  6. Finally, it is suggested that further studies should be done in other to look at the other banks performances since the last Nigerian banking industry reforms.

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