International Journal of Academic Accounting, Finance & Management Research (IJAAFMR)
ISSN: ISSN: 2643-976X
Vol. 4, Issue 3, March – 2020, Pages: 49-55

Mergers and Acquisitions as Strategy for Corporate Survival Evidence from the Nigerian Banking Sector

[1] Okoh Lucky Okuwa, [2] Arukaroha Jonathan

[1,2] Department of Business Administration and Management, Delta State Polytechnic, Ozoro Nigeria
E-Mail: luckyokoh81@yahoo.com[1], arukajoe@yahoo.com[2]
GSM: 08037919609[1], 08037169541[2]

Abstract: *The global economic environment is dynamic and unpredictable. Enterprises operating in the troubled economies like Nigeria and other developing nations faced stiff competition from the companies in the developed economies that have adequate capital, infrastructures, technology, and technical know-how. Mergers and acquisitions in the Nigeria banking sector are reform strategies recently adopted to reposition the banking sector. These were done to achieve improved financial efficiency, forestall operational hard ships and expansion bottlenecks. The objectives of this study therefore, was to establish the motives behind corporate mergers and acquisitions, to examine whether mergers and acquisitions are ways of stemming the tide of persistent distress in the Nigerian banking sector as well as to investigate whether mergers and acquisitions are survival strategies for the banking sector in Nigeria. The method of data analysis included chi-square statistics and t-test statistic. The study found that mergers and acquisitions are ways of stemming the tide of persistent distress in the Nigerian banking sector. It also found mergers and acquisitions as survival strategies in the Nigerian banking sector before and after the consolidation policy. The study however, recommended that in adopting mergers and acquisitions as survival strategies, the board and management should endeavor to evolve detailed pos-merger or acquisition plan. The bank should be more pro-active in their approach by encouraging, promoting the productive sector of the economy with a view to diversifying the revenue base of the country. There is need to sensitize corporate organizations on mergers and acquisitions and its importance to their growth and survival. Government and its regulatory agencies should organize seminars, workshops, and symposia for corporate organizations. Government should provide the enabling environment for corporate organizations to operate and encourage mergers and acquisitions among enterprises and a host of other strategies for effective mergers and acquisitions.*

Keywords: Mergers, Acquisitions, Strategy, Corporate, Survival.

1.0 INTRODUCTION

Every business organization expects to make profit ultimately. Profitability provides the justification and rational for remaining in business. Investors do not only use profit as a basis for assessing performance of the management, they expect to share at least part of the profit being a reward for their sacrifice and risk they assumed. However, beyond profitable business operation, a major goal of virtually every purposeful business enterprise is survival. Profitability is an evidence of the organizations ability to survive and grow.

Invariably, business organizations operate in a dynamic environment where they are subjected to the influence of macro-environmental forces of variable such as demography, economic, political, socio-cultural, technological, international factors, competition, and so on. Ordinarily, a firm has no control over the macro or external environmental forces. But rather, they adopt to the development by devising measures that will enable them to cope with such factors that may pose a threat or at the same time present opportunities for profitable business operation. In trying to cope with or combat threats and exploit opportunities, business organizations often formulate policies and implement strategies that will facilitate their survival and growth, one of such strategy is merger and acquisition.

1.1 STATEMENT OF THE PROBLEM

This world is a state of flux being influenced by the prices of globalization and technological changes and as a consequence firms are facing intense competition to face the challenges and explore the opportunities, firms are going for inorganic growth through the use of merger and acquisitions.

Merger and acquisitions are arguably the most popular strategy among firms who seek to establish competitiveness over their rivals. There are various reasons firms going into merger and acquisitions, the main corporate objectives is to gain greater market power, gain access to innovative capabilities, maximize efficiency, synergy effects etc.

Muya (2006) carried out a survey of enterprises of mergers and found out that merger do not add significant value to merging firms. Straub (2007) carried out a confirmation, research and found that the merger and acquisition play significant role in merging of firms owing to the aforementioned mixed and inconclusive results. This study seeks to establish the effects of merger and acquisition as a growth strategy as a strategy for corporate survival with reference to Nigerian Banking Institutions.

1.3 OBJECTIVES OF THE STUDY

i. To establish the motives behind corporate mergers and acquisitions.
ii. To examine whether mergers and acquisitions are ways of stemming the tide of persistent distress in the Nigerian Banking Sector.
iii. To investigate whether mergers and acquisitions are survival strategies for the banking sector in Nigeria.

1.4 RESEARCH QUESTIONS

i. What are the motives behind corporate mergers and acquisitions?
ii. Can mergers and acquisitions stem the tide of persistent distress in the Nigerian banking sector?
iii. Do mergers and acquisitions really serve as a survival strategy for the banking sector in Nigeria?

1.5 HYPOTHESES

Hypothesis I

Mergers and acquisitions are not options of stemming the tide of persistent distress in the Nigerian banking sector.

Hypothesis II

Mergers and acquisitions are not survival strategies for the Nigerian banking sector.

2.0 REVIEW OF RELATED LITERATURE

Today's dynamic business environment propelled by the globalization of the world economy, intense competition, rapid technological change and increased consumer choice, amongst other factors, have placed considerable pressure on management to deliver superior performance and value for their shareholders. Consequently, companies are increasingly pursuing growth strategies by way of mergers and acquisitions in a bid to expand and/or diversify their operations, in order to remain competitive in their respective markets.

2.1 Meaning of merger and acquisition

The term merger and acquisition are often used interchangeably to mean the same thing, and in a more common sense used in dual form as mergers and acquisitions. Mergers and acquisitions are a global business term used in achieving business growth and survival. Soludo (2004) opined the mergers and acquisitions are aimed at achieving cost efficiency through, economies of scale, and to diversify and expand on the range of business activities of improved performance. It also brings to the fore the benefits of synergy.

According to Umoren A. O. and Olokoyo F. O. (2007) they defined merger as the fusion of two or more companies in which one company will legally exist and continues to operate in its original name or adopt a new name, while acquisition is described as a business combination in which one completely swallows the other(s) under the leadership of a single management (Umunnaehila, 2001:4) as cited in the work of (A.O. Umoren and F. O. Olokoyo, 2007). 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. Osanwonyi (2003:2008) defines merger as the pooling together of the resources of two or more corporate bodies resulting in one survive company while the other is absorbed and ceases to exist as a legal entity or remains a subsidiary if it survives. While acquisition is described as a business combination in which the ownership and management of independently operating companies are brought under the leadership of a single management (Umunnaehila, 2004:4)

According to Anthony (2008) acquisition is the purchase of one organization by another. Such actions can be hostile or friendly and the acquiree maintains control over the acquired firm.

Okpanachi (2011) defines acquisition as the taking over or purchase of small firm by a big firm, both of which are pursuing similar motives. Pandey (2010); defines acquisition as an act of acquiring effective control by one company over assets or management of another company without any combination of companies. Thus, in acquisition two or more companies may remain separate legal entities but the control of companies resides in one place.

2.2 Types of merger and acquisition

i. Horizontal Merger: This is a combination of two or more firms in similar type of production, distribution or area of business. Examples include: the merger of two banks to form a bigger and a more effective one.
ii. Vertical Merger: This is a combination of two or more firms involved in different stages of production but in the same industrial for example, joining of a TV manufacturing (assembling) company or the joining of a spinning company and a weaving company (IM PANDEY). The vertical merger may take the form of forward or backward when combined with the suppliers of the raw materials, while in the case of a backward integration it combines with its consumers.
iii. Conglomerate Merger/Takeover: This is a combination of firms engaged in unrelated lines of business.

2.3 Benefits of merger and acquisition

According to Emekekwue (2008) questions have been asked in why firms should want to merge their business with another firm when pride of ownership, enhanced status and undiluted control are motivating factor in business arrangement. A lot of reasons have been adduced for this, this reasons are subsured under aggressive and defensive strategy. It is defensive, in it if aimed at wiping out competition by controlling important source of raw materials, capital or even marketing. A strategy is aggressive if is aimed at capturing markets that have hitherto proved difficult to penetrate. Attempts will now be made to analyze the benefits in detail.

1. Income Enhancement: A firm may discover that despite all effort on its side a strong sustainable and profitable competitive position cannot be produced without a change in the share of the market. A fundamental reason for acquisition is the desire to enhance income. A combined company may generate greater income than two separate companies. Increased income may come from improved marketing, strategic advantage, monopoly power and increased market share. As regards to marketing, a merger can bring about a significant improvement in previously ineffective media programming and advertising efforts, a weak existing distribution network and an imbalance product mix. As regards strategic advantage, this is a process of entering a new industry to explore perceived opportunities. On monopolizing the market, there are occasions when a company merges.
2. Improve the Value of Securities: Large growing firms have earnings capitalized at lower rates, which produces higher market values. The stock has better marketability, thus reducing risk and allowing for higher price earnings ratio. For instance, if the stock of Unity Bank and Diamond Bank Plc. Its price earning ration stay at ten, then the capitalized value of Diamond Bank Plc, has doubled under such a circumstance, the management of portion Ltd will be under severe pressure to buy up all the share of Diamond Banks Plc.
3. Synergy: This is yet another reason for merging. This is a situation where the product of the merger is in the excess of the value of the aggregated value of the entire firm considered together. This is often referred to as the two-plus-two equals five – effect. If a firm acquires another firm in the same industry, a lot of duplicated activities in the marketing, research, purchasing and administrative areas. For example, financial benefits can be achieved in a merger between airlines by eliminating the duplication of existing facilities and runs. In an industrial organization, synergism can occur not only with elimination of duplicated operations but also with a rounding out of the product line in the hopes of increasing the total demand for the product of both companies.
4. Economic of Scale: The concept of economics of scale can be defined as being realized when the firm is operating at or close to the minimum point of its average cost curve. Similarly, economics of scale occur when average cost declines with increase in volume. Economics of scale are possible not only in production, but also in marketing, purchasing, distribution, accounting even finance the idea is to

concentrate a greater volume of activity with a given facility into a given number of people into a given distribution system etc. that is increase in volume permits a more efficient utilization of resources.

5. Use Excess Cash: A company might find itself with more cash than it requires presently in business operations. It then looks for another business to buy. This is necessary because cash in sterile and its proper use is not made of such excess cash, the company might find itself over capitalized. It is widely argued that the only true justification for a merger is to achieve operating economics when the objective of the firm is to maximize the wealth of the shareholders.

2.4 Merger and Acquisition – Advantages

According to Olutola (2000) when two firm merged together as one it will lead to lowest cost of capital, for instance, a big name is perceived by investors as financially balanced, may raise funds at lowest cost as a result of merging, the size will give the opportunity for rational diversification for the purpose of risk reduction. Whenever two firms merged together as one such merging will lead to a large firm since large firm have a greater degree of market influence than small ones, hence this larger firm will have monopoly power. Large scale production may lead to elimination of competition leading to increase sales. The good will of the company acquired can be enjoyed by the new owner; this will also lead to savings in the amount of money spent on fixed assets (capital expenditure).

2.5 Merger and Acquisition – Disadvantages

According to Olutola (2000) he opined that when two firm merge together it leads to large company as a result of this amalgamation there will be a problem of personnel. The problem of integration arises due to the fact that amalgamation does not stop at agreement but the new company has to be merged in such a way that it operated efficiently and contributes towards maximizing profits. Variation could exist in the accounting books of various companies and there is always a problem of reconciliation. Terms of agreement sometimes are not clearly reached although it is not always easy since one party has to forfeit one thing or the other for merger and acquisition to take place to all this and others is a huge disadvantage to merger and acquisition.

2.5.1 Increasing Capabilities: Increased capabilities may come from expanded research and development opportunities or more robust manufacturing operations (or any range of core competencies a company wants to increase). Similarly, companies may want to combine to leverage costly manufacturing operations (as was the hope for case in the acquisition of Volvo by Ford).

Capability may not just be a particular department; the capability may come from acquiring unique technology platform rather than trying to build it.

2.5.2 Gaining a Competitive Advantage or Larger Market Share: Companies may decide to merge in order to gain a better distribution or marketing network. A company may want to expand into different markets where a similar company is already operating rather than start from ground zero, and so the company may just merge with the other company.

This distribution or marketing network gives both companies a wider customer base practically overnight.

2.5.3 Diversifying Products or Services: Another reason for merging companies is to complement a current product or service. Two firms may be able to combine their products or services to gain a competitive edge over others in the market place.

2.5.4 Replacing Leadership: In a private company, the company may need to merge or be acquired if the current owners can’t identify someone within the company to succeed them. The owners may also wish to cash out to invest their money in something else, such as retirement.

2.5.5 Cutting Costs: When two companies have similar products or services, combining can create a large opportunity to reduce costs. When companies merge, frequently they have an opportunity to combine locations or reduce operating costs by integrating and streamlining in support functions.

This economic strategy has to do with economies of scale: when the total cost of production of services or products is lowered as the volume increases, the company therefore maximizes total profits.

2.5.6 Surviving: It's never easy for a company to willingly give up its identity to another company, but sometimes it is the only option in order for the company to survive. A number of companies used mergers and acquisition to grow and survive during the global financial crisis from 2008 to 2012

During the financial crisis, many banks merged in order to deleverage failing balance sheets that otherwise may have put them out of business.

3.0 METHODOLOGY

The population for the study was the entire banking sector in Nigeria. There are 6 geo-political zones in the country out of which the South South was selected. Furthermore, Portharcourt metropolis was selected because most banks are lopsidedly sited in this area. The sample size consisting of 70 staff from the banks within this metropolis were selected through random sampling procedure from 5 banks out of 20 banks currently operating in Nigeria. Each of the banks produced 14 respondents. Well-structured questionnaires were administered to the 70 respondents out of which 52 were duly filled and returned. The study employed a 4-point Likert scale ranging from strongly disagree and the method of data analysis used for this research work were chi-square statistics and t-test statistic.

4.0 TESTING OF HYPOTHESES

Hypothesis 1

Table 4.1 Mergers and acquisitions are not options of stemming the tide of persistent distress in the Nigerian banking sector.

Category	**Observed N**	**Expected N**	**Residual**
Strongly Agree	20	13.0	7.0
Agree	30	13.0	17.0
Disagree	1	13.0	-12.0
Strongly Disagree	1	13.0	-12.0
Total	52		

Source: Field Survey, 2020

Table 4.2 Test Statistics

	Category
Chi-square	48.154^{o}
Df	3
Asymp. Sig.	.000

At 0.05 level of significance, the statistical value of 3 degree of freedom of chi-square (x^2) is 9.64 from the table. Since the calculated x^2 is 48.154, the null hypothesis is rejected. The statistical value of x^2 (9.64) therefore falls within the region of rejection. Since the null hypothesis is rejected, the alternative hypothesis has to be accepted.

Hypothesis II

Table 4.3 Mergers and acquisitions are not survival strategies for the Nigerian banking sector

<table>
<tr><th>Variable</th><th>N</th><th>Mean</th><th>Standard Deviation</th><th>Crit-t</th><th>Cal-t</th><th>DF</th><th>P</th></tr>
<tr><td>Mergers and Acquisitions</td><td>52</td><td>38.51349</td><td>6.20592</td><td rowspan="2">2.10</td><td rowspan="2">20.113</td><td rowspan="2">51</td><td rowspan="2">.004</td></tr>
<tr><td>Survival Strategies for the Nigerian banking sector</td><td>52</td><td>41.56783</td><td>6.44731</td></tr>
</table>

Source: Field Survey, 2020

The table above shows that the introduction of mergers and acquisitions as survival strategies in the Nigerian banking sector before and after the recapitalization policy. (Crit-t = 2.10, Cal-t=20.113, df = 51, P<.01 level for t

was greater than the tabulated value). The result however shows that the mean falls between 38.51349 and 41.56783. the null hypothesis which has no significant difference on mergers and acquisitions as survival strategies in the Nigerian banking sector before and after the recapitalization is rejected.

5.0 CONCLUSION

The systematic crisis in the Nigerian banking sector remained unabated and when the recapitalization policy was about being set in motion, the banking system was fragile and was playing a marginal role in the development of the real sector of the economy. In essence, the system could not be in a position to meet the expectation of a strong, competitive and reliable banking system which the depositors can trust, inventors can rely upon and the nation depend upon to facilitate its economic growth. The study was carried out to examine whether the adoption of mergers and acquisitions could stem the tide of persistent crisis in the Nigerian banking sector and also serve as survival strategies to marginal and bother-line banks. The hypotheses formulated were tested using chi-square statistics and t-test statistic and the result showed that mergers and acquisitions could serve as survival strategic options for the banking sector in Nigeria. Mergers and acquisitions therefore remain effective strategic tools for ensuring survival and growth in any industry, and specifically in the Nigeria banking industry and that of any developing economy.

5.1 RECOMMENDATIONS

In adopting mergers and acquisitions as survival strategies, the following recommendations are made to the management of case study companies and other organizations that are interested in adopting the mergers and acquisitions approach for corporate survival.

1. Corporate organizations in developing economies should pool their resources together if they want to survive the present global competition. Most small and medium enterprises in developing nations lack access to financial assistance, therefore merger and acquisition can be a powerful tool to survive in this dynamic business environment.
2. There is need to sensitize corporate organizations on mergers and acquisitions and its importance to their growth and survival. Government and its regulatory agencies should organize seminars, workshops, and symposia for corporate organizations for small, medium and large enterprises on the benefits to derive from mergers and acquisitions. The economy of developing countries depends on the strength of its corporate organizations. The stronger they are, the more buoyant the economy will be. Hence the need for companies in troubled economies to merge their resources to compete effectively in the global market.
3. Mergers and acquisitions should be given a pride of place in Nigerian economy, as it remains one of the viable tools to economic growth.
4. All parties involve in merger/acquisition should agree on conditions which must be enforceable in the law court. The copy of agreement made must be submitted to the (CAC) for proper security and record purpose.
5. Government should provide the enabling environment for corporate organizations to operate and encourage mergers and acquisitions among enterprises. Government policies in Nigeria are good but infrastructural facilities are poor. Government needs to embrace the private sector with the view of encouraging them so that they can bring about change in economic development.
6. The consolidated banks in Nigeria should hasten the expansion of their branch both in the rural and urban areas in order to bring banking service delivery near to their customers.
7. Government and the regulatory authorities in the banking sector should impose stringent laws which must be complied with by Nigerian banks in order for the banks to be conscious on their toes by enforcing checks and balances in their various operating departments in the system.
8. There must be a decision to combine by the companies involved.
9. Necessary data and information of companies to be combined must be assured i.e fact finding
10. Adequate negotiations must be carried out between the key officers of the combining companies.
11. The content of the board of directors and shareholders must be confirmed.
12. Identify prospects of the combination through the board and management of the companies.

REFERENCES

Emekekume, S. O. (2008). Corporate Growth by Mergers and Acquisitions. The Nigerian Experience – Journal of Banking and Financial Issues, 1(1), 11-20

Muya, O. (2006). Post Consolidation Challenges in Nigerian Banking Sector CBN Briefs

Okparnachi, C. A. (2011). Impact of the Banking Industry Recapitalization on Employment in Nigerian Banks. European Journal of Social Sciences, 11(3), 486-495

Olutola, A. O. (2000). Distress in Nigerian Banking Industry. A Critical Assessment of the Nature, Causes and Extent. Journal of Business Administration, 2; 135 – 154

Osamwonyi, S. A. (2003), Corporate Restructuring through Mergers and Acquisition. Experience from Nigeria – Journal of Economics and Sustainable Development, 3(13), P. 135 – 142

Pandey, I. M. (2010). Financial Management. New Delhi; Vikas Publishing House PVT Ltd. Pp 1096 – 1100

Soludo, C. O. (2004). An Analysis of the Impact of Mergers and Acquisitions on Commercial Banks Performance in Nigeria, International Journal of Business Research 2(7) P. 148-157

Straub, T. (2007). Reasons for Frequent Failures in Mergers and Acquisitions: A Comparative Analysis: Deutscher University Verlag, Wiesbadder.

Umoren, A. O. and Olokoyo, F. O. (2007). An Analysis of the Impact of Mergers and Acquisitions on Commercial Banks Performance in Nigeria. Research Journal of Finance and Accounting, 3(7) P. 91-101