EFFECT OF MERGER AND ACQUISITION ON THE PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NIGERIA.

BY

OHWAVBORUA Odafevwotu Samson

B.Sc. Marketing (Delsu, Abraka) 2000

PG/09/10/188651

Supervisor: **Dr. S.E. Dedekuma**

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A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, FACULTY OF THE SOCIAL SCIENCES, DELTA STATE UNIVERSITY, ABRAKA.IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS'OF SCIENCE (M.Sc.)DEGREE IN MANAGEMENT

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DECLARATION

I, Ohwavborua Odafevwotu Samson hereby declared that I conducted this research work under the careful and diligent supervision of my supervisor in partial fulfillment of the requirement for the award of Masters' of Science (M.Sc.) degree in Management of the Department of Business Administration, Faculty of the Social Sciences, Delta State University, Abraka, Nigeria.

CERTIFICATION

We the undersigned hereby certify that this research work was conducted by Ohwavborua, Odafevwotu Samson of the Department of Business Administration, Faculty of the Social Sciences, Delta State University, Abraka, Nigeria under the supervision of

Dr. S.E. Dedekuma	**Signature**	**Date**
(Supervisor)		

Dr. E. Eromafuru	**Signature**	**Date**
(Head of Department)		

APPROVAL

We the undersigned hereby certify that we approve this research work to be adequate in scope and quality for the award of Masters' of Science (M.Sc.) degree in Management of the Department of Business Administration, Faculty of the Social Sciences, Delta State University, Abraka, Nigeria.

Dr. S.E. Dedekuma	**Signature**	**Date**
(Supervisor)		

Dr. E. Eromafuru	**Signature**	**Date**
(Head of Department)		

DEDICATION

I dedicate this research work to God, the Almighty Father.

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TABLE OF CONTENTS

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK 11

ABSTRACT

The banking sector in any economy serves as a catalyst for growth and development that must not be let loose by the Government. It is not surprising in the light of this fact that Government all over the world attempt to evolve efficient banking system for the protection of depositors' fund, encouragement of healthy competition, maintenance of public confidence in the system, stability of the system, and protection against system risk and collapse. To achieve these lofty goals the Central Bank of Nigeria (CBN) instituted a banking reform strategy of merger and acquisition in 2004. Against this backdrop this study made a comparative analysis of the effect of merger and acquisition on the performance of banks in Nigeria using profitability as index of bank performance. The study used the gross earnings, profit after tax and net assets of two consolidated banks. The details of these variables were obtained from the published and audited annual reports and accounts of the banks. The collected data were analyzed using the z-test statistical tool. It was discovered that the post-merger and acquisition period was more financially efficient than the pre-merger and acquisition period. The finding also revealed that merger and acquisition has greatly enhanced the capital base of banks, improved profitability, and customers' service delivery. This research recommends that banks should strive to improve on their service delivery for the sustenance of the benefit of merger and acquisition.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Nigerian financial system has undergone remarkable changes over the years in terms of number of institutions, ownership structure as well as the depth of operations. These changes have been largely influenced by challenges posed by deregulation of the financial sector, globalization of operations, technological innovations, and adoption of supervisory and prudential requirements that conform to international standard (Abdullahi, 2009).

Mergers and Acquisitions are global phenomena that started in the Nigerian Banking Sector in 2006, though the process was initiated in 2004 by the Central Bank of Nigeria (CBN) during the regime of Professor Charles ChukwumaSoludo as Governor of the Central Bank of Nigeria (CBN). Soludo's vision was to introduce a system that allow the existence of a few mega banks that will guarantee a sound, safe, and reliable Nigerian banking sector. Hence, he (Soludo) stated at the meeting of Bankers Committee in Abuja held on July 6, 2004 as follows;

> *As I stand before you today, I can visualize the Nigerian and world economy in the year 2025 and 2050. What I see is a world economy with no more than 10 to 20 mega-banks all over the world. I see national and cross-national merger and acquisitions taking place in massive scales. It will not be a world for marginal*

> *or fringe player. Countries that fail to proactively position themselves today will wake up then to continue to complain of marginalization* (Alao, 2010).

The above statement of Soludo revealed that one of the rationales for the introduction of merger and acquisition into the Nigerian banking industry by the Central Bank of Nigeria (CBN) was to prone down the number of banks in Nigeria to fewer mega banks that are sound, safe, and reliable that can satisfy international best practice requirement and standard.

The wave of merger and acquisition that currently sweep through the banking sector started after the announcement and directive of the Central Bank of Nigeria (CBN) that banks in Nigeria should beef up their minimum capital base to N25 Billion on or before 31st December, 2005 (Abdullahi, 2009).As the termination date for banks' consolidation drew nearer, different efforts were made by banks to solve the challenges of recapitalization and meet the minimum capital base of N25 Billion as fixed by the Central Bank of Nigeria (CBN). There were the options of a bank merging with others or acquiring smaller banks or volunteering to be acquired by other banks. These could be done alone or in combination with two or more other banks. Nevertheless, the strategies that were adopted by majority of these banks were mergers and acquisitions. This eventually led to the pruning down of the Nigerian Eighty-Nine (89) banks to Twenty-Five (25) banks in December 31, 2005 since majority of the banks could not meet up with the ₦25 Billion capital base requirement of the Central Bank of Nigeria (CBN). See Appendix 1.

According to the Central Bank of Nigeria (CBN) Annual Report (2005), 25 banks emerged out of the previous 89 banks at the end of the consolidation exercise while 14 banks were liquidated (see Appendix 2). Among the 25 banks that emerged were Ecobank Nigeria Limited, Oceanic Bank International Plc, and United Bank for Africa (UBA). It is worthy of note that by August 1, 2005 United Bank for Africa (UBA) merged with Standard Trust Bank (STB) but still retained the name "United Bank for Africa (UBA)" and that Ecobank Nigeria Limited acquired Oceanic Bank International in December 2011. The basis and focus of this research, therefore, is on the merger of United Bank for Africa (UBA) and Standard Trust Bank (STB) as well as the acquisition of Oceanic Bank International by Ecobank Nigeria Limited.

1.2 Statement of the Problem

Prior to the reform of the Nigerian Banking sector in 2004, there were numerous problems militating against the sector's ability to perform effectively. The fundamental problems of banks, particularly those classified as “unsound”, have been identified to include; persistent illiquidity, poor quality of activities and services as well as unprofitable operations.

Hence, Soludo (2004) stated that the major problems being faced by many Nigerian banks included; weak corporate governance, evidenced by high turnover in the Board and Management staff; inaccurate reporting and non-compliance with regulatory requirements; falling ethics; and de-marketing of other banks in the industry; late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness; cross insider abuse, resulting in huge non-performing insider related credits; insolvency as evidenced by negative capital adequacy ratios and shareholders’ funds that had been completely eroded by operating losses; weak capital base, even for those banks that have met the minimum capital requirement when compared with those of other countries; over-dependence on public sector deposits and neglect of small and medium class savers; and over proliferation of the Nigerian Banking Sector.

Other identified problems of the Nigerian bank included; loss of confidence by customers and shareholders; long customers queue in the banking hall due to poor infrastructure, technology, service delivery, and lukewarm attitude of investors to invest in Nigeria.

It is evident therefore that the above identified problems have led to the fall-below global acceptable operational standard of the Nigerian banking sector. Basically, the adverse effects of a weak capital base, poor investment, and poor return on investment include among others; use of obsolete infrastructure and technologies; haphazard staff recruitment exercise; poor staff remuneration, motivation, and welfare; less or non-involvement in social responsibility; non-adherence to Memoranda of Understanding (MOU); poor service delivery and performance; and eventual stagnant or total fallen operational standard.

This research work intends to address, therefore, the effect of merger and acquisition on the performance of the Nigerian Banking Industry, with specific emphasis on the problems of weak capital base, poor performance, poor service delivery, and fallen operational standard of the Nigerian Banking Industry.

1.3 Objectives of the Study

The main objective of this research work is to ascertain the effect of merger and acquisition on the performance of the Nigerian Banking Industry. However, the specific objectives of the study are to;

i ascertain the extent to which merger and acquisition leads to improved service delivery, ii determine the extent to which merger and acquisition attracts customers’ patronage, and

iii investigate whether merger and acquisition increases performance with regard to profitability.

1.4 Research Hypotheses

The following null hypotheses are formulated for the purpose of this study:

i. There is no significant relationship between merger and acquisition and improved service delivery.

ii. There is no significant relationship between merger and acquisition and customers’ patronage.

iii. There is no significant relationship between merger and acquisition and performance with respect to profit margin.

1.5 Significance of the Study

The need and clamour for a vibrant and reliable banking sector in Nigeria as well as a sound national economy, propelled the Researcher’s choice of this research topic; “Effect of Merger and Acquisition on the Performance of selected Commercial Banks in Nigeria”. This research work, to a large extent, provides pragmatic solutions to the various identified problems, facing the Nigerian Banking Sector. The study also elucidates the importance and advantages of merger and acquisition as a national policy tool for the survival of the Nigeria Banking sector.

Basically, the study is of immense usefulness to the management, staff, and customers of Ecobank Nigeria Limited; United Bank for Africa (UBA), other Nigerian banks and financial institutions who formulate appropriate policies on how best, the full benefits of merger and acquisition can be realized.

Finally, the study is of tremendous importance to those outside the financial sector who do not know much about merger and acquisition as they relate to banking. The study is also of great assistance to researchers who desire to conduct further research on the topic and related areas since the study definitely adds knowledge to existing literatures of merger, acquisition and recapitalization.

1.6 Scope of the Study

The study did not dwell on the technical areas of merger and acquisition especially those relating to compilation of figures. The study concentrated rather on the effect of merger and acquisition on the Nigerian Banking Industry.

The study focused on Ecobank Nigeria Limited and United Bank for Africa (UBA) being the case study of the research. The research is therefore conducted within the Abraka, Effurun and Warri Metropolis of Delta State. Hence branches of Ecobank Nigeria Limited and United Bank for Africa (UBA) operating within Abraka, Effurun and Warri were contacted for relevant information. Brief histories of Ecobank Nigerian Limited and United Bank for Africa Plc are attached as Appendices 3 and 4, respectively,

The study did not compare the effect of merger and acquisition on other banks that have experienced merger or acquisition. This research did not also delve into issues having political dimension of merger and acquisition of banks in Nigeria. This research covered the period of year 2005 to 2013.

1.7 Limitation of the Study

The limitations of this Study include among others; the unwillingness of targeted respondents to accept the questionnaire and their eventual low response rate. Finally, the problem of limited time, funding and non-availability of all needed resources and data also posed challenges to the Researcher. Well, in the face of the aforementioned drawbacks, judicious use was made of the available resources to make the points lucid for the purpose of policy formulation.

1.8 Operational Definition of Terms

Merger: This refers is a form of business combination whereby two or more organizations join together into one larger organization. Such actions are commonly voluntary.

Acquisition: This is the act of acquiring effective control (take over) of one company's assets, ownership, and management by another company with or without any combination of companies. Thus, in an acquisition, two or more companies may remain independent, separate legal entities, but there may be change in control of companies

Consolidation: This is a kind of business combination of two or more firms in which an entirely new firm is created and the two or more combining entities cease to exist.

Recapitalization: This is a reform process in the banking sector through which the Central Bank of Nigeria (CBN) raises up the minimum capital base that banks should deposit with the Central Bank of Nigeria (CBN) or the Nigerian Deposit Insurance Corporation (NDIC) or any other banking regulating agency, to protect bank depositors or creditors in the case of huge capital loss, bank failure, insolvency, or eventual liquidation of the bank.

Performance: This is the capacity of banks to generate profit and render improved and commendable services to all stakeholders of the banking sector.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Nigerian banks adopted different strategies to achieve the stipulated minimum capital base of N25 Billion during the banking sector consolidation of 2004 and 2005. These strategies included mergers, acquisitions, and internal growth. The choice of a consolidation strategy is mainly determined by the organizational form of the involved institutions as well as the driving motive behind its corporate strategy. Merger and acquisition is the most widespread corporate or business strategy used by many firms to "penetrate new markets and geographic regions, gain technical and management expertise and knowledge, and to allocate capital" (Jimmy, 2008).

Many literatures indicate that banking sector reforms are propelled by the need to deepen the financial sector and reposition it for growth, to become integrated into the global financial architecture; and to evolve a banking sector that consults with regional integration requirements and international best practices (Somoye, 2010). The literature review would therefore focus on the concept of merger and acquisition as it relates to bank performance with special attention on profitability (profit after tax), patronage (customers deposit), and service delivery (loans to customers) as indexes for measuring performance.

2.1 The Concept of Merger, Acquisition, and Consolidation

The terms; merger, acquisition and consolidation may often be confused to mean the same since they look similar are mostly interchangeably used. However, they have different meanings and show little distinction in the degree of formation and control.

2.1.1 Merger

What amounts to a merger is not defined in the Investment and Security Act (ISA) No. 45 of 1999. However, in the rules and regulations made thereunder, a merger is defined as “an amalgamation of the undertakings or interest in undertakings or any part of the undertakings of one or more companies and one or more bodies corporate”. The same definition is given by Section 590 of the Nigerian Companies and Allied Matters Decree (CAMD) 1990. A merger contemplates a transfer of properties and liabilities of one or more companies to another, such transfer does not include rights and obligations, which are not transferable such as contracts of personal service (Aluko&Amidu, 2005).

Umunnaelila (2001), states that a merger is basically a combination of two or more companies in which all but only one of the combining companies legally exist and the surviving company continues to operate in its original name. The same view is expressed by Owokalade (2006) that a merger is a form of business combination whereby two or more companies join together to become one; whereby one is being voluntarily liquidated by having its interest taken over by the other and its shareholders becoming shareholders in the other enlarged surviving company. According to Oyedijo (2004), a merger occurs when two companies under different ownerships and management combine together to become a single enterprise.

Umoren (2007) defines merger as the pooling together of the resources 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 survives. Hitti, Ireland, &Hoskisson (1999) defined merger as a transaction in which two firms agree to integrate their operations on a relatively coequal basis because they have resources and capabilities that together may create a stronger competitive advantage. Okonkwo (2004) stated that merger refers to the combination of two or more organization into one larger organization. Such action is commonly voluntary and often results in a new organizational name (often combining the names of the original organizations).

Similarly, Kurfi (2003) states that a merger is technically an integration of two or more companies that decode to combine and choose either the name of one of the companies or completely take a new name. Examples of banks mergers in Nigeria are; United Bank for Africa (UBA) and Standard Trust Bank (STB) to give United Bank for Africa (UBA), IBTC and Chartered Bank to give IBTC Chartered Bank Plc; and First Atlantic Bank and Inland Bank to give First Inland Bank Plc,.

2.1.2 Acquisition

On the other hand, the term "Acquisition" has not been defined in the ISA Act (1999) but has been said to describe an act of acquiring effective control by one company over assets or ownership and management of another company without any combination of companies. Thus, in an acquisition, two or more companies may remain independent, separate legal entity, but there may be change in control of companies. In this regard, acquisition connotes as take-over, that is, the acquisition of control over the target company. And in business and commercial terms, the expression “acquisition” is properly used interchangeably with the term “take-over” as distinct from merger. For example, in the United Kingdom, ownership of 50% or more of the equity of a company is considered as acquisition, whereas acquisition of up to 90% of a company is only what can be considered as a take-over, since the holders of the remaining 10% equity may have little choice than sell their interest to the acquirer. In Nigeria, however, acquisition of 33% (one third) or more of the called-up share capital of a company is considered as acquisition in accordance with section 104 (1c) of the ISA Act No. 45 of 1999 (Aluko et.al, 2005).

Hitti et.al (1999) defined acquisition as a transaction in which one firm buys controlling or 100 percent interest in another firm with the intent of more effectively using a core competence by making the acquired firm a subsidiary business within its portfolio.

Acquisition according to Umunaehila (2001) also known as a takeover is the buying of one company (the “target”) by another. An acquisition may be friendly or hostile and the acquirer maintains control over the acquired firm. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target’s board has no prior knowledge of the offer. Hence, Hubbard (2001) argued that there are psychological differences between acquisition and merger as the latter involves two partners of relatively equal size and power and a genuine attempt is made to combine the two entities into a culturally new one.

Acquisition usually refers to a purchase of a smaller firm by a larger one but sometimes a smaller firm acquires management control of a larger or longed established company and keeps its name for the combined entity. Examples of banks acquisition in Nigeria are; Ecobank Nigeria Limited acquiring Oceanic Bank International Plc, Diamond Bank acquiring Lion Bank and African International Bank and First City Monument Bank (FCMB) acquiring FinBank Nigeria Plc.

2.1.3 Consolidation

Consolidation is a business combination where two or more companies come together to form an entirely new company. All the combining companies are dissolved and only the new entity continues to operate. Thus, one or more companies may merge with an existing company through absorption or they may merge to form a new company through consolidation. Nonetheless, a fundamental characteristic of merger (either through absorption or consolidation) is that the acquiring company (existing or new) takes over the ownership of the other companies and combines their operations with its own operations.

This distinction between merger, acquisition, and consolidation is often blurred in practice. What is an acquisition is often called a merger for convenience and in order that the Directors of the acquired company do not lose face. A merger is just one type of acquisition. One company can acquire another company in several other ways, including purchasing some or all of the company's assets or buying up its outstanding shares or stocks (Olowoniyi, Olusola, &Ojenike, 2012). For instance, United Bank for African (UBA) merged with Standard Trust Bank and both banks' Board of Directors agreed to retain the name of United Bank for Africa (UBA) as their merging name for the purpose of retaining large market position and others. Such kind of mergertakes the dimension of an acquisition. The terms, merger and acquisition, are used for convenience, interchangeably and simultaneously and have the same types and stages, and take the same procedures (Aluko et.al, 2005).

2.2 Bank Performance

Bank analysts and banks' consultants tend to consider efficiency, asset quality, and capital adequacy indicators as key elements of banks' performance measures while rating agencies consider all types of prudential returns (capital, asset quality, liquidity) to be integral in measuring the performance of a bank. Five types of performance indicators were identified by Bikker (2010) that included Efficiency, Profit, Competition, Costs, and Market structures. Various theoretical relationships exist between these types of performance indicators. Market structure determines competitive conduct and hence profit. For instance, high bank concentration leads to less competition and to higher profit. Also, more efficient banks increase their market share by pushing less efficient competitors from the market. In the same way, more efficient banks translate lower costs into either increased profits or price reductions in order to improve their competitiveness and increase their market share. Efficiency is thus not an effect but a determinant of market structure and it facilitates high quality at low cost which boost welfare. In other words, financial efficiency shows whether a firm is responding to relative prices in choosing its inputs and outputs to minimize cost and/or to maximize profit, which subsumes technical efficiency (Hughes &Mester, 2013).

The European Central Bank (2010) also stated that among the multitude of bank performance measures used by academics and practitioners alike, a distinction can be made between traditional, economic, and market-based measures with each group of stakeholders having its own focus of interest.

Traditional measures are similar to those applied in other industries, with return on assets (RoA), return on equity (RoE), and cost-to-income ratio being the most widely used. The economic measures of performance take into account the development of shareholders value creation and aim at assessing for any given fiscal year, the economic results generated by a company from its economic assets. These measures mainly focus on efficiency as a central element of performance but generally have high level of information requirements. Two set of indicators can be identified here; indicators related to total return of an investment (such as economic value added (EVA)) and indicators related to underlying level of risk associated with bank activity (like risk-adjusted return on capital (RAROC)). The market-based measures of performance characterize the way the capital market value the activity of any given company, compared with its estimated accounting or economic value. The most commonly used metrics include; total share return (TSR), price-earnings ratio (P/E), price-to-book value (P/B), and credit default swap (CDS).

Recent events have shown that the most common measure for bank performance; the RoE is only useful during benign times, and has not clearly proven to be adequate in a volatile environment such as during the global financial crisis, hence some of the high RoE firms performed poorly over the crisis period. RoE has failed to discriminate the best performing bank from the others in terms of sustainability of their results. As a matter of fact, RoE does not reflect the sustainable performance of banks. Against this backdrop, there is obviously room for taking a step back from the rather consensual market valuation of performance through RoE and carrying out a more comprehensive assessment of bank' performance (European Central Bank, 2010).

Inevitably, different stakeholders in a bank view performance from different angles. For example, depositors are interested in a bank's long-term ability to look after their savings; debt holders look at how a bank is able to repay its obligations; customers look after improved services; equity holders, on their part, focus on profit generation; managers, too, seek profit generation but are subject to principal-agent considerations and need to take employee requests into consideration (European Central Bank, 2010). Bikker (2010) opined that there is another kind of performance that works in the interest of consumers although does so in the long run. It is the reliability of a financial institution in terms of solvency and of whether customers can be sure to get their money back as well as the palpable short term performance exhibited in quality services (such as loans) and affordable prices.

This study therefore views profitability, service delivery (loans), and patronage (deposits) as functions of bank performance.

2.2.1 Profitability

The capacity to generate sustainable profitability is used as a definition for describing banks' performance. Profitability is essential for a bank to maintain ongoing activity and for its investors to obtain fair returns; but it is also crucial for supervisors, as it guarantees more resilient solvency ratios, even in the context of a riskier business environment. Profitability is a bank's first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. An institution that persistently makes loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organization is to preserve and create wealth for its owners, the bank's return on equity (RoE) needs to be greater than its cost of equity in order to create shareholders value (European Central Bank, 2010).

The main drivers of banks' profitability remain earnings, efficiency, risk-taking and leverage. Various stakeholders (depositors, debt or equity holders, and mangers) emphasize different aspect of profitability. These view need to be taken into account by market participants (analysts, rating agencies, consultants, and supervisors) when looking at ways of measuring bank performance that meet their needs. For this, each different group of market participants has its own preferred set of indicators (European Central Bank, 2010). This study focuses on profit after tax earnings as proxy to profitability.

2.2.2 Service Delivery

Poor service delivery has been the bane of the banking industry long before recapitalization. Service delivery has been described as "any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything." Therefore, service delivery is simply the channel through which a bank sells its various products, either through e-banking or across the counter. Intangibility is the customer's expectation that the bank meets by selling a draft to him, honouring his bills of payment on demand, accepting his cash deposit, effecting a transfer, granting him loan, among others (Abdullahi, 2009).

One of the reasons for poor service delivery by banks has been congestions and long queues. Most of the banking halls are always congested leaving the halls to be stuffy and untidy. Sometimes, the queues starts by the gate even before the banks open for customers and when they do, the queue extends outside the banking hall. The customers do this simply because they know what they would go through if they missed that "front-runner" opportunity. At a peak period withdrawal or cash deposit takes a lot of hours. Hence companies that are conscious of their man hours always complain of their staff capitalizing on such congestions to attend to their personal errands since the delay customers experience in banking halls are well known to all level of workers. There is no doubt, incessant system downtime banks affects business as opportunities are changed or lost, profit margins shrinks, customers' integrity and confidence are eroded (Abdullahi, 2009).

It is worth mentioning that banks have realized the negative effect of poor service delivery and are already expanding their banking halls to accommodate the increase in customers and are integrating by adopting common banking application software that tackle the problem of incessant internet failure and system breakdown for online banking services. Banks play a crucially important role in the economy because of their core products; loans to businesses and for household-purchases (Bikker, 2010). This study therefore views granting of loans to customers as a service delivery that is capable of reflecting performance.

2.2.3 Patronage

Bank selection criteria or the reasons on the basis of which customers choose to bank with a specific have been identified to include among others; convenience, competitive interest rates, service charges, adequate banking hours, availability of ATM, quality of services, recommendation by others, ability of loans, and friendliness of bank staff (Zarehan&Hazlina, 2012). They also added that in the United States that convenient location is part of choice of a bank by customers, while in Hong Kong, parking convenience, financial counseling, vault location, and loans and mortgage are top criteria in choosing domestic and foreign banks.

The degree of customers' choice and patronage to a particular bank is usually reflected in the bank deposits of such banks. In other words, banks that record consistent increasing deposits unequivocally enjoy high customer patronage. It is convenient therefore to use bank deposits as a function of patronage. This study, therefore measuresperformance of banks using bank loans and advances to customers as indexes to measure service delivery; banks' deposit as index for measuring patronage; and profit after tax as index for measuring profitability (Zarehan, et.al, 2012)..

2.3 Types of Merger and Acquisition

Previous studies on mergers and acquisitions, consistently discussed three types of mergers and acquisitions,namely; horizontal, vertical, and conglomerate mergers. However, Cartwright and Cooper (1992) and other writers mentioned and discussed a fourth type which is concentric mergers.

2.3.1 Vertical Merger

This is a merger in which one firm supplies its products toanother. It results into the consolidation of firms that have actual or potential buyer-seller relationship. It is a merger that entails expanding forward or backward in the chain of distribution, to towards the source of raw materials or towards the ultimate consumers. For example, an Auto parts manufacturer might purchase a retail auto part store (Coyle, 2000; Fitzroy, 1998; Gaughan, 2007).

2.3.2 Horizontal Merger

This is the merger of companies operating in the same field or line of business and in the same stage of attaining the same commodity or service. In other words, it is the combination of firms that are direct rivals selling substitutable products within overlapping geographical markets. For example, the acquisition of the Nigerian Soft Drink Company (NSDC) Limited; bottlers of the Schweppes range of soft drink, by the Nigerian Bottling Company; bottlers of the Coca-Cola soft drinks (Olusola, 2012).

This is where all mergers and acquisitions of banks fall into. Such mergers and acquisitions tend to help boost the market share or position of the emerging banks which culminate into increased capital, deposit, service delivery, patronage, growth, expansion, productivity, profitability, and eventually, improved performance.

2.3.3. Conglomerate Merger

This occurs when unrelated enterprises combine or when firms that compete in different product markets and 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, 2006; Cartwright & Cooper, 1992; Okonkwo, 2004).

2.3.4 Concentric Merger

This involves firms which have different business operation patterns through 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 (Cartwright & Cooper, 1992; Fisher, 2007).

2.4 Motives and Rationale for Merger and Acquisition

One of the rationales, apart from the need of recapitalization, for the Central Bank of Nigeria (CBN) directive that banks should beef up their minimum capital base is to reduce the number of banks in Nigeria, due to over proliferation of the banking industry.

Umunnachila (2001) opined that the dominant rationale used to explain merger and acquisition activity is that acquiring firms seek improved financial performance (profitability). He added that the motives for improved financial performance include: The advantage of synergy that the combined company enjoys through removal of duplicated departments or operations, thereby lowering cost, enhancing debt capacity, increasing profit margin, deploying surplus cash and eliminating financial constraints. Increased revenue or market share is also a motive of merger and acquisition that is based on the assumption that the acquiring firm absorbs or take over the business of its major competitor and increases its market power and could set prices to earn more profit. Thus, the severity of competition is reduced. Cross-selling is another motive of merger and acquisition. This refers to a situation where a bank, for example, buys a stock and can sell its banking products to the stockbrokers' customers while the broker can sign up the bank's customers for brokerage accounts.

Taxation is another motive that was identified by Umunnachila (2001) in the sense that a profitable company can buy a loss maker and use the target's loss to its advantage by reducing the tax liability. The motive of resource transfer was also identified by him, stating that the integration of target and acquiring firm resources can create value through overcoming information asymmetry or by combining scares resources.

Madubueze (2007) listed additional motives for merger and acquisition that may not add to shareholder value to include; Rapid expansion of branch networks, and human capital development. The down size of branch network expansion is the likely inadequacy of qualified and experienced hands on ground with the result that qualified hands are increasingly on demand and with attendant high staff mobility and corresponding operations instability. The challenge of human capital development has become very pronounced since banks have to subject their staff to necessary training and skills development for them to cope with the demands of current level of activities.

There is also an increasing need to ensure good corporate governance in the banking industry in order to continue to sustain the confidence of the banking community both locally and internationally. This is also necessary to ensure sustainability of growth potential. In other words a business with good potential may be poorly managed and the assets underutilized which will result into a low return (Aluko,et.al, 2005).

It is obvious that a failed post-consolidation banking industry would have very far-reaching implications on the national economy. The present gradual stabilization of key macro-economic variables in the economy notably; interest rates, exchange rates, and inflation rate is a salutary development that underscores the need for regulatory authorities to remain on their toes to ensure the sustainability and improvement of such development.

Although the minimum capitalization segment of the banking industry consolidation has since been achieved, the necessary mergers, acquisitions, and buy outs of banks in the consolidated group that ensued, have thrown up some challenges which include, but not confined to; integration of the system, human resource issues, equipment nature and maintenance, core values, and corporate culture. A poor handling of any of these integration challenges could spell disaster for the affected group, the industry, and the national economy.

(Aluko,et.al, 2005).also added that a company with good profit record and strong position in its existing line of business may wish to reduce risks by acquiring businesses whose income streams are not correlated.

2.5 Empirical Literature

Numerous studies have empirically examined whether merger and acquisition are solutions to bank problems. The studies of Cabral, Dierick, &Vasala (2002) provided the foundation for a research on the linkage between banks mergers and acquisitions and profitability. Evidenced as provided by De-Nicolo (2003) suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Some previous literatures have examined the impact of mergers and acquisitions operation on cost efficiency as measured by simple accounting cost ratios (DeLong and De Young, 2007).

Surprisingly, DeLong, et.al (2007) suggested that mergers and acquisitions operations in the United States banking industry have not had a positive influence on performance in terms of efficiency. Healy, Palepu, &Ruback (1992) examined all commercial banks and banks holding company mergers and acquisitions occurring between 1982 and 1986 and found that mergers and acquisitions did not reduce non-interest expenses that could have led to improved efficiency. According to Pilloff&Santomero (1997), there is little empirical evidence of mergers achieving growth or other important performance gains. Their findings undermined a major rationale for mergers and acquisitions and consequently raised doubt about other benefits mergers and acquisitions may provide to businesses.

However, Cornett &Tehranian (1992) and Kay (1993) find some evidence of superior post-merger period of enhanced ability of firms to attract loans. They also showed increased employee productivity and net asset growth. Akhavein, Berger, & Humphrey (1997) analyzed changes in profitability experienced in large mergers and found banking organization significantly improved their profit efficiency ranking after mergers.

De Young (1993), find out that when both the acquirer and the target are poor performers, merger resulted in improved cost efficiency. This is also evident in the Nigerian banking industry according to Okpanachi (2006). Walter &Uche (2005) posited that mergers and acquisition made Nigerian banks more efficient. They used table to present their data which was analyzed using simple percentage. Akpan (2007), using chi-square to test his stated hypotheses found that the policy of consolidation and capitalization has ensured customers' confidence in the Nigerian banking industry in term of high profit.

Uchendu (2005) and Kama (2007) opined that the bank consolidation which took place in Malaysia facilitated banks expansion which led to growth. In a related study of the Chilean banking industry, Kwan (2002) found that the high rate of economic activities experienced in Chile was mainly from productivity's improvement from the large banks formed as a result of mergers and acquisitions. Berger &Mester (1997) and Stiroh (2002) using data on United States banks suggested that there may be more substantial scale of efficiency from larger sizes of banks as a result of mergers and acquisitions. For Yener& David (2004), mergers and acquisitions played an important role in improving after merger financial performance which is a stimulus for efficiency.

Overall of these studies provided mixed evidencewherea few failed to show a clear relationship between mergers and acquisitions and performance. Nevertheless, most of the studies examined found that mergers and acquisitions add significantly to the performance and profitability of the banking sector.

2.6 Stages of Merger and Acquisition

Saudarsanam (2003) provided a five-stage model that would result into a successful pursuit of synergistic gains of merger and acquisition. This included; Corporate Strategy Development Stage, Organizing for Acquisition

Stage, Deal Structuring and Negotiation Stage, Post-Acquisition Integration Stage, and Post-Acquisition Audit and Organizational Learning.

2.6.1 Corporate Strategy Development Stage

This stage is concerned with ways of optimizing the portfolios of businesses that a firm currently owns and how these portfolios can be changed to serve the interest of the corporation's stakeholders.

2.6.2 Organizing for Acquisition Stage

Here, the acquiring firm lays down the criteria for potential acquisitions in consistence with the strategic objectives and value creation logic of the firm's corporate strategy and business model.

2.6.3 Deal Structuring and Negotiation Stage

This stage involves;

- Valuing target-company, taking into account how the acquirer plans to leverage its own assets with those of the target, and choice of advisers to the deal.
- Obtaining and evaluating as much intelligence as possible about the target, from the target as well as other sources through due diligence.
- Determining the range of negotiation parameters including the walk-away price, negotiating warranties and indemnities, negotiating the

positions of senior management of both firms in the post-merger dispensation and

- Developing the appropriate bid and defense strategies and tactics within the parameters set by the relevant regulatory regimes.

2.6.4 Post-Acquisition Integration Stage

This stage involves the combination of the distinct organizations into one; resulting into changes in both the target and the acquirer, to deliver the strategic and value expectations that informed the merger.

2.7 Procedures for Merger in Nigeria

According to Ajogwu (2011) in Salawu (2013), the procedures for merger in Nigeria include the following steps:

- The company may execute a Memorandum of Understanding (MoU) which spells out the understanding of the parties and set the stage for honest and confident negotiation and anticipates the future steps to be taken by the parties. This document is subject to regulation by the Security and Exchange Commission. The Management of the acquiring and target companies will reach a preliminary agreement.
- The Board of Directors of both companies would then adopt a merger agreement. Both companies must notify their respective shareholders

of the terms of the proposed merger and the shareholders must approve the transaction by majority vote,

- Notification and voting materials are usually provided to shareholders of public companies as part of proxy statements required by statutory instrument. The proxy statement will include the terms of the merger, the consideration that will be offered to the target's shareholders and information about the merging companies. These considerations may include stocks and shares or other securities in the acquiring company's debentures, or cash.
- If the merger is approved by the required number of shares, the shareholders of the merging companies will exchange their stocks for the pre-negotiated consideration. All shareholders must be entitled to receive equal consideration of each of their shares. However, a choice of the form of consideration is sometimes permitted.

2.8 Legal Requirement for Merger and Acquisition in Nigeria

According to Ehijeagbon (2004) in Salawu (2013), Section 591 of the Company and Allied Matters Act, 1990(CAMA) provided that under the Nigerian Law, a merger or acquisition has to pass through the following stages:

- The intending companies are required, either alone or together, to apply to a Federal High Court, who in turn orders separate meetings of the intending companies, to approve the proposed merger or acquisition (the scheme).

- The members of each company, comprising three quarter in value of the shares of each company, are required to consent by resolution to the scheme.
- The above consent is then required to be referred to the Security and Exchange Commission (SEC) for approval.
- On the Security and Exchange Commission (SEC) approval, the parties or one of them is required to apply to the Federal High Court who must sanction "the Scheme".
- The sanction of the Federal High Court must be forwarded to the Corporate Affairs Commission (CAC) within seven (7) days of the order of the Federal High Court.
- A notice of the court order must be published in two (2) government gazettes and in at least, one (1) national newspaper.

2.9 Overview of the Nigerian Banking Industry

The Federal Government of Nigeria has been operating series of bank "changeovers", "takeovers", and "buyouts" since 1892. The history of the Nigerian Banking Industry can be best classified into three phases, namely; the Embryonic Phase, the Expansion Phase, and the Consolidation and Reform Phase.

2.9.1 The Embryonic Phase

The African Banking Corporation, headquartered in South Africa pioneered the Nigerian banking system in 1892 followed by the British Bank for West African (now First Bank of Nigeria Plc) in 1894, while Barclays Bank D.C.O (now Union Bank of Nigeria Plc) and the British and French Bank (now United Bank for Africa Plc) were established in 1925 and 1949 respectively (Danjuma, 1993; Ebhodaghe, 1990; Ibru, 2006).

Indigenous banking in Nigeria began with the establishment of the National Bank of Nigeria Limited in February 1933, Agbonmagbe Bank Limited (now Wema Bank Plc) in 1945, and African Development Bank limited, which later became known as Africa Continental Bank Plc in 1948. The establishment of these indigenous banks ushered in the era that saw the constant monopoly erstwhile enjoyed by foreign owned banks being challenged (CBN, 2008; Ebhodaghe, 1990).

2.9.2 The Expansion Phase

This phase witnessed the expansion of the Nigerian banking sector to include the Rural Banking scheme in 1977, Peoples' Bank in 1989, and Community Bank (now Microfinance Banks) in 1990 to encourage community development associations, cooperative societies, farmers groups, patriotic unions, trade groups, and other local organizations, especially in rural areas. It was between 1985 and 1991 that banks in Nigeria sprout up from 40 to 120 (Agbaje, 2008; Bichi, 1996; Ebhodaghe, 1990, 1995; Mordi, 2004).

2.9.3 The Consolidation and Reform Phase

This phase started in January 1, 2006 when the Nigerian Eighty-Nine (89) banks shrunk into Twenty-five (25) banks (see Table 1). The consolidation exercise required banks to raise their minimum capital base from N2 Billion to N25 Billion with December 31, 2005 as deadline; (see Table 2). The purpose of the increase was among other things, to encourage the consolidation of the banking sector to produce mega-banks from the then existing 89 banks as most of them were just fringe players and financially unsound (Soludo, 2008).

Other financial institutions under this phase included Government-owned specialized development banks such as; the Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, and the Nigerian Agricultural Bank, as well as the Federal Savings Banks and the Federal Mortgage Bank. Also active were numerous insurance companies, pension funds and finance and leasing companies.

Specifically, the continuous bank consolidation exercise in Nigeria is;

- Aimed at making Nigerian banks compete favourably with banking institutions from other parts of the world. To help the Nigeria banking sector become Africa's financial hub, facilitate intra-regional trade and investment, and join the world class bank group (Adesida, 2008).

- To act as catalyst to the economic development of Nigeria and the sub-region through the provision of superior services to the banking public (Ogbonna, 2007).
- To build confidence in the Nigerian banking sector so as to interact favourably with the rest of the world (Soludo, 2008; Steinberg, 2008).
- To provide good returns to investors through efficiencies and better range and quality financial services (Soludo, 2006)

2.10 History of Bank Recapitalization in Nigeria

The Nigerian Banking sector has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure, and depth and breadth of operations. The changes, according to Adegbaju (2007), have been largely influenced by challenges posed by deregulation of the financial sector, globalization of operations technological innovations and adoption of supervisory and prudential requirements that conform to international standards.

Capitalization is an important component of reforms in the Nigerian banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses arising from non-performing liabilities. Ajayi (2005) stated that attaining capitalization requirements may be achieved through consolidation of existing banks or raising of additional funds through the capital market.

Adegbaju (2007) further stated that recapitalization of banks is not a new phenomenon in Nigeria, he gave a detailed analogy as follows: In 1958 after the first banking ordinance of 1952, the colonial Government raised the capital requirement of banks, especially the foreign commercial banks from 200,000 Pounds to 400,000 pounds. By 1969, banks capital requirements has risen to N1.5million for foreign banks and ₦600,000 for indigenous commercial banks. In 1979 when the merchant banks came on board, the capital base requirement was N2million.

Due to the liberalization of the financial system and the introduction of the Structural Adjustment Programme (SAP) in 1986, the capital base for commercial banks and merchant banks was increased to N5million and N3million, respectively in February 1988. However, by October the same year, the capital base was jerked up to N10million for commercial banks and N6million for merchant banks. By 1989, it was raised to N20million for commercial banks and N12million for merchant banks.

Ajayi (2005) also opined that in recognition of the fact that a well-capitalized bank would strengthen the banking system for effective monetary management. The regulatory authorities of the Nigerian Banking Industry increased the minimum paid-up capital of commercial banks and merchant banks to N50million and N40million, respectively in February 1990. Distressed banks that could not meet up with the minimum capital base requirement were given up to 31st March 1997 to satisfy the requirement or face liquidation. By January 1998, Twenty-Six (26) distressed banks, comprising of Thirteen (13) each of commercial and merchant banks, were liquidated.

Ajayi, (2005) further noted that the minimum paid-up capital of merchant and commercial banks was made uniform and raised to N500 Million with effect from January 1, 1999. In 2001, when universal banking was adopted in principle, the capital base was jerked up to N1 Billion for existing banks and N2 Billion for new ones.

It was in July 2004 that the Central Bank of Nigeria (CBN) announced the need for banks to increase their capital base to N25 Billion and all banks were expected to comply by December, 2005. At the end of the recapitalization exercise, only 25 banks emerged after merger and acquisition among banks have be conducted in order to meet up with the central Bank of Nigeria (CBN) requirement.

2.11 Nigerian Banking Sector Regulatory Authorities

Onyindo, (2004) stated that the Nigerian banking sector is controlled by the Nigerian banking sector regulatory agencies which include;

- The Federal Ministry of Finance
- The Central Bank of Nigeria (CBN)
- Nigeria Deposit and Insurance Corporation (NDIC)
- Securities and Exchange Commission (SEC).

According to Jimmy (2008), section 43 and 44 of the Central Bank of Nigeria Act (2007) provides for the establishment of a Financial Services Regulation Coordinating Committee whose responsibilities are:

- To co-ordinate the supervision of financial institutions especially conglomerates;
- To cause reduction of arbitrage opportunities usually created by differing regulation and supervision standards among supervisory authorities in the economy;
- To deliberate on problems experienced by any member in its relationship with any financial institution;
- To eliminate any information gap encountered by any regulatory agency in its relationship with any group of financial institutions
- To articulate the strategies for the promotion of safe, sound and efficient practices for financial intermediaries; and
- To deliberate on such other issues as many be specified from time to time.

2.12 Performance of the Nigerian Banking Sector

The history of the Nigerian banking system is replete with growth and burst cycles in the number of operating banks and their branches. Usually, growth spurt are experienced when the policy environment present strange business opportunities in the banking sector, or there is a sudden policy shift that makes it easy for ordinary business people to initiate a process that creates access to public funds in the name of bank deposits (Onikoyi, 2012).

In Onikoyi, (2012) study of "merger and acquisition and performance in Nigeria", he gave a detailed figured-analysis of the performance of the Nigerian banking sector as follows: In terms of Assets, the total asset of all the 89 banks operating in Nigeria in 2004 prior to the consolidation was N3,753.28 billion (US$28.250 billion) and rose to N6400.78 billion (US$49.88 billion) indicating a growth rate of 70.54 percent within one year after consolidation. The asset size of an average bank which was N42.172 billion (US$0.3174 billion) grew geometrically to N267.482 billion (US$2.0856 billion) within a year after the consolidation exercise, a growth rate of 534.27 percent. This was an impressive performance. However, an assessment of the level of capitalization of an average bank prior to the exercise indicates an equity base (Net worth) of N7.71 billion (US$0.06168 billion) rising to N38.83 billion (US$0.31064 billion) in 2006, indicting a growth rate of 404 percent. The leverage ratio measured in terms of equity to total asset also declined from 18.28 percent in 2004 to 14.52 percent in 2006 for an average bank. This ratio compares favourably with the CBN minimum level of 10 percent. The post consolidation ratio is also better in terms of its distribution among the banks compared with the pre-consolidation ratios where more than 70 percent of the equity and assets were concentrated in (the largest five banks) less than 5 percent of the existing banks.

However, the intermediation activities of an average bank improved significantly by about 1,690 percent from an average deposit base of N10.48 billion (US$0.08384) in 2004 to N188.48 billion (US$1.50784) in 2006. The profit efficiency/asset utilization has not been impressive. Although the banks have been able to double their gross earnings from their pre consolidation performance level, their profit and asset utilization efficiencies have declined since the conclusion of the consolidation. For instance, the industry return on equity declined from 35.28 percent in 2004 to 11.12 percent in 2006, while return on asset declined from 8.37 percent to 2.09 percent over the same period. The asset utilization ratio also declined; while an average bank was able to earn 34 kobo for every N1.0 asset in 2004, this declined to 11 kobo in 2006. Thus, while the consolidation has improved the structure of the Nigerian banking industry in terms of asset size, deposit base and capital adequacy, the profit efficiency has not been impressive. The banks will need to become more efficient in terms of their ability to generate enough return to justify the increase in the equity base as well as the resources put at their disposals by their stakeholders. The lending capacity of the banks improved significantly as a result of the consolidation. As at 2004, an average bank could only lend about N14,371 billion. Whereas, the consolidation strengthen the bank where a typical bank in Nigeria in 2006 could lend an average of N80.788 billion. This represents a growth of 462.13 percent (Somoye, 2008).

The summary of the finding is that merger and acquisition facilitates improved market structure of the Nigerian banking industry, evident in increased asset, deposits, equity base, and loans however, with not too impressive increase in profitability. Nevertheless, concluded that merger and acquisition has significantly increased banking performance.

2.13 Theoretical Framework

Below are some Merger and Acquisition Theories that are related to this study:

2.13.1 Concentration Theory

Concentration refers to the degree of control of economic activities that large firms possess; (Sathye, 2002). Increase in concentration level could be due to considerable size enlargement of the dominant firms and/or considerable size reduction of the non-dominant firms. Conversely, reduction in concentration level could be due to considerable size reduction of the dominant firms and/or considerable size enlargement of the non-dominant firms (Athanasoglou, 2005).

Proponents of the banking sector Concentration Theory argue that economies of scale drive bank merger and acquisition. This increases concentration which goes hand-in-hand with efficient improvements (Demirguc-Kunt& Levine, 2000). To buttress this point, Boyd &Runkle (1993) examined 122 United States bank holding companies and discovered that an inverse relationship exists between firm size and volatility of asset returns. However, these findings were based on situations in which the consolidations are voluntary, unlike the case of bank consolidation exercise in Nigeria that is mandatory.

Some theoretical arguments and countries comparisons, suggest that a less concentrated banking sector with many small banks, is more prone to financial crises than a concentrated banking sector with a few large banks (Allen & Gale, 2000; Beck, 2004). This is partly true, because reduced concentration in a banking market, results in increased competition among banks and vice-versa. Proponents of this “concentration stability” view, argued that larger banks can diversify better since banking systems characterized by a few large banks tend to be less fragile than banking systems with many small banks (Allen & Gale, 2003).

A concentrated banking system also enhances profit, thereby, lowering bank fragility. High profits provide a buffer against adverse economic shocks and increase the franchise value of banks as such reduce incentive for banks taking excessive risk. Furthermore, a few large banks are easier to monitor than many small banks, so that corporate control of banks would be more effective and the risks of contagion would be less pronounced in a concentrated banking system (Beck, 2003).

2.13.2 The Value Increasing Theories

According to the Value Increasing School, mergers occur, broadly because mergers generate "synergies" between the acquirer and the target, and synergies in turn increase the value of the firm (Hitti, 2001). The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a friendly merger being proposed and accepted. If the gain in value to the target was not positive, it suggests, therefore that the target firm's owners would not sell or submit to the acquisition, and if the gains were negative to the bidders' owners, the bidder would not complete the deal. Hence, efficiency theory predicts value creation with positive returns to both the acquirer and the target (Banerjee &Eckard, 1998; Klein, 2001).

The market power theory remains a valid merger motive. Increased allocative synergies is said to offer the firm positive and significant private benefits because, *ceteris paribus*, firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus (Feinberg, 1985). From a dynamic point of view, market power is said to allow for the deterrence of potential future entrants, which can again afford the firm a significant premium, and so offer another long-term source of gain (Motta, 2004; Besanko, 2006; Gugler, 2003).

In an efficient merger, the theory of corporate control provides a third justification, beyond simply synergistic gains, for why mergers must create value. It suggests that there is always another firm or management team willing to acquire an under-performing firm, to remove those managers who have failed to capitalize on the opportunities to create synergies, and thus to improve the performance of its assets (Weston, 2004). Managers who offer the highest value to their owners, it suggests, will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets. Hence, inefficient managers will supply the 'market for corporate control', and managers that do not maximize profits will not survive, even if the competitive forces on their product and input markets fails to eliminate them (Manne, 1965).

2.13.3 Recapitalization Theory

The Recapitalization Theory of Merger and Acquisition is the most relevant theory to this study, hence this study is anchored on the Recapitalization Theory. This theory is most appropriate because with adequate capital, the liquidity position of banks would be improved and the problem of poor infrastructure, obsolete technology, poor service delivery, poor governance, and involvement in unprofitable operations would be eliminated. Therefore, performance level would increase since profit margin has increased also, assuch, investors' confidence is sustained and customers' patronage has increased since service delivery has improved.

Every business firm requires capital though they differ in their degree of requirement as capital is described as the effective blood of any business, hence it can be said that capital is vital for business survival (Oke, 2006, Gale (2010. Somoye (2008) opined that linear relationship subsists between liquidity and profitability of a firm in timely disbursement to the various stakeholders before they can enjoy smooth operation needed to reach the desired goal. The study of relationship between bank capital and liquidity level is becoming more relevant because many organizations in recent past had fallen victims of premature liquidity as a result of inadequate attention to the management of insurance capital from management of the affected firms. Liquidity is the ease with which a firm can turn its current asset into cash (Jennings, 1993).

The banking industry should ensure that it does not suffer from lack of liquidity and also that it is not too highly liquid. Pandey (2005) opined that the failure of a company to meet its obligation due to lack of sufficient liquidity will result in bad credit image, loss of creditors' confidence or closure of the company. A very high degree of liquidity is also bad because the assets earn nothing. It is therefore necessary to strike a proper balance between liquidity and profitability ratio (efficient ration) taking into account all revenue expenses (Oladejo&Oladipupo, 2011).

The importance of adequate capital in banking cannot be over emphasized. Capital is required to support business and it has a direct relationship with profitability, hence as more and more money is pump into the business, more profit will be recorded. Capital is an essential tool which enhances confidence and permits a bank to engage in meaningful banking. A very important function of capital in a bank is to serve as a means of absorbing losses; serves as a buffer between operating loss and insolvency. Philips (1997) observed that "the more capital a bank has, the more losses it can sustain without going bankrupt; capital thus provides the measure for the time a bank has to correct lapses, internal weakness, or negative developments. The larger the size of the capital, the longer the time a bank has before losses completely eroded its capital".

Apart from offering protection against losses, adequate capital protects depositors and creditors in time of failure, strengthens banks' ability to attract funds at lower cost and enhances bank's liquidity position. The higher the liquidity of a bank, the less risky is the bank. Thus, inadequate liquidity will damage a bank's reputation while excess liquidity will retard earnings. Basically, regulatory authorities consider capital adequacy as a primary index to monitor banks' performance (Somoye, 2008). It is appropriate and convenient therefore, to anchor this study on the recapitalization theory.

2.14 Summary of Review of Related Literature

Merger and acquisition in the Nigerian banking sector are strategies adopted to reposition the banking sector so as to achieve improved financial efficiency, forestall operational hardship and expansion bottleneck, and to enhance operational capital base. Merger entails the coming together of two or more firms to become one big firm while acquisition is the takeover or purchase of a small firm by a big firm of which both firms are pursuing similar motives (Okpanachi, 2011).

However, a business combination where two or more companies come together to form an entirely new company and all the combining companies are dissolved, thereby allowing only the new company to operate, is called a consolidation (Okonkwo, 2004). There are four types of merger and acquisition, namely; vertical merger, horizontal merger, conglomerate merger, and concentric merger.

It is worthy of note that merger and acquisition has been in operation in the Nigerian banking sector before the directive of the Central Bank of Nigeria (CBN) in July 6, 2004 that all commercial banks in Nigeria should beef up their capital base from N2Billion to N25 Billion on or before December 31, 2005 or face liquidation. There has been several "change-overs, takeovers, and buyouts" in the banking sector since 1892. Hence the reforms in the Nigerian banking sector can best be classified into three phases namely; the embryonic phase (1892 to 1948), the expansion phase (1949 to 1991), and the consolidation and reform phase of 2006 to date(Alao, 2010).

Similarly, the directive of the Central Bank of Nigeria of July 6, 2004 to raise bank capital base was not the first time that capital base was raised in the sector. In 1952 the colonial Government raised bank capital requirement especially that of foreign owned commercial banks, from £200,000 to £400,000. In 1969 it was raised to N1.5Million for foreign owned banks and N600,000 for indigenous commercial banks. In 1979 it was raised to N2Million. In February 1988 it was raised to N5Million and N3Million for commercial banks and merchant banks respectively and by October the same year, it was jerked up to N10 Million and N6Million for commercial banks and merchant banks, respectively. While in 1989, it was raised to N20 Million for commercial banks and N12Million for merchant banks (Adegbaju, 2007).

By February 1990, the minimum paid up capital of commercial banks and merchant banks was raised up to N50 Million and N40Million, respectively. It was in January 1999 that it was made uniform for both commercial and merchant banks to be N500Million. Nevertheless, it was in 2001 that bank capital base was jerked up to N1Billion for existing banks and N2Billion for new banks (Ajayi, 2005).

The dominant rationale for merger and acquisition, apart from the need for recapitalization is that acquiring firms seek improved financial performance with the motive of enjoying synergies through removal of duplicated departments or operations thereby reducing cost and increasing profit margin (Umunnachila, 2001). Most of the studies examined found that mergers and acquisitions add significantly to the performance and profitability of the banks.

CHAPTER THREE

RESEARCH METHODS

In this chapter, the procedure for collecting the required data and the method of analyzing collected data are explicitly described. The most suitable research methodology for the collection, presentation, and analysis of all relevant data collected for the purpose of this research are well articulated with the view of arriving at substantive and acceptable results.

The research design, population, sample and sampling technique, method of data collection, research instrument, validity and reliability of research instrument, and method of data analysis are well outlined and discussed in details in this chapter.

3.1 Research Design

The researcher employed both the qualitative and quantitative research methods that are based on the applied survey research design. This kind of research design is chosen because it is suitable for researches that tend to study a phenomenon, event, or group over a period of time without any attempt on the part of the researcher to influence the situation. It is also chosen because it has the general objective of revealing the characteristics of a particular unit, situation, or a group as well as the incidence or occurrence of certain features or characteristics within the group or population. Thus, the purpose of such a survey research is to portray the current condition of the variables which is basically the focal point of this research (Yomere&Agbonifoh, 1999).

3.2 Population of the Study

The general population of this research includes all categories of staff of Ecobank Nigeria Limited and United Bank for Africa (UBA), their customers, and the general public. Nevertheless, the specific population of this Research include all staff and customers of both Ecobank Nigeria Limited and United Bank for Africa (UBA) in their respective branches that are situated within Abraka, Effurun, and Warri metropolis. These areas are chosen for the purpose of convenience and proximity. The total number of staff of both banks within Abraka, Effurun, and Warri metropolis of Delta State is estimated at 380 staff from a total of 19 branches of both banks. The customers of the banks within the selected 19 branches of both banks are estimated at 57000 customers of 3,000 each.

3.3 Sample of the Study

The population of staff of both banks within Abraka, Effurun and Warri metropolis is estimated at 380 staff, drawn from nineteen (19) selected branches of the banks with each branch having about 20 staff. However, only 12 branches of both banks were used for this research work. The choice of 12 branches is due to the presence of only six (6) branches of United Bank for African (UBA) within the selected metropolis. Therefore, for the purpose of equity, six (6) branches of Ecobank Nigeria Limited were selected from the chosen metropolis. As such, 8 staff were selected from each twelve (12) branch which amounted to 96 staff respondents.

Since customers of the bank would also form part of the sample size, 10 customers were selected from each branch; giving us a total of 120 customer-respondents that were added to the number of selected staff to form the research sample size. Therefore, with a random selection of 8 staff and 10 customers from each selected twelve (12) branches amounted to a total of 216 respondents sample size.

3.4 Sampling Technique

The simple random sampling technique was used in selecting respondents of this research work. A random selection of 40% of the estimated total number of staff in the selected branches (20 staff X 12 branches = 240 staff) amounts to 96 staff. Therefore, for even representation, 8 staff was randomly selected from each twelve (12) selected branches to get 144 staff.

The choice of a flat ratio representation of 8 staff each is due to the close number of staff in each branch (each branch has about 15 to 20 staff). Similarly, for the purpose of easy distribution and retrieval of relevant customer-related information, 10 customers were randomly selected from each 12 branch.

Basically, therefore, 8 staff and 10 customers randomly selected from each twelve selected branches of the banks amounted to 216 respondents (18 set of respondents X 12 branches = 216 respondents).

3.5 Method of Data Collection

The sources for collection of data of this study are the primary and secondary sources. The primary source included the results or responses received from the questionnaires administered to selected respondents. The secondary source included information gathered from academic Journals, Text Books, Newspapers, Magazine, Annual Reports, and Articles published via the Internet.

3.6 Research Instrument

The major research instruments of this study are the questionnaire and the published audited annual accounts and reports of both banks. This research relied more on the responses of respondents to the administered questionnaire in the analysis of data. The Questionnaire represents the most popular format for eliciting responses from respondents in a survey research (Yomere et.al, 1999). The questionnaire is also the most appropriate instrument in a study where the sample for the study is widely dispersed and inaccessible (Asika, 2009). Therefore, since this research work is a survey research and the selected sample is widely dispersed, the use of the questionnaire as its research instrument is very appropriate.

The questions in the questionnaire are well structured in a straight forward and precise sequential form to elicit the demographic data of respondents such as age, educational background, and degree of experience as well as their perception and knowledge of core issues relating to the subject matter of the research work. These variables enable the researcher to ascertain the competency of the respondents in giving adequate and reliable information on issues raised in the questionnaire.The questions were also structured in a simple and explicit manner that only questions that are related and relevant to the identified problems and objectives of this research are raised in the questionnaire.

The results gathered from the administered questionnaire were used to test the correctness of the research hypotheses. The questions were therefore constructed in relation to the variables in the hypotheses.The likert type of question was used as it tends to make the questions straight forward, clearer, and enables the respondent to reveal the degree of his or her answer by choosing from a range of answers; “agree”, ”strongly agree”, “disagree”, and "strongly disagree". Such kinds of questions also make analysis of the data easier.

For the purpose of convenience and expertise of respondents, two set of separate questionnaires were constructed and administered independently to staff and customers with each questionnaire having questions that are related to the respondent's experience. By sharing the questions into two separate questionnaires, the respondents were not discouraged in answering the questions since they are few in number, precise and are in relation to their level of involvement in the bank.

3.7 Validity of Research Instrument

The research instrument was given to the supervisor and other experts in research measurement and evaluation for their observations and comments which were carefully noted and applied. As such, the content validity of the instrument is satisfied and certified.

3.8 Reliability of Research Instrument

The test-retest method of reliability was adopted. This was done by administering the research instrument to a set of respondents who were not included in the sample for their responses. At the end of two (2) weeks after the research instrument has been retrieved from this set of respondents, the same research instrument was re-administered to them. Their previous and later responses were analyzed using the Pearson's Product-Moment Correlation Co-efficient to obtain a reliability value.

The formula of the Product-Moment Correlation Co-efficient (r) that was applied in the computation of its value is hereby stated below.

$$r = \frac{\Sigma xy}{\sqrt{(\Sigma x^2)(\Sigma y^2)}}$$

Where: $X = x - \overline{x}$

$Y = y - \overline{y}$

Note that (X) and (Y) are the variables and $(\overline{x})$ and $(\overline{y})$ are their respective assumed mean.

3.9 Method of Data Analysis

The procedures that were adopted in analyzing collected data via the questionnaire were the simple percentage, mean, and standard deviation statistical tools. The collected data are presented in tabular forms. The acceptance or rejection of the various formulated hypotheses was tested using the Z-test (Zs) method.

The Z-test (Zs) method is a research technique that is applied to test whether two variables are associated or not and whether they are inter-dependent on each other so that one variable can be predicted from the other. The Z-test is also used to test the nature of distribution of one or more population of interest (Asika, 2009).

The Z-test is a statistical test in which the distribution of the test statistics under the Null Hypothesis can be approximated by a normal distribution. For each significance level, the Z-test has a single critical value which makes it more convenient than the student's T-test which has separate critical values for each sample size. Therefore, many statistical tests can be conveniently performed as approximate Z-test if the sample size is large or the population variance is known (Murray & Larry, 2004).

It is appropriate, therefore, to apply the Z-test technique to this research investigation since it is centred on the relationships between two variables (Performance and Merger/Acquisition).

The null hypotheses of this research work were tested at a 0.05 level of significance. The Decision Rule was to reject the null hypothesis if the computed value of Z-score (Zs) lies outside the critical region of the hypothesis (-1.96 to 1.96). That is, the null hypothesis was rejected if calculated Z-score (Zs) is >1.96 or <-1.96. In the same sense, the null hypothesis was accepted if computed Z-score (Zs) is in between the critical region of the hypothesis (-1.96 to 1.96).

The formula of Z-test that was adopted in computing the value of Z-score (Zs) is;

$$Zs = \frac{S - \mu_s}{\delta_s}$$

Where S = Sample Distribution

μ_s = Mean of Sample

δ_s= Standard Deviation of Sample

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data that were collected through the administered questionnaires. This revealed in tabular forms the demographic distributions of respondents and their responses to questions that were raised in the questionnaires. Their demographic distribution and responses were analyzed with the simple percentage method while their responses to questions that are related to the formulated hypotheses are analyzed with the mean and standard deviation methods because such statistical tools produce the needed figures for computing the Z-test scores which were used in testing the acceptance or rejection of the various formulated hypotheses.

A total of 216 questionnaires were distributed and retrieved from both staff and customers of the selected banks. In testing the reliability of the research instrument, the Pearson Product-Moment Correlation method is applied and 12 staff and 5 customers (17 respondents) were used.

The above table of the demographic distribution of staff of both banks that questionnaires were administered to shows that 17% were management staff, 62% were senior staff, and 21% were junior staff. It should be noted that the category of staff referred to here as junior staff, are not in the general sense junior staff like gatemen, security men, messengers, clerks to mention but a few. It only refers to bank tellers and other administrative staff who have NCE or OND as their maximum academic qualification. Therefore, all staff respondents possess the administrative competency to provide required information.

The customers' demographic distribution table above revealed that 54% of them run current account, 42 % have savings account and 4% have fixed deposit account. This is an indication that all categories of customers were consulted as such the true experiences of customers were ascertained.

It further shows that 33% of staff respondents were single, 67% were married, and that 30% of customer respondents were single, 70% were married, and none was separated. It also shows that 21% staff respondents were below 26 years of age, 71% were between 26 and 40 years of age, and 8% were above 40 years old. While for the customer respondents, 30% were below 26 years of age, 74% were between ages 26 and 40, and 8% were above 40 years old Thus, a better number of the respondents are matured enough to understand the questions and are responsible family sustainers and supportive family members. Also, that 69% male and 31%

female staff respondents and 71% male and 29% female customer-respondents were consulted.

The table further showed that none of the staff or customers consulted has ordinary level as his or her highest academic qualification. Nevertheless, 21% staff possessed OND or NCE, 58% have HND or B.Sc. degree, 21% have Masters' degree and none possesses Ph.D. degree. While for the customers 79% possessed HND or B.Sc. degrees, 21% have Masters' degree and none possessed Ph.D. degree.

It revealed that 25% of staff respondents have worked in the banking industry for less than 5 years, 67% have worked for 6 to 10years, 8% have worked for 11 to 15 years, and none have worked for 16 years and above. These are indications that the respondents are knowledgeable and experienced enough to give true and valid answers that can be relied upon in establishing deduced fact.

From the table above, with reference to question 1, 82% of the respondents agreed that merger and acquisition enable banks to attract both local and foreign investment while 18% think otherwise. In responding to question 2, about 75% of respondents accepted that merger and acquisition favourably affect the liquidation position of banks and about 25% disagreed. In other words, merger and acquisition boost the liquidation position of banks. From question 3, 38% strongly agreed that merger and acquisition lead to increased profit margin of banks, 34% agreed, 19% strongly disagreed and 9% disagreed. Therefore, 72% testified that merger and acquisition have over the years improved banks’ profits.

For question 4; 25%, 44%, 22% and 9% strongly agree, agree, disagree, and strongly disagree, respectively, that merger and acquisition increase lending capability of banks. This shows that 69% accepts that merger and acquisition increase the lending capability of banks, thus, the ability of the banks to lend to small scale businesses is improved through merger and acquisition. In the same way, 28%, 41%, 22%, and 9% strongly agree, agree, disagree, and strongly disagree, respectively that merger and acquisition lead to improve performance and productively level as reflected in question 5. This summarized that 69% believes that merger and acquisition leads to improve performance and productivity level while 31% did not.

Responses to question 6 shows that 34% strongly agrees, 50% agrees, 16% disagrees, and none strongly disagree, respectively, that merger and acquisition facilitate growth and expansion of the Nigerian banking industry. As such, a total of 84% indicates that merger and acquisition brings about expansion in number of branches. Question 7 reveals that 22% strongly agrees and 47% agrees that merger and acquisition brings effectiveness and efficiency to the banking sector while 31% disagrees and none strongly disagree. As such, 69% accepted but 31% did not accept this assertion.

For Question 8, 13% strongly agrees, 34% agrees, 37% disagrees, and 16% strongly disagreed that merger and acquisition leads to increase in staff portfolio and motivation, respectively. This implies that a total of 47% accepted and 53% did not accept that merger and acquisition brings about increase staff portfolio and motivation.

In the same way, Question 9 shows that 38% strongly agrees, 34% agrees, 28% disagrees and none strongly disagrees that merger and acquisition pose threat to bank workers, respectively. Therefore, a total of 72% accept that merger and acquisition pose threat to bank workers while 28% believe otherwise.

Question 10 shows that about 22% strongly agreed, 37% agrees, 41% disagree and none strongly disagreed that merger and acquisition increase the expenditure pattern of banks, respectively. This means that a sum total of 59% accepted that merger and acquisition increase banks expenditure pattern and 41% did not accept.

From the above table of customers' questionnaire analysis, question 1 revealed that 33% of the respondents strongly agreed that merger and acquisition facilitate national economic growth and sustainable development and 67% merely agreed. However, none disagreed nor strongly disagreed.

In responding to question 2, 40% strongly agreed, 47% agreed, and 13% disagreed that that merger and acquisition lead to introduction of new banking products and services as none strongly disagreed.

Question 3 shows that 40% strongly agree that merger and acquisition lead to improved service delivery and technological advancement, 40% also merely agree, while 20% disagree and none strongly disagree. This indicated that a total of about 80% accepted this perception while only 20% think otherwise.

For question 4, 27% and 73%, strongly agreed and agreed, respectively as none disagreed and none strongly disagreed that merger and acquisition enhance customers and shareholders' confidence in banks. This shows that 100% accepted that merger and acquisition boost customers and shareholders' confidence in banks.

Response to question 5 shows that none strongly agreed and 20% agreed that merger and acquisition has negative impact on banks. But 53% strongly disagree and 27% merely disagree that merger and acquisition has negative impact on banks. In other words, about 80% did not accept that merger and acquisition has negative impact on banks.

4.3 Reliability Test of Instrument

For the purpose of convenience, 12 staff (one from each branch) and 5 customers (whose offices and business addresses are known to the researcher) were selected for this test. The same sets of separate questionnaires were administered to them within the interval of two weeks. They were not told that the same questionnaire would be re-administered to them after two weeks so as to ascertain and secure their unbiased responses. Therefore, 17 respondents who were not included in the sample size were consulted for this test-re-test exercise. Their previous and later responses are hereby presented and analyzed below, using the Pearson Product-Moment Correlation method.

ANSWER	**X**	**Y**	**x= (X-$\bar{x}$)**	**y= (Y-$\bar{y}$)**	**x^2**	**y^2**	**xy**
Strongly Agree	38	38	2	1.5	4	2.25	3
Agree	76	75	40	38.5	1600	1482.25	1540
Disagree	24	26	-12	-10.5	144	110.25	126
Strongly Disagree	6	7	-30	-29.5	900	870.25	885
TOTAL	∑144	∑146			∑2648	∑2465	∑2554

Solution

Let X = Previous Response

Y = Later Response

Then $\bar{x}$ (assume mean of X) = $\frac{144}{4} = 36$

$\bar{Y}$ (assume mean of Y) = $\frac{146}{4} = 36.5$

Since

$$r = \frac{\sum xy}{\sqrt{(\sum x^2)(\sum y^2)}}$$

$$= \frac{2554}{\sqrt{(2648)(2465)}} = \frac{2554}{\sqrt{6527320}}$$

$$= \frac{2554}{2554.86} = \underline{\underline{0.99}} \quad \text{(approximately 99\%)}$$

The above 99% correlation shows that there is a high linear correlation between the respondents' previous and later responses. As such, the research instrument is very reliable.

4.4 Test of Hypotheses

The various formulated hypotheses are tested using the Z score (Zs) test method. The applied method of the z score (Zs) calculation is hereby stated below:

$$Zs = \frac{S - \mu_s}{\delta_s}$$

Where S = Sample Distribution

μ_s = Mean of Sample

δ_s = Standard Deviation of Sample

And Mean($\bar{x}$) = $\sum X$

$$\overline{\quad N \quad}$$

Standard Deviation (δs) = $\sqrt{\dfrac{\sum(X-\bar{x})^2}{N}}$

Where X = Total Frequency of Score

$\bar{x}$ = Arithmetic Mean of Score

N = Number of sample

4.4.1 Hypothesis 1

Research Hypothesis 1 states that "there is no significant relationship between merger and acquisition and improved service delivery". This hypothesis is analyzed with responses to question 3 (merger and acquisition lead to improved service delivery) of the customers' questionnaire.

RESPONSE	**X**	**$(X-\bar{x})$**	**$(X-\bar{x})^2$**
Strongly Agree	48	18	324
Agree	48	18	324
Disagree	24	-6	36

Strongly Disagree	0	-30	900
TOTAL	$\sum X = 120$		$\sum\mathbf{(X\text{-}x)^2}$ = 1584

Mean ($\bar{x}$) = $\frac{\sum X}{N}$ where N = Number of sample

Therefore, $\frac{120}{4}$ = $\underline{\underline{30}}$

Standard Deviation (δs) = $\sqrt{\frac{\sum(X-\bar{x})^2}{N}}$

$= \sqrt{\frac{1584}{4}} = \sqrt{396} = \underline{\underline{19.9}}$

$$Zs = \frac{S - \mu_s}{\delta_s}$$

$= \frac{120 - 30}{19.9} = \frac{90}{19.9}$ $\underline{\underline{4.52}}$

Since the Z score (4.52) is greater than the critical region (-1.96 to 1.96), the null hypothesis is accepted. Therefore, there is significant relationship between merger and acquisition and improved service delivery.

4.4.2 Hypothesis 2

Research Hypothesis 2 states that "there is no significant relationship between merger and acquisition and customers' patronage". This hypothesis is analyzed with responses to question 4 (merger and acquisition enhance customers patronage) of the customers' questionnaire.

RESPONSE	**X**	$(X-\bar{x})$	$(X-\bar{x})^2$
Strongly Agree	32	2	4
Agree	88	58	3364
Disagree	0	-30	900
Strongly Disagree	0	-30	900
TOTAL	$\sum X = 120$		$\sum(X-\bar{x})^2 = 5168$

Mean $(\bar{x})$ $\frac{\sum X}{N}$ where N = Number of sample

$\frac{120}{4}$ $= \underline{\underline{30}}$

Standard Deviation (δs) = $\sqrt{\frac{\sum(X-\bar{x})^2}{N}}$

$= \sqrt{\frac{5168}{4}} = \sqrt{1292} = \underline{\underline{35.9}}$

$$Zs = \frac{S - \mu_s}{\delta_s}$$

$$= \frac{120 - 30}{35.9} = \frac{90}{35.9} \quad \underline{2.51}$$

Since the Z score (2.51) is greater than the critical region (-1.96 to 1.96), the null hypothesis is accepted. Therefore, there is significant relationship between merger and acquisition and customers' patronage.

4.4.3 Hypothesis 3

Research Hypothesis 3 states that "there is no significant relationship between merger and acquisition and profit margin". This hypothesis is analyzed with responses to questions 3 (merger and acquisition lead to increased profit margin) of the staff questionnaire.

RESPONSE	**X**	**$(X-\bar{x})$**	**$(X-\bar{x})^2$**
Strongly Agree	36	6	36
Agree	33	3	9
Disagree	18	-12	144
Strongly Disagree	9	-21	441
TOTAL	$\sum X = 120$		$\sum(X-\bar{x})^2 = 630$

Mean $(\bar{x})$ $\frac{\sum X}{N}$ where N = Number of sample

$\frac{120}{4}$ $= 30$

Standard Deviation (δs) = $\sqrt{\frac{\sum(X-\bar{x})^2}{N}}$

$= \sqrt{\frac{630}{4}} = \sqrt{157.5} = 12.6$

$$Zs = \frac{S - \mu_s}{\delta_s}$$

$= \frac{120 - 30}{12.6} = \frac{90}{12.6}$ 7.14

Since the Z score (7.14) is greater than the critical region (-1.96 to 1.96), the null hypothesis is accepted. Therefore, there is significant relationship between merger and acquisition and profit margin.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS, CONTRIBUTION TO KNOWLEDGE, AND SUGGESTIONS

This chapter deals with a summary of the major findings that were discovered from the analysis of collated data as previously reflected in Chapter Four of this research work. Arising from such findings, conclusions are drawn, decisions are made and recommendations of possible solutions to earlier identified research problems are given. A brief on the history of the consulted banks is also discussed. Of course, suggestions for further studies and researches on merger and acquisition and other related topics are highlighted.

5.1 Summary

The credibility of the findings is enhanced by the competence of the respondents. All respondents are matured adults who are adequately knowledgeable and possess huge experience in the banking industry. This buttressed their relevance and strong capacity to give dependable information. The major findings are hereby enumerated below:

1. Merger and acquisition leads to increased capital base and competitive strength of banks. The core capital of UBA in 2004 and 2005 (before merger) was approximately ₦18Billion but increasedafter merger to ₦36 Billion in 2006(100% increase) and to ₦154 Billion in 2007 (328% increase). The yearly increase continued to 2013 where it rose to about ₦260 Billion (see Appendix 6). While that of Ecobankwas₦74 Billion in 2010(before acquisition) but rose to about ₦140 Billion (after

acquisition) in 2011 (89% increase) and to ₦173 Billion in 2012 (24% increase). See Appendix 7.

2. Merger and acquisition attracts investment in the banking sector which culminate into availability of adequate funds that enhance banks liquidity position, lending capability, economy of scale and profit margin, thus boosts shareholders' confidence in banks. For instance, the investment profile of UBA valued ₦2 Billion in 2004 and 2005 but increased after merger to ₦55 Billion (2650% increase) in 2006 and ₦80 Billion (46% increase) in 2007 and by 2013 it was about ₦652 Billion (see Appendix 6). For Ecobank,its investment profile was ₦19 Billion in 2010 but increased after acquisition to ₦249 Billion (1311% increase) in 2011 (see Appendix 7).

3. Merger and acquisition lead to increased customers' patronage asrevealed in the level of customers' deposits. The customers' deposit of UBA was about ₦152 Billion and₦205 Billion in 2004 and 2005 respectively but increased, after merger, to ₦757 Billion (269% increase) and ₦898 Billion (19% increase) in 2006 and 2007 respectively. It eventual grew to ₦1.8 Trillion by 2013 (see Appendix 6).While the customers' deposit of Ecobankwas ₦340 Billion in 2010 but increased, after acquisition, to about ₦890 Billion (162% increase) in 2011, ₦1 Trillion (17% increase) in 2012 and ₦1.1 Trillion by 2013 (see Appendix 7).

4. Merger and acquisition lead to improved service delivery as revealed in loans granted by banks. In 2004 and 2005 UBA granted its customers₦56 Trillion and ₦67 Trillion loans respectively.The bank, after merger, was able to grant ₦107 Billion (59% increase) and ₦320 Billion (199% increase) loans in 2006 and 2007 respectively. By 2013, UBA granted about ₦823 Trillion loans. Ecobank granted₦231 Billion loans in 2010, ₦410 Billion (77% increase) in 2011, ₦547 Billion (33% increase) in 2012, and ₦625 Billion (14% increase) in 2013 (see Appendix 7). Increase in granting of loans to customers and the introduction of new and improved banking products and technology such as e-banking, debit, credit, and master cards and the Automated Teller Machines (ATMs) all form part of improved service delivery of banks to customers which translated into the absence of congestions and long customers queues in the banking hall.
5. Merger and acquisition lead to increased profit margin. The profit after tax of UBA was ₦4.2 Billion and ₦4.6 Billion in 2004 and 2005 respectively. It increased after merger, to about ₦12Billion (62% increase) and ₦20 Billion (66% increase) in 2006 and 2007 respectively. By 2013 the bank recorded a profit after tax of ₦46 Billion (see Appendix 6). Ecobankhad a profit after tax of about ₦1.6 Billion in 2010 but recorded after acquisition, a profit after tax of ₦19 Billion (1088% increase) in 2011 (see Appendix 7).

6. Merger and acquisition facilitates growth and expansion in the banking industry. The branch network of both UBA and Ecobank has increased astronomically through the process of merger and acquisition.
7. Merger and acquisition does not increase staff portfolio or responsibility but may lead to spontaneous promotion. For instance, a very committed and prompt goal achieving branch operation officer may be made the branch manager or given a higher position outside the branch without the staff satisfying the required years of experience of the higher office.
8. Merger and acquisition increases the expenditure pattern of banks but does not negatively affect the general operations of banks.
9. The over proliferation of the Nigeria banking industry was curtailed through merger and acquisition hence the initial 89 commercial banks were shrunk into 25 banks in 2006 and dropped down to 21 banks in 2011 (see Appendix 5).
10. The current number of licensed and certified commercial banks by the Central Bank of Nigeria (CBN) stands at 22 banks excluding 2 merchant banks (see Appendix 9)

5.2 Conclusion

It can be deduced and concluded that merger and acquisition are realistic catalysts for the control and correction of anomalies, ensuring stability and transparency, sharpen competitive edge, enhancement of rapid growth, as well as continuous existence and favourable survival of the Nigerian banking industry.

Merger and acquisition as a reform in the Nigerian banking sector have greatly improved the economy and encouraged consolidation of the sector as the number of existing banks is continuously being reduced through merger and acquisition. It is worthy to note that size and huge capital do not necessarily make a good and sound bank but the ability to effectively and efficiently deploy available resources does.

This research reveals that banks need to maximize their competitive advantages by promoting uniqueness in areas of best performance such as marketing, customer service delivery, and fraud detection and prevention so as to sustain shareholders confidence, customers' patronage and profitable continuous existence of the bank.

Conclusively, banks' consolidation that is secured through merger and acquisition does not pose any threat or negative implications on the banking sector but increases shareholders' funds, boosts investors' confidence, ensures financial stability and operational transparency and efficiency, protects creditors and depositors funds, lead to improved service delivery, sustained customer patronage and confidence, increases performance with regard to profitability, strengthens banks capacity to attract funds at lower costs, and enhances banks' liquidity positions.

Merger and acquisition in the Nigerian banking sector is a continuous reform strategy that would not be stopped until a fewer sound and reliable mega banks are established.

5.3 Recommendations

This research has shown that merger and acquisition lead to enhanced financial performance, sanity and stability, and improved competitive advantage of the banking sector and the economy at large locally and internationally. This research recommends therefore, as follows;

Firstly, that banks merger and acquisition should be encouraged by all bank stakeholders (regulatory authorities and agencies, investors, customers, staff, and the general public) as it is a realistic and dependable measure to tackle the problem of bank distress or liquidation.

Secondly, the bank regulatory authorities, namely the Central Bank of Nigeria (CBN), Nigeria Deposit and Insurance Corporation (NDIC), and Security and Exchange Commission (SEC) should close mark banks so as not to create room for complacency that will jeopardize the success of the various formulated bank reform strategies and the banking industry at large.

Thirdly, banks should strive to improve on their service delivery for the sustenance of the benefits of merger and acquisition.

5.4 Contribution to Knowledge

The major contribution to knowledge of this research is that improved performance boost customers' confidence thus enhances value creation of banks.

5.5 Suggestion for Further Studies

Most of the conclusions reported by researchers on the performance pattern of Nigerian banks as a result of merger and acquisition are drawn from the usage of similar variables; they all tend to use fewer numbers of banks as research samples. There could be little or significant difference in findings if larger numbers of banks are used as research case studies.

It is suggested therefore, that in further researches on the effect of merger and acquisition on bank performance, attempt should be made to include in the investigation, all Nigerian banks that have experienced merger or acquisition

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APPENDIX 1

APPENDIX 2

APPENDIX 3

Brief History of Ecobank Nigeria Limited

Ecobank Nigeria is a member of Ecobank Group that was established in 1985 and headquartered in Lome, Togo with Affiliates in West African, Central Africa, and East Africa. Ecobank has over 1000 branches with offices in 32 countries of African and maintains a banking subsidiary in Paris and representative offices in Johannesburg, Dubai, and London. Ecobank Transnational Incorporated (ETI) is the parent company of the Ecobank Group which include among others, the Ecobank Development Corporation Securities Limited, in Nigeria.

Ecobank Nigeria Limited commonly referred to as Ecobank Nigeria is a commercial bank licensed by the Central Bank of Nigeria (CBN). It was founded and began operations in 1986 as a universal bank, providing wholesale, retail, corporate investment, and transaction banking services. The bank has 3 major divisions namely; Retail Banking, wholesale Banking, and Treasury and Financial institution. It also offers capital market and investment banking services.

It was during the fourth quarter of 2011 that Ecobank Nigeria acquired 100% of the shareholding in Oceanic Bank International Plc thereby creating the expanded Ecobank Nigeria Limited.

Oceanic Bank International Plc was one of Nigeria foremost financial service institution. The Bank was incorporated in March 26, 1990 under the Company and Allied Matters Act (1990) of Nigeria as a private limited liability company. The Bank was granted a commercial banking license on April 10, 1990 and Commercial business on June 12, 1990. However, on June 4, 2004 (14 years after incorporation), the Bank converted to public liability company. Its shares were first listed on the Nigerian stock Exchange on June 25, 2004.

As at May 2009, Oceanic Bank International Plc had subsidiaries in 5 countries namely; Cameroon, Gambia, Ghana, Sao-Tome and Principe, and Nigeria. However, the subsidiaries in Gambia and Sao Tome and Principe were closed and sold in January 2011. It was in May 2011 that Oceanic Bank International Plc was acquired by Ecobank Nigeria Limited.

As at December, 2011, the expanded Ecobank Nigeria Limited controlled a total asset valued at approximately US 8.1Billion (N1.32 Trillion). By virtue of its acquisition of Oceanic Bank International Plc, Ecobank Nigeria Limited had about 610 free standing branches, in Nigeria thereby becoming the 2nd largest bank in the country by branch network.

APPENDIX 4

Brief History of United Bank for Africa

United Bank for Africa plc started banking business in Nigeria in 1948 as British and French Bank Limited (BFB); a London branch and subsidiary of BanqueNationale de Credit (BNCI), Paris with two British investment firms (S.G. Warburg and Company and Robert Benson and Company) as co-shareholders. Following Nigerian's independence from British, UBA was incorporated on February 23, 1961 to take over the business of BFB and eventually listed its shares on the Nigerian Stock Exchange (NSE) in 1970.

The today's UBA emerged from the merger of Standard Trust Bank; incorporated in 1990 and the then UBA. The merger was consummated on August 1, 2005. UBA subsequently acquired Continental Trust Bank in the same year, further acquired Trade Bank in2006 and City Express Bank, Metropolitan Bank, and African Express Bank in 2007. The bank also acquired Afrinvest UK, rebranding it to UBA Capital, UK. The bank also acquired Gulf bank and Liberty Bank in 2008and established branches in Cameroon, Cote d Voire, Uganda, Sierra Leone, Liberia and Burkina Faso.

On 13th December, 2012, the shareholders of UBA plc unanimously voted for the bank to restructure into a mono-line commercial bank in order to fully comply with the new CBN guidelines for commercial banks in Nigeria which repealed the erstwhile universal banking regime.

With the restructuring, the Group's non-commercial banking subsidiaries with the exception of Africa Prudential Registrars plc and Afriland Properties Plc were consolidated under UBA Capital Plc and spun-off to shareholders of the Bank. Along with UBA Plc, the restructuring brought about UBA Capital and Africa Prudential Registrars Plc which are already listed on the Nigerian Stock Exchange as well as the Afriland Properties Plc now controlled by independent shareholders under the mono-line business structure. UBA Plc is also the parent company for UBA Pensin Custodian Limited, UBA Capital (UK) and UBA FX Mart Limited.

APPENDIX 5

(LIST OF CERTIFIED BANKS AS AT DECEMBER, 2011)

S/N	BANKS
1.	Access Bank Plc (Acquired Intercontinental Bank)
2.	Citibank's Nigeria Limited
3.	Diamond Bank Nigeria Plc
4.	Ecobank Nigeria Plc (Acquired Oceanic Bank)
5.	Enterprise Bank Limited (Formerly Spring Bank)
6.	Fidelity Bank Plc
7.	First Bank of Nigeria Plc
8.	First City Monument Bank Plc (Acquired Fin. Bank)
9.	First Inland Bank Plc
10.	Guaranty Trust Bank Plc
11.	Keystone Bank Ltd (Formerly Bank PHB)
12.	Mainstreet Bank Ltd (Formerly Afribank)
13.	Skye Bank Plc
14.	Stanbic IBTC Bank Plc
15.	Standard Chartered Bank Nigeria Plc
16.	Sterling Bank Plc (Acquired Equitorial Trust Bank)
17.	Union Bank of Nigeria Plc
18.	United Bank for Africa Plc
19.	Unity Bank Plc
20	Wema Bank Plc
21.	Zenith Bank Plc.

Source: CBN Deposit Money Banks (2011)
Retrieved from Wikipedia-list of Commercial

Banks licensed by CBN.

APPENDIX 6

APPENDIX 7

APPENDIX 8

Business Administration Department,
Faculty of the Social Sciences,
Delta State University,
Abraka.

Dear Respondent,

Effect of Merger and Acquisition on the Performance of selected Commercial Banks in Nigeria.

I am a Postgraduate student of the above mentioned University currently conducting a research on the above subject matter, being part of the requirements for the award of a Masters' of Science (M.Sc.) degree in Management. As a banking stakeholder, you have been carefully selected to be one of the respondents of this research with the strong believe that you would sincerely provide the required necessary information for this research.

I solicit, therefore, for your kind co-operation in filling the attached questionnaire. Your candid response would be treated with utmost confidentiality and used only for the said research.

Thank you and God bless.

Ohwavborua, Sam
(08033726637)

QUESTIONNAIRE FOR STAFF

Please tick (√) as appropriate in the options provided below.

SECTION A

1. **Sex**: Male ( ) Female ( )
2. **Age Bracket**: Less than 26yrs( ) 26-40yrs( ) Above 40yrs( )
3. **Marital Status**: Single( ) Married( ) Separated( )
4. **Academic Qualification**: O/Level( ) OND/NCE( ) HND/B.Sc( ) Masters( ) Ph.D.( )
5. **Category**: Management Staff( ) Senior Staff( ) Junior Staff( )
6. **Working Experience:** Less than 5yrs( ) 6-10yrs( ) 11-15yrs( ) 16-20yrs( ) Above 20yrs( )

SECTION B

Please tick (√) in the appropriate columnto show the extent to which you agree or disagree with each statement below.

S/N	STATEMENT	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE
1	Merger and Acquisition attracts both local and foreign investment in banks				
2	Merger and Acquisition favourably affects the liquidity position of banks				

3	Merger and Acquisition leads to increased profit margin of banks				
4	Merger and Acquisition increases the lending capability of banks				
5	Merger and Acquisition leads to improved performance and productivity level of banks				
6	Merger and Acquisition facilitates growth and expansion of the Nigerian Banking Industry				
7	Merger and Acquisition brings about effectiveness and efficiency in the banking sector.				
8	Merger and Acquisition leads to increase in staff portfolio and motivation.				
9	Merger and Acquisition poses threat to bank workers.				
10	Merger and Acquisition increases the expenditure pattern of banks.				

THANK YOU VERY MUCH

QUESTIONNAIRE FOR CUSTOMERS

Please tick (√) as appropriate in the options provided below.

SECTION A

1 **Sex**: Male ( ) Female ( )

2 **Age Bracket**: Less than 26yrs( ) 26-40yrs( ) Above 40yrs ()

3 **Marital Status**: Single( ) Married( ) Separated( )

4 **Academic Qualification**: O/Level( ) OND/NCE( ) HND/B.Sc( ) Masters( ) Ph.D.( )

5 **Account Type**: Current( ) Savings( ) Fixed Deposit( )

SECTION B

Please tick (√) in the appropriate columnto show the extent to which you agree or disagree with each statement below.

S/N	STATEMENT	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE
1	Merger and Acquisition facilitates national economic growth and sustainable development				
2	Merger and Acquisition leads to introduction of new banking products and services				
3	Merger and Acquisition leads to improved service delivery.				
4	Merger and Acquisition enhances customers' patronage.				
5	Merger and Acquisition has negative impact on banks				

THANK YOU VERY MUCH

APPENDIX 9

(LIST OF CERTIFIED BANKS AS AT JANUARY, 2015)

S/N	BANKS	
1.	Access Bank Plc	
2.	Citibank's Nigeria Limited	
3.	Diamond Bank Nigeria Plc	
4.	Ecobank Nigeria Plc	
5.	Enterprise Bank Limited	
6.	Fidelity Bank Plc	
7.	First Bank of Nigeria Plc	
8.	First City Monument Bank Plc	
9.	FSDH Merchant Bank	(Merchant Bank)
10.	Guaranty Trust Bank Plc	
11.	Heritage Bank Plc.	
12.	Keystone Bank Ltd	
13.	Mainstreet Bank Ltd	
14.	Rand Merchant Bank	(Merchant Bank)
15.	Savannah Bank	
16.	Skye Bank Plc	
17.	Stanbic IBTC Bank Limited	
18.	Standard Chartered Bank Nigeria Plc	
19.	Sterling Bank Plc	
12.	Union Bank of Nigeria Plc	
21.	United Bank for Africa Plc	
22.	Unity Bank Plc	
23	Wema Bank Plc	
24.	Zenith Bank Plc.	

Source: Retrieved from Wikipedia-list of Commercial Banks licensed by CBN (2015)

APPENDIX 10

(LIST OF BANK BRANCHES THAT WERE CONSULTED.)

1. Ecobank Nigeria Limited, DELSU Abraka Branch 1
2. Ecobank Nigeria Ltd. DELSU Abraka Branch 2
3. Ecobank Nigeria Ltd. Ekrejeta Quarters, Abraka Branch
4. Effurun Branch, 61 Effurun/Sapele Road, Effurun.
5. Enerhen Junction, Warri Branch.
6. Warri Main Market Branch.
7. UBA Ekrejeta Quarters, Abraka Branch
8. PTI Effurun Branch
9. Water Resources Junction, Effurun branch
10. Enerhen Junction, Warri Branch.
11. Okumagba Avenue, Warri Branch.
12. Warri Main Market Branch.