Indonesian Journal of Banking and Financial Technology (FINTECH)
Vol. 2, No. 2, 2024 : 139 - 146

Mergers and Acquisitions in the Nigerian Industries: Challenges and Solutions

Cecilia Adurayemi Adu
Department of Accounting and Finance, Crawford University, Igbesa Ogun State
Corresponding Author: Cecilia Adurayemi Adu prepet99@yahoo.com

A R T I C L E I N F O

Keywords: Capital Adequacy, Mergers, Acquisitions, Profitability, Shareholders Fund

Received : 06 March
Revised : 26 March
Accepted: 28 April

A B S T R A C T

This study looked into the difficulties and fixes for problems related to mergers and acquisitions in Nigeria. This study used the descriptive (qualitative) method to review recent studies conducted by a variety of authors. The study discovered that Mergers and Acquisitions are strategic tools for effective and efficient growth in business organization; there would be improved turnover for organizations. It was suggested that mergers and acquisitions should be properly carried out and not in desperation in order to achieve success.

DOI: https://doi.org/10.55927/fintech.v2i2.8890
E-ISSN : 2985-5551
https://journal.formosapublisher.org/index.php/fintech

INTRODUCTION

For more than 20 years, mergers and acquisitions have gained popularity worldwide because of factors like industrial expansion, liberalization, globalization, and an extremely competitive business environment. A lot of business organizations are planning mergers, acquisitions, and other kinds of strategic alliances in an effort to gain an advantage over rivals. Today, the banking sector views mergers and acquisitions as a widespread occurrence.

According to the records, there have been more than 7,000 bank mergers in the USA since 1980, while the UK and other European nations have experienced a decline in bank merger activity. In the European region, there were 203 bank mergers and acquisitions between 1997 and 1998. In 1998, a new bank was established in France with a capital base of US $688 billion, while the largest bank in Germany was created by the merger of two banks at the same time, with a capital base of US $541 billion (Ikpefan, 2012).

The Nigerian Central Bank (CBN) announced a significant reform initiative aimed at changing the country's banking sector. It began working to stop bank failures on July 6, 2004.

The prescription of a minimum shareholders' fund of N25 billion for all Nigerian banks in 2005 happens to be the central propel of the reform in which banks were advised to engage in either merger or acquisition with other moderately smaller banks; thus benefitting economies of scale advantage by reducing production cost as well as local/international competitiveness (Elumilade, 2010).

Statement of Research Problem

Many banks could not resist harsh economic situation caused by naira devaluation increasing and inflationary rate which give rise to mergers and acquisitions in Nigeria (Adu, Oke-Potefa and Adeleke, 2023). Increased customer's demand plus advanced technologies of banks can hardly make them survive alone which has brought about mergers for them to remain competitive in the banking industry. Capital market's inefficiency by its operators has given way for mergers and acquisitions. Insolvency has resulted from a negative capital adequacy ratio, operating losses that have completely depleted shareholders' funds, late publication, and fraudulent accounting of annual reports and accounts.

Objective of the Study

To determine the effect of merger and acquisition on the Nigerian industries

LITERATURE REVIEW

Meaning of Merger and Acquisition

Merger and acquisition are substituted to be same and are abridged as M&A. They are global terms adopted to achieve business growth and survival. They aim at attaining efficient cost through economies of scale, expansion of range of business activities to enhance performance likewise synergy. Merger is the combination of two or more companies in which one company will legally exist by maintaining its original name or take on a new name; acquisition is defined as business combination in which one completely takes over the other(s) by being under single management (Odetayo, Sakuiogbe and Olowe, 2013).

Mergers and Acquisitions in Nigeria – 29 Years After

Nigeria's history was significantly impacted by the mergers and acquisitions of 1982. The M&A model had very little importance in Nigeria prior to 1982. The Bendel Transport Service Ltd. was formed by the combination of three companies: Re-Bendel Co Ltd., Bendel Intra-city Bus Service Ltd., and Trans-Kalife Ltd. This was one of the few significant mergers. After the Securities and Exchange Commission (SEC) began operations in 1982, this significantly changed and synchronized business combinations were introduced in Nigeria. In 1982, there was an attempt at a merger between United Nigeria Insurance Company Limited and United Life Insurance Company Limited. Between 1982 and 1988, the Securities and Exchange Commission oversaw thirteen mergers, including those between John Holt Ltd and John Holt Investment Ltd, SCOA Nigeria Ltd and Nigeria Automotive Components Ltd, and Lever Brothers Nigeria Limited and Lipton Nigeria Ltd (Adu, 2012). Only two of these mergers were unsuccessful.

Need for Merger and Acquisition

Economies of Scale: The combined business can frequently eliminate redundant operational units, cutting costs in relation to the same revenue stream and boosting profit.

Increased Revenues/ Increased Market Share: Thus, by gaining more market share to determine prices, the company that acquires a significant rival will strengthen its position in the market.

Cross Selling: When a bank buys a stock broker, the broker can open brokerage accounts for the bank's clients, and the bank can sell its banking products to the broker's clients. Alternatively, a manufacturer can purchase and market complementary goods.

Synergy: It manifests as cost savings and increased revenue. Combining two businesses in the same industry, like two banks, usually results in a decline in combined revenue to the point where the businesses overlap in the same market and some customers become resentful. In order for the merger to benefit shareholders, the synergies from the merger must outweigh the initial lost value, and there must be opportunities for cost savings to counteract the revenue decline.

Taxes: Profitable businesses can purchase loss makers to benefit from the target's loss by paying less in taxes.

Geographical or other diversification: This is intended to smooth a company's earnings results, which eventually smooths the share price of a company and increases the confidence of conservative investors to invest in the company. This does not, however, always result in value for shareholders.

Resource Transfer: uneven sharing of funds across firms while acquiring firm resources can generate value by either defeating information asymmetry or by joining limited resources.

Increased market share: market power can increase while it is the interest of the investors which often raises dishonest concerns, and may not please the interest of the public (Adu, Oke-Potefa, and Adeleke, 2023).

METHODOLOGY

This study used the descriptive (qualitative) method to review recent studies conducted by a variety of authors.

RESEARCH RESULT AND DISCUSSION

Consolidation in the Oil and Gas Industry through Mergers and Acquisitions

There was a sharp drop of oil price in 2017 which was as low as $46 per barrel having soared between $50-$60 per barrel at the start of 2016. It fell further due to crisis facing the Chinese capital market. There is a tremendous cash flow strain as a result low price of all oil companies with no respect to size thus wondering on their long term survival. Most of their yearnings include:

a) range of period for oil prices to rise from their current fall;
b) required slash to fresh low price situation;
c) likelihood of the industry in experiencing mergers and acquisitions, increased situation of the present low prices or target on high margin lesser risk assets to support cash flow (Odetayo, Sakuiogbe and Olowe, 2013).

International Oil Companies (IOC) operating in Nigeria and Nigerian independents have not been hindered by the global oil market because of certain factors that worsen their situation, such as NNPC's inability to offset cash call debt in its various joint ventures and the Petroleum Industry Bill's (PIB) lack of approval. In 2010, international oil companies (IOCs) such as Shell and Chevron began to break up assets they considered to be higher cost with Nigerian independents in an effort to gain a stronger hold on upstream activities. This was done in anticipation of the current circumstances (Owolabi and Ogunlabi, 2013).

Mergers and Acquisitions are crucial part of the solution for both the IOCs and Nigerian independents operating in the oil and gas sector in Nigeria due to the low oil price affecting their balance sheets and pressure to offset their debts. The international landscape and an IOC viewpoint, the Royal Dutch Shell is leading with its projected $55 billion acquisition of BG. Mega mergers of super majors like Exxon Mobil and Total ElfFina can occur if oil price decline continues like that of 1998/99. Domestically, Afren, UK company with a subsidiary in Nigeria has been forced by plunging oil into administration with the Nigerian assets in its portfolio for sale. To ensure the access of Mart's Nigerian assets at a lower cost, Mid- Western Oil and Gas Limited pulled out of the proposed acquisition of Mart Resources.

It is unavoidable that a new wave of industry combination commence sooner commence with debt anxiety growing on the recent purchasers of the IOC divested assets. In light of former and looming outbreak of consolidation in the sector, it is important that stakeholders comprehend the lawful structure for mergers and acquisitions in Nigeria (Elumilade, 2010).

Issues and Challenges in Merger and Acquisition

The banking consolidation programme of 2004/2005 was the first experience of Merger and Acquisition wave in Nigeria. The Regulatory Authorities through the provision of technical support in form of advice largely assisted the transactions. There are noticeable challenges that should be tackled by the regulatory authorities and operators in order to obtain utmost profits from the outcome of the dealings. The challenges are listed beneath:

The challenge is the rapidness of the merging entities into a productive entity that can generate scope and scale economies in the payment system. It is significant to specify that since all affected banks are products of consolidation, their experience is brought to consideration. Close attention should be paid by the regulatory authorities to the incorporation process in order to speedily discover challenges and offer solutions to them (Adu, Uchehara, Wiiliams, Oguntuase, and Oke-Potefa, 2023).

Empirical Review

Impact of Mergers and Acquisitions on the Performance of Nigerian Banks: A Case Study of Selected Banks conducted by Oloye and Osuma (2015). Mergers and acquisitions are reformatory policies adopted to restructure the banking sector. The shareholders' fund and profit after tax of the selected banks were measurable variables used for bank's financial efficiency at pre and post consolidation periods in Nigeria. The simple random sampling method was used to select two banks in the study while secondary data were obtained from some university journals, Nigerian Stock Exchange, text books, and banks' annual reports. The correlation and regression were used through Econometrics view for analyses. It was discovered that consolidation is a helpful way of guaranteeing banking business survival and success; it was also found out that there was significant contribution of shareholders' fund to the profit after tax of banks.

The effect of merger and acquisition on corporate growth and profitability in Nigeria carried out by Akinbuli and Kelilume (2013) observed that consolidation is a deliberate solution to financial distress in corporate organizations. This remains an assumption not empirically tested. The regulators mandated corporate organizations having challenges to engage the course of broad restoration of mergers and acquisitions as the only alternative to bankruptcy. Some companies (10) undergoing mergers or acquisitions which were incorporated in Nigeria under the CAMA (1990) were surveyed for this study while survey elements were randomly selected. The secondary data collected were analyzed through financial ratios. From the results, it was confirmed that consolidation is not an answer to financial distress in corporate organizations. It was discovered that mergers and acquisitions provided transitory result to financial distress.

The effect of mergers and acquisitions on the performance of Nigerian banks was investigated by Busari and Adeniyi (2017) which examined the bank's cost of equity capital on value of shareholders' funds. The descriptive analysis in form of time series and cross-sectional data analysis was used while the study's population was all the Banks in Nigeria that underwent mergers and acquisitions. Five (5) banks that succeeded the process were selected through simple random sampling technique which were Skye Bank PLC, United Bank for Africa PLC, Union Bank PLC, First City Monument Bank PLC and Sterling Bank PLC. The panel regression technique was used to analyze the data while it was discovered that banks' consolidation affected their performance but did not affect bank's cost of equity capital.

Summary of Findings

The study found out that Merger and Acquisition is an effective and efficient growth plan in business organizations; organizations' turnover improved after they adopted merger and acquisition; there were efficient allocation of resources and reduced risk from management proficiency; Merger and Acquisition brought about synergy; merger and acquisition have assisted organizations in expanded market size, reduced competition and increased branch network.

CONCLUSIONS AND RECOMMENDATIONS

Summary

Globally, mergers and acquisitions are occurrences that facilitate organizations when accurately premeditated and implemented by giving an organization a competitive edge over others though they do not automatically assure a firm's success. Banks do face a lot of challenges during consolidation while proper planning and sufficient time for the process must be dedicated to overcome these challenges.

Recommendations

The following suggestions were made from the study**:**

A method for evaluating and determining the best option for any organization should be in place. Innovative product development and marketing should increase the bank's market share, financial performance, and competitive enhancement. Although mergers and acquisitions (M&A) carry some risks that can lead to failure when improperly managed, this should be completely avoided. The incapacity of managers to handle the complex task of integrating their firms with various operating procedures, accounting techniques, and target firm valuation by the buyer must be avoided. Successful M&As should have an advantageous takeover in place.

ADVANCED RESEARCH

While writing this article, the researcher realized that there are still many flaws in language, writing, and presentation style, which is understandable given their own limited knowledge and experience. To guarantee the paper is perfect, the researcher therefore expects insightful criticism and suggestions from a variety of sources.

REFERENCES

Adu,C.A, Oke-Potefa,O.S and Adeleke, B.M (2023). Nigeria's currency redesign: Cashless policy and the unbanked vulnerable, *Sapientia Global Journal of Arts, Humanities and Development Studies, 6(3):15-21.*

Adu,C.A;Uchehara,C.C;Wiiliams,A.C;Oguntuase,A.T;and Oke-Potefa,O.S.(2023). Liquidity and credit management of deposit money banks in Lagos State Nigeria. *International Journal of Arts, Languages and Business Studies, 10(1):162-180.*

Adu, C.A (2012). Risk management in banks: Theoretical exposition. *Journal of Business and Social Sciences*, *Crawford University 2(2):153-175.*

Akinbuli, S.F. and Kelilume, I. (2013). The effect of mergers and acquisition on corporate growth and profitability: Evidence from Nigeria. *Global Journal of Business Research 7(1):15-27.*

Busari I. A. and Adeniyi A. (2017). The effect of mergers and acquisitions on the performance of Nigerian Banks. *International Journal of Innovative Finance and Economics Research 5(3):37-53.*

Elumilade D (2010). Mergers and acquisition and efficiency of financial intermediation in Nigeria Banks: An empirical analysis. *International Journal of Business Management.*

Ikpefan, O (2012). Post consolidation effect of mergers and acquisitions on Nigeria deposit money bank, *European Journal of Business and Management* 4 (16).

Odetayo, T. A., Sakiuogbe, A. S. and Olowe, S. O. (2013). Empirical analysis of the impactof post-merger on Nigerian banks profitability. Research *Journal of Finance and Accounting,* 4(17).

Oloye M.I. and Osuma G. (2015). Impacts of Mergers and Acquisition on the Performance of Nigerian Banks: A Case Study of Selected Banks. *Pyrex Journal of Business and Finance Management Research,1 (4): 23-40.*

Owolabi, S.A and Ogunlabi, A.E (2013). Banking industry consolidation and financial performance of selected quoted banks in Nigeria. *Journal of Applied Finance and Banking,* 3(3) 219-238.