STRATEGIC MERGERS AND ACQUISITIONS: A SURVIVAL AND GROWTH OPTION USED BY BANKS IN PRE AND POST BANKING SECTOR REFORMS IN NIGERIA

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ABSTRACT

On 31st December, 2005, the eighteen-month deadline for recapitalization given by the Central bank to operators in the Nigerian banking industry expired. From the following day only banks who met the required minimum of 25 billion shareholders' funds retained their license to continue operation. The quest of many banks to remain operation after this deadline forced many operators within the industry to embrace merger and acquisition as an alternative to complete winding up and liquidation. The objective of this paper is to examine the pre and post banking sector reforms mergers and acquisitions exercise by banks and the benefits derivable from thestrategic alliances.It also considers the vitiating elements inherent and attributable to these strategic alliances.

KEYWORDS: Mergers, Strategic Alliance, Acquisitions, Takeover, Reforms, Consolidation.

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1. INTRODUCTION

Being one of the most active sectors in the economy, one would not be unduly surprised with the zeal with which indsurty operators have been pursuing mergers and acquisitions. Most of the mergers and acquisition deals in Nigeria had been in the manufacturing sector with fewer deals being recorded in the financial sector. The 1912 acquisition of the Angl African Bank by the BBWA triggered off mergers and acquisitions in the banking sector in Nigeria. There has not been much activity as would have been expected since the earlier days when Chase Manhattan Bank in 1965 merged with the Bank of British West Africa (now First Bank of Nigeria Plc).Union Bank of Nigeria Plc (one of the biggest three banks in Nigeria and quoted on the Stock Exchange) acquired 75% of unquoted Citi Trust Merchant Bank in 1995 for N187.5million, with the payment of N5.00 per share for each N1.00 share acquired. Citi Trust Merchant Bank was subsequently renamed Union Merchant Bank. In the same vein, Guaranty Trust Bank acquired Magnum Trust Bank in a deal characterised by a share for share exchange. In that acquisition, 12.5% of the paid up share capital of Guaranty Trust Bank was given in exchange for 100% of Magnum Trust's paid up capital of 50million ordinary shares of N1.00 each. This merger was later unrolled most probably as a result of cultural incompatibility among the merger partners.

In 1995, The Nigerian Intercontinental Merchant Bank (now Intercontinental Bank) acquired a controlling interest of 70% in Equity Bank Nigeria Limited (formally Meridien Equity Bank of Nigeria) through the cash payment of N1.56 per N1.00 ordinary share. Intercontinental Bank Limited also acquired a 60% stake in the West African Provincal Insurance Company. In 1997, the National Insurance Corporation of Nigeria (NICON) acquired a 100% interst in Nigerian-Arab Bank Plc. (now Assurance Bank). NICON was later to divest of the bank as a result of the privatisation exercise of the Federal Government of Nigeria that saw to the disposal of most of NICON's investments and subsidiaries.

In 1998, SBIC Africa Holdings Limited which already owned 40% of Stanbic Merchant Bank Nigeria Limited acquired a further 48.9% of the bank in order to further consolidate its holdings. The other acquisition of interest in the banking sector occurred in 2003 when Standard Trust Bank Plc, acquired a controlling interest of 51% of Continental Trust Bank.

Additional merger expectedly came up in the banking sector in 2005 taking into consideration the directive to banks to shore up their capitalisation base to N25billion by December 2005.

Banks with common shareholding interest pool their interest. A number of banks raisedfunds from the capital market so as to be well positioned to take over others that may be less fortunate in their capitalisation efforts. About 20 banks formed five mega banks. The first among these was unveiled on September 3, 2004 and namedIntercontinental Banking Group. True to expectations, the banks in the Intercontinental constellation made up of Intercontinental Bank, Global Bank, Gateway Bank and Equity Bank announced their plans on September 16, 2004, to form Intercontinental Bank Group. Union bank plc acquired Universal Trust Bank and .Wema bank plc merged with lead merchant bank, National bank and Cooperative bank and retained the name Wema bank plc. This paper noted that the pace of mergers and acquisitions is endless and as at the present moment,precisely in the year 2011, Stanbic bank plc acquired Oceanic bank while Access bank plc acquired Inercontinental bank plc.

2. CONCEPTUAL AND LEGAL FRAMEWORK

Conceptually, mergers and acquisitions, which are forms, of business combinations, involve the coming together or fusion of two or more enterprises into a single entity. In generic terms, while merger and acquisitions are often used synonymously, such other terms as takeovers,amalgamations and consolidation are also used to express the various forms of business combinations.The recent recapitalization directive by the central Bank of Nigeria to all Banks operating in Nigeria to raise N25Billion each as their minimum paid-up capital as a means of restructuring the economy has resulted in merger and acquisitions. Merger has becomes increase popular as a means of improving competitive position in existing businesses, more efficient utilization of resources, and survival and growth of the private sector of the economy. This paper observed that merger and acquisition is a veritable option that capitalizes on the strength of merger banks to ensure economy of scale and therefore create synergies. It also recognised that the poor performance of Nigerian banks and distressed situation in the banking system may not be unconnected with the low capitalization of the sector. Consequently, the emerging mega bank from the current exercise would focus lending activities on the real sector of the economy thereby impacting positively on the growth and development of the economy.According to Akingunola and Olanrewaju (2000),In order to avoid unbridled and degenerative activities in the practice and execution of merger and acquisitions, it is imperative that there should exist a regulatory framework, the effective operation of which would ensure

that they do not pose as threat to normal commerce or to the development of the economy. The regulatory framework was evolved essentially took into consideration the reality of the economy within which we operate. The framework was not design to prevent anti-trust activities or hinder the development of monopolies, rather they were geared towards protecting the investing public against dubious deals and safeguarding the Nigeria entrepreneurs against the invasion of the classes of business reserved for them by the indigenization decree. Akingunola and Olanrewaju (2000:310) summarised the legal framework as follows:

- The Companies Act No 51 of 1968 now repealed and replaced by the Companies and Allied Matters Act 1990.
- The Nigeria Enterprises Promotion Act of 1977 (as amended) now repealed and replaced by the Nigerian Enterprises Promotion Decree No 54 of 1989.
- The Securities and Exchange Commission Decree No 29 of 1998.

Oluwasanya (2011) opined that banking reforms through appropriate regulation and supervision are in different shapes and sizes. He further listed the current legal framework for banking regulations in Nigeria among which are:

(i) BOFI ACT 1998 as amended. The law reverted the power for liquidation of banks to CBN. The act gave the CBN power to review minimum paid-up capital from time to time. Raised penalties payable by banks for violation of banking laws.

(ii) Nigeria Deposit Insurance Corporation Act of 1988. This is the enabling act establishing NDIC as insurer of bank deposits.

(iii) NDIC Amendment Decree No. 39 of 1988. Strips NDIC of the powers to ascertain and resolve distress of any bank. Brings NDIC under the control of CBN

(iv) Economics and Financial Crimes Commission Act (2004)

(v) Failed Banks (Recovery of Debts) and Financial Malpractices ACT (1994). The law provides for the triat of directors and managers of distressed banks and recovery of assets acquired through insider abuse.

(vi) Corporate Governance 2003. The code of corporate governance specifies the professional conducts and ethical standards required of bankers and principal officers in the discharge of their financial services obligations to notable gamut of clientele bank wide. Compliance with the provisions of these codes is compulsory.

(vii) Money Laundering Prohibition ACT 2004. The law empowers NDLEA to monitor cash deposits into banks. All cash transactions exceeding N500,000 for individuals and N2M for corporate must be reported to NDLEA.

(viii) Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17 of 1995. The law provides for the creation of AFEM and empowers CBN to appoint and remove any authorized dealer.

(ix) Monetary, Credit, Foreign Trade and Exchange Policy Guidelines: These are annual documents issued by the CBN specifying its policy direction for the fiscal year.

(x) Prudential Guidelines 1990. This guideline mandates banks to classify their credits into performing and non-performing. Non-performing are further classified into substandard. Doubtful and lost accounts with 10%, 50% and 100% provision respectively. A 1% general provision for performing credits is however required. It also bared from accruing to income interest on non-performing loans.

(xi) The Investment and Securities Act 1999,

(xii) The Securities and Exchange Commission Act (SECA) 1988 and its accompanying rules and regulations.

(xiii) The Code of Conduct for Directors of Licensed Banks and Financial Institutions approved by Bankers' Committee in 2003

3.LITERATURE REVIEW

The legal definition of merger is provided under section 590 of companies and Allied matters Act CAMA of 1990 as any amalgamation of the undertakings of one or more companies into a corporate body, while acquisition is defined as the acquisition by one company of sufficient share in another company to give acquiring control over that other company.

Anthony, defines acquisition and merger as follows:

An acquisition is said to occur if one corporation buys either assets, net assets (assets minus liabilities) or stock of another company. However if the firms are combined through an exchange of one company's stock for the other's then a merger is said to have occurred.The chambers universal learners dictionary aptly refers to merger "as a joining together of business firms"and acquisition as the act of acquiring.

Glantier and Underdown (1982) posits that merger and acquisitions take place between companies of similar size and where both business are continued side by side while Freear (1985), defines merger as the fusing together of two or more companies, whether the fusion was voluntary or enforced. Acquisition, on the other hand, is described as a business combination where two companies of unequal sizes combine. In other words, the large and more dominant company takes over a significant portion of the shares of the smaller one thereby having a controlling interest (Aguolu, 1993).

In the words ofOluwasanya (2011), mergers are in different shapes and sizes and are basically of three kinds: pooling of interest; a consolidation; or a purchase. The pooling of interest merger puts the two companies' assets together and combines all the accounts, the consolidation is when a new entity is formed and both the companies are bought and combined under the new entity while the purchase is when one company buys another and when one of the companies survives as a legal entity is there a merger.Guthmann and Dougall (1964) posited that one major problem in the preparation of the agreement of merger is the determination of the basis for the exchange of shares that properly reflects constituent companies and guard their balance of control. They further pointed out that before the advent of stock without per value, the emphasis was on the dollar amount of capitalization. The problem was regarded as one of determining a valuation of the full worth of the combined businesses that would include not only the developed goodwill but also often the value expected to develop from the enhanced profits after combination. This valuation would then determine the amount of securities to be issued.

Brockington (1987),posits that merger and acquisition can be problematic. He is of the opinion 'If the mergers and acquisition is by an exchange of shares, as is commonly the case, the pattern of shareholders' control of the business will be altered. This may not be desired by the present substantial shareholders'. A merger and acquisition is a public method of expansion which may provoke counter bids or other forms of retaliation from competitors''. … is a fairly, big, once-and-for-all step. It is very difficult to reverse it if in the event it turns out to be unsuccessful.

According to Ross, et al (1991), A primary disadvantages is that mergers and acquisitions must be approved by a vote of the stockholders of each firm. Typically, two-thirds or even more of the share votes are required for approval. Obtaining the necessary votes can be time-consuming and difficult. Furthermore, the cooperation of the target firms' existing management is almost a necessity for a merger and acquisition. This co-operation may not be easily or cheaply obtained.

According to Brealey and Myers (1995) ,you have to be careful to define benefits and costs properly; second, buying a company is more complicated than buying a new machine, in particular, special tax, legal and accounting issues must often be addressed; finally, you need a general understanding of why mergers and acquisition occur and who typically gains or losses as a result of them. Brealey and Myers (1995) further opined that during periods of intense merger activity, financial managers spend significant amount of time either searching for firms to acquire or worrying whether some other firms will acquire them. They further slam mergers and acquisitions for often being awkward transactions to evaluate. According to Marks (2007) Growth is a key goal and objective for emerging companies and management must carefully determine the best way to combine the core competencies within a firm's functional departments to provide the firm with the best opportunity for achieving and sustaining a competitive advantage in its chosen environment.According to *Mintzberg(1990)* Strategy is the determination of the purpose (or mission) and basic long-term objectives of an enterprise, adoption of course of action and collection of resources necessary to achieve their aims

Marks (2007) also posited that strategy is about the forest and the trees. It's taking a long-term view of what you are trying toaccomplish, integrating the dynamics specific to a particular company and to its industry,developing a set of initiatives to achieve a particular future position, and then distilling itdown into bite-size activities and actions, that in an appropriate sequence, allow you tomeet your objectives. Strategy is the set of decisions defining the activities thatpositions your company advantageously relative to your rivals.

According toWheelen and Hunger (2004)strategies "are scheme methods manoeuvres which management hope to deploy in order to move the organization from its present recognizing that during the intervening period in the environment.

In the words of Oluwasanya (2011),Strategies must be effectivel, proactively and pragmatically implemented in order to enhance the key performance indicators and business success imperatives organisation-wide.

3.1MERGERS AND ACQUISITIONS

A merger is the coming together of two or existing companies to form one company. In the process, the companies may-cease to exist as separate units. A merger can take place between two or more quoted companies, it also can be between a public and a private company. A merger

becomes an amalgamation when tow firms that were previously independent come together to form one company. In the new company, the old firms completely lose their identity. The shareholders of the two firms receive shares in the new company in an agreed proportion in exchange for shares in the old companies. The amalgamated companies in a merger (also called combine) adopt the name of one of the companies or completely assume a new name. The name that is chosen will depend on the circumstances of the merger and the importance and value attached to the names of the companies as well as their relative standing in the economy.

FORMS, SHAPES AND SIZESOF MERGERS

Mergers can be categorized either according to the mode of coming together of the companies or according to the nature of the companies (relationship of the products of the fusing companies).

A. Mergers arising according to the mode of association take the following forms:

i. Mergers by the formation and Promotion of a view company

In this case, the companies involved in (he merger are wound up and a new company formed to take over the assets and liabilities of the original companies. This type of merger (amalgamation) may occur where the companies which have agreed to merge are relatively equal in size and power.

ii Merger by Forming a Holding Company

Under this arrangement, the merging companies come under the umbrellas of a Holding Company. A holding company employs its capital to acquire and hold the shares of other companies, but they retain (heir separate existence. The holding company may be the sole shareholder or major shareholder by owing over 51 percent of the shares. With careful selection, a holding company can establish a closely integrated group, with each unit being complementary to the others.

iii Mergers by Absorption:

This is a case of acquisition in which one company acquires the business of another. It may occur where one powerful company purchases and takes over the entire business of another company which is often a smaller and weaker rival. The firm taken over completely loses its identity.

B. Merger by the Acquisition of Controlling Interest:

This occurs where one company purchases not less than 50 percent of the shares of another company to have controlling interest, in which event the company whose shares it purchases becomes its intermediary. The shares can be acquired by agreement with the shareholders or by purchase in the open market. The merger can also be the result of take-over bids. In a take-over bid, new shareholders acquires a controlling interest in a company by buying shares at much higher prices than those prevailing on the stock exchange, or by a company offering (with incentives) to acquire all or a significant proportion of the shares of another company it wants to control. This is done in order for it to control the market or have a large-scale production.

This form of merger, like the case where a holding company may arise taking cognizance of factors such as nature of their products or services, stage of production, nature of markets, etc. Mergers arising from these considerations are:

a Horizontal Merger: The combination of two or more firms in the same stage of production/distribution/area of business, e.g combining two manufactures of the same type of products. This result from the amalgamation of firms that produce and sell the same type of products or products which can easily be substituted for each other. The companies involved could also be at the same stage of production. Horizontal mergers have the objectives of attaining prices and or obtaining lower prices for inputs obtained from other companies.

b Vertical Merger: This results when company at different stages involved in the production of a finished product merge with the suppliers of their raw materials or other inputs. Vertical integration is the combination of two or more firms involved in different stages of production or distribution e.g joining a spinning coy with a weaving coy The aim of such a merger is to reduce costs and increase profits.

c Diversifying Merger: Also called conglomerate merger; this occurs where the products of the merging companies are unrelated and so the merger is neither horizontal nor vertical.

d Conglomerate Merger: The combination of firms engaged in unrelated lines of business. A typical example is merging of different operating area like manufacturing of cement products, fertilizer products, electronic products, insurance investment and advertising agencies.

e Market Extension Merger: When two companies combine that sell the same products in different markets.

f Product Extension Merger: When two companies are selling different but related products in the same market.

g The hope of every merger is that there will be synergy.

An Acquisition of one company by another is a little different from a merger but not much. All of the above reasons for combining two companies apply, nut instead of swapping stock or consolidating under a new corporate entity, one company simply buys another. Sometimes it's done in a friendly way. Sometimes it's done in a way best described as hostile. Another name for the unfriendly acquisition is a Takeover

In an acquisition, a company can buy another company with cash, with stock, or a combination of the two. The difference between the merger purchase and an acquisition depends on whether the purchase is friendly and announced as a merger or announced as an acquisition or the purchase is unfriendly. When it's unfriendly, it's always an acquisition.

Distinguishing Features of Mergers and Acquisitions.

Mergers are distinguished from acquisition based on the following characteristics:

- share issues by the investor company for the share of the investee company are valued at nominal value but precluding share premium;
- All reserves are distributable under merger;
- Assets of the investee company are not re-valued; and
- Any difference between the nominal value of share exchanged is treated as a direct adjustment on reserves.

On the other hand, the characteristics of acquisition include the following:-

- Share issue by the investor company are usually valued at market value, thus resulting in share premium;
- Pre-acquisition reserves are capitalized. Only post-acquisition reserves are treated as distributable;
- Assets to the investee company are usually re-valued on the date of acquisition;
- The difference between the cost of acquisition and the net assets of the investee company on the date of the acquisition is treated as goodwill or capital reserves.

REASONS FOR MERGERS AND ACQUISITIONS

The Economist (September, 2004) displayed on its website, several cogent strategic drivers for mergers and acquisitions. According to it,

First, companies try to benefit form economics of scale. As the volume of production increases it is often possible to decrease the cost of producing one unit of a good or service, for instance by achieving cost synergies.Second, mergers and acquisitions often entail the possibility of product diversification. Companies are increasingly looking for providers that are capable of presenting an all-in-one solution. Offering a solution for just one product or one geographical area does not satisfy, and by merging with a company that providers complementary products and services, it becomes possible to offer a product family that is more appealing and interesting for potential clients. Last but not least, companies often gain market power by merging or acquiring ''marker power''. Market power' is the ability of a firm to exert significant influence over the quantity of goods and services traded, or the price at which they are sold.

One major reason for mergers is the need for companies to foster expansion and achieve growth and greater profits which would otherwise be hard and be almost impossible to attain as separate companies or would take more resources and longer time to accomplish if each of the companies in the merger were to go on its own separate route. Usually, after the merger the joint strength of the separate companies including human and management resources are more effective and more productive than the efforts and resources of separate companies.

The reasons adduced by the Central Bank of Nigeria for its recapitalisation policy include the following:

- Money for economic and development programmes can be sourced from the commercial banks instead of borrowing offshore;
- Bringing the gains of synergies in form of good returns to shareholders and confidence in the banking sector;
- Creating world class banks that would be key player in all the major financial centres of the world (global player); and
- Creating a sound and stables financial system for sustainable economic growth of the nation

Other reasons for mergers and acquisition are:

a) To increase the value of share of the company. A well planned merger offers tremendous opportunities for the development of the company.

b) Growth: Most of the objectives of the firm can be achieved through growth. Growth means increase in the activity and size of the firm over a period of time. Acquisition yields desired results faster, easier and cheaper than the internal growth.

c) Financing*:* Growth requires financing from internally generated funds or from externally raised debt or equity and that a merger can often be arranged whereby the existing finance of an acquired company is retained

d) Operating Economies – Operating economies can be achieved through a combination of companies. Which means that economics of scale may arise whereby two companies can share their fixed expenses and make effective and optimum utilization of all physical and human assets. Benefit can arise by vertical, horizontal and conglomerate merger. By combination all the duplicate facilities can be eliminated or at least reduced to a substantially low level. Some of the functions such as purchasing, marketing, transporting, training, research and development can be consolidated.

e) Competitive consideration*:* A firm may which to undertake a merger in order to prevent this from being done by a rival firm.

f) Public Interest: Government on the other hand may advise some of the companies to merge with some other related companies in public interest.

g) Personal Reasons: In a closely held company, the individuals who have dominating interest may want their company to be acquired by another company which has develop an established market for its share. The owners/investors of a closely held company may have so much of investment tied up in the company that by merging with a widely held and actively traded company they can very well liquidate their shares without any difficulty, management of some companies are ambitious to have more control, power and prestige. They will acquire as many companies as possible.

h) Financing: Sometimes it is possible to finance an acquisition while it is not possible to finance internal growth.

i) Diversification: In contrast to vertical or horizontal merger, conglomerate merger sometimes lacks jurisdiction. But the reduction in financial risk may be possible to some extent. They diversify into other areas.

j) Taxation: A high rate of taxation may also be one of the motives for the merger of two companies.

k) Speed: Growth is achieved much more rapidly by means of a merger than by any other means.

l) Risk Reduction: The driving force behind growth could be a desire to reduce risk e.g. diversification.

m) Existence of un-exploitable situation: The business to be taken over may have badly utilized assets e.g. idle cash reserves, idle land ripe for development etc.

UPSIDES OF MERGERS AND ACQUISITION.

Essentially, when a group of firms pool their resources together through a merger, they enjoy a number of advantages which are not available to individual companies working as separate entities. These advantages include:

- Elimination of certain personnel that will save money for the new entity. Think of all the administrative staff that would be duplicated from the accounting department to the buying staff to the marketing group. And that might include one of the CEOs because oftentimes after a merger, one of the CEOs takes the money and runs. It's a rare CEO that stays around when the new CEO office is filled by someone else.
- Better cost efficiencies. Whether it's buying paper clips or new automobiles for the sales department, when a lager entity is placing the order, there are cost savings. When a merger is completed, the new, bigger corporation has more purchasing power.
- Higher profile in the industry. The combined entity gives the company higher visibility because it's now reporting higher revenues and has larger distribution. Sometimes that image will create sales opportunities that weren't there for the two, smaller companies.
- Increased Capital base
- Mass production and standardization
- Increased division of labour and standardization
- Purchasing and marketing economics
- Control over supply of raw materials
- Improved research and better methods of production
- Economy in dealing with by products, especially of manufacturing firms.
- It results into an economic benefit when combined firms are worth more together than apart
- Merger gains exceed the cost
- It increases the market share of companies.

- Merger benefits results from economies of scale
- Economic of vertical integration.
- Synergistic and synthesizing effects results in increased efficiency.
- Tax shields and benefits maximized.
- Reduced cost and benefits maximized
- Increased productivity and profitability.
- High work ethics, fair play and commitment.
- Better ability to complete.
- They improve earning by increasing revenue and reducing costs or both.
- They increase a firm's market power in output markets.
- They give a firm more control over the market.
- They lead to improved profit by improving the prices of their input and output.
- Mergers and acquisitions can lead to the acquisition of superior management skills that would improve the worth of the company.
- They provide avenue for diversification that yield quick growth and risk reduction.
- The unused retained earnings of a subsidiary can be deployed to another subsidiary at little or no cost.
- They may increase earnings per share as well as the market value of the acquiring company's shares (Securities and Exchange Commission Quarterly, 2002)

According to Brockington (1987), the commercial advantages that accrue to companies that merge include the following:

(i) It removes the barrier to expansion into new fields since the merging companies come complete with their own finance already arranged. The existing finance is also likely to be lower in cost than would-be new finance.

(ii) Growth by merger can be achieved much more rapidly than growth by internal expansion.

The Guardian (June 12, 1996) highlighted the following synergistic benefits that would emerge at post-merger and acquisitions.

(i) It would result in a more unified and focused management structure which would enhance the overall co-ordination of the activities of the companies.

(ii) Streamlining of the operations of two companies would further enhance and result in a more efficient allocation of available resources.

(iii) The company would become more capitalized, better equipped to expand its revenue frontiers.

DOWNSIDES OF MERGERS AND ACQUISITION

Mergers however are not all advantages. They also entail costs or disadvantages, some of which are:

a. To Guthmann and Dougall (1964), one major problem in the preparation of the agreement of merger is the determination of the basis for the exchange of shares that properly reflects constituent companies and guard their balance of control.

b. Brockington (1987), equally argues that merger and acquisition can be problematic. He is of the opinion 'If the mergers and acquisition is by an exchange of shares, as is commonly the case, the pattern of shareholders' control of the business will be altered.

c. According to Ross, et al (1991), A primary disadvantages is that mergers and acquisitions must be approved by a vote of the stockholders of each firm.The cooperation of the target firms' existing management is almost a necessity for a merger and acquisition. This co-operation may not be easily or cheaply obtained.

d. Also, Brealey and Myers (1995) are of the opinion that during periods of intense merger activity, financial managers spend significant amount of time either searching for firms to acquire or worrying whether some other firms will acquire them.

e. According to Brealey and Myers (1995) firstly, you have to be careful to define benefits and costs properly; second, buying a company is more complicated than buying a new machine, in particular, special tax, legal and accounting issues must often be addressed; finally, you need a general understanding of why mergers and acquisition occur and who typically gains or losses as a result of them.

f. Possibility of loss of status to some staff, and loss of jobs by some people, especially the key personnel of the acquired firm. The problem of unemployment thus worsens.

g. The merger may, over time, grow and operate as a monopoly, controlling the price and quantity of goods and services to be produced, charging higher prices and earning supernormal profits that do not result from greater efficiency.

h. It can lead to liquidity drain on the acquiring company, and subsequently impair its profitability.

i. It takes a lengthy and often times frustrating maze of legalities and technicalities.

j. Unintended loss of ownership and identity is arrived at with the affected parties not really satisfied.

k. Controlling power of shareholders of target companies are usually eroded.

l. The acquired companies or target companies suffer from loss of identity.

m. Merger and acquisition could lead to capital market expansion and by implication, money supply.

n. It may lead to liquidity trap.

o. In a developing economy, the incentive for saving is high interest rate. And if this is not present there may be capital flight.

p. The principle that excess money supply could reduce the cost of fund for the real sector has no real empirical underpinning in Nigeria. Rather, the invisible trade will benefit more.

q. The nexus between interest and exchange rates is not significant as the exchange rates are seasonal. Government expansionary fiscal policy may precipitate inflation and exchange ratevolatility.

3.2 POST MERGERS AND ACQUISITIONS BANKS

The coast became clearer on the zero tolerance posture of the CBN as far as compliance with the reforms in the banking industry is concerned. As at 3rd January, 2006 only 25 mega banks were able to scale the first hurdle of the consolidation exercise either as a result of injecting fresh funds, or raising additional capital form the capital market, while some others were products of mergers and acquisitions.

Below is the table showing the 25 new banks and their groups.

The New Banks and their Groups

New name **Former banks in the group**

First Bank, MBC International Bank and FBN (Merchant Bankers)

Diamond Bank, Lion Bank and African International Bank

Oceanic Bank International and International Bank

Intercontinental Bank, Global Bank, Gateway Bank and Equity Bank.

Fidelity Bank, FSB International Bank and Manny Bank

United Bank for Africa, and Standard Trust Bank

First City Monument Bank, Cooperative Development Bank and Nig-American Bank Limited.

Citizens' Bank International, Guardian Express Bank, Omega Bank, ACB International Bank, Tran-International and Fountain Bank.

Access Bank, Marina International Bank, and Capital Bank International.

Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Centre-Point Bank, SocieteBancaire Pacific Bank, NNB International, Bank of the North and New African Bank.

Equitorial Trust Bank and Devcom Bank.

Union Bank of Nigeria, Union Merchant Bank, Broad Bank, Universal Trust Bank.

First Atlantic Bank, Inland Bank, IMB and NUB.

Afribank International (Merchant) Bank and Afribank of Nigeria.

IBTC, Chartered Bank and Regent Bank

Prudent Bank, ETB, Bond Bank, Reliance Bank and Cooperative Bank.

Wema Bank and National Bank of Nigeria/Lead Merchant Bank.

Trust Bank, NBM Bank, Magnum Bank, NAL Bank, Magnum.

Habib Bank and Platinum Bank.

Alone

Alone

Alone

Alone

Alone

Alone

*Source:*Financial Standard, January 30, 2006: 18

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4. CONCLUSIVE REMARKS AND RECOMMENDATIONS

This paper examined the processes, gains and pains of merger and consolidation with a view to suggesting and recommending the strategic needs for the sustenance of bank consolidation policy embarked upon by the CBN. This paper further submits that mergers and acquisition remains one of the viable tools of combating corporate delinquency and decay resulting from corruption and corrupt practices, weak corporate governance,management incompetence and managerial ineptitude, low capacity utilization and funding constrains. The list of this inadequacies is endless, it sums up the inescapable realities fo the prevailing situation business-wide.

Mergers and acquisition is also capable also of attracting foreign investment and expertise, which is a pre-requisite for the rapid development and transformation of the Nigerian economy. It is equally as sine- qua-non for the industrial and economic growth of Nigeria .efforts must be geared towards the entrenchment of the merger culture in Nigeria. Tax laws should be re-engineered to proved impetus for merger activities. With the achievement of a stable and conducive political environment, mergers and acquisition will become commonplace in Nigeria in due course as it is in developed economies abroad.

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