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Era of growth by Strategic Merger and Acquisition; A study of Banking sector

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ABSTRACT

This study examined mergers and acquisitions as growth strategy in business organizations: a study banking sector. Some banks were used for the study. Secondary data were collected from the firms for ten years period. Bank size, gross earnings and turnover were proxies for mergers and acquisitions. Profit after Tax was the proxy for the growth. Data were analyzed using multiple regression analysis. Results indicate that mergers and acquisitions have positive and significant effect on companies' growth. The study recommends that Mergers and Acquisition should not be done out of desperation or necessity as was the case during the consolidation period but should be properly evaluated and carried out to ensure its success. The pros and cons should be weighed and it should be determined if that is the best option for the organization. bank should be innovative in the development and marketing of their products in order to increase their market share and performance and also enhance the competitiveness of the banking industry. A strategically integrated acquisition programme should be put in place to ensure a successful merger/acquisition.

KEYWORDS: Keywords: Mergers, Acquisitions, Growth Strategy, bank size, Profit after Tax

INTRODUCTION

This is the era where merger and acquisition is a common tactic to achieve desired growth. As a growth strategy, mergers and acquisitions have become popular for companies looking to expand into new markets, gain a competitive edge, or acquire new technologies/skill sets.

As a business owner, you are always in search of how you can grow your business. You want to make more money and serve a larger customer base. The problem is identifying the best way to grow your business, and doing so at a rapid pace.

Mergers and Acquisitions (M&A) are a great way to grow your business without having to wait years for your marketing and sales strategy to pay off. When you need immediate growth for your business, this can be the best option for you that provides the instant result. The primary goal of a company interested in a merger or acquisition is to secure an opportunity that will either achieve the objective of growth or provide an area of expansion that will add to the product/service line in a market that is currently not served by the company. The motivation behind this pursuit is that the resulting combination of products, key people, and existing pipeline will allow the business to operate in new markets and offer new options to their existing market.

The relevance of banks in the economy of any nation cannot be overemphasized. They are the cornerstones of the economy of a country. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balance systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit. Consequently, it is submitted that the economic wellbeing of a nation is a function of advancement and development of her banking industry

STATEMENT OF THE PROBLEM

The world is in a state of flux, being influenced by the prices of globalization and technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through the use of merger and acquisitions. M&A are arguably the most popular strategy among firms who seek to establish competitiveness over the rivals. There are various reasons firms going into merger and acquisitions, the main corporate objectives is to gain greater market power, gain access to innovative capabilities, maximize efficiency, synergy effects etc. Muya, carried out a survey of experiences of merger and found out that merger do not add significant value to merging firms Straub ,carried out a confirmatory research and found that the merger and acquisition play significant role in merging firms. Owing to the afore-mentioned mixed and inconclusive results, this study seeks to establish the effects of merger and acquisition as a growth strategy in Business organization with reference to banking institutions.

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OBJECTIVES OF THE STUDY

The broad objective of this study is to appraise the concept of mergers and acquisition as a growth strategy in business organization focusing on the banking sector.

The specific objectives include the following:
1. To ascertain the effect of Bank Size on the profit after tax of the banking sector.
2. To determine the effect of gross earnings on the profit after tax of the banking sector.
3. To examine the effect of turnover on the profit after tax of the banking sector.

RESEARCH QUESTIONS

The following research questions are formulated for the purpose of this study:
1. What is the effect of Bank Size on the profit after tax of the banking sector?
2. What are the effects of gross earnings on the profit after tax of the banking sector?
3. What is the effect of turnover on the profit after tax of the banking sector?

Research Hypotheses

The following hypotheses are formulated for the purpose of this research project:
1. Bank Size does not have a significant effect on the profit after tax of the banking sector
2. Gross earnings have a significant effect on the profit after tax of the banking sector.
3. Turnover does not have a significant effect on the profit after tax of the banking sector.

REVIEW OF RELATED LITERATURE

MERGERS

According to Anthony (2008); a merger refers to the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organization name (often combing the names of the original organizations) Umar (2009), a Merger is a transaction involving two or more companies in which shares are exchanged but in which only on company survives. Okpanachi (2011); A merger entails the coming together of two or more firms to become one big firm.

Thus, one can conveniently refer to a merger as the mixing of entities resources for growth and renovation. More over according to the CAMA (1990) states that merger means any amalgamation of the undertakings or any part undertaking of two or more companies or bodies corporate. According to Lafferty and Ubesie (2010); Merger in its broadest conception means the combination of two or more companies into one. Also in its narrower sense, merger is a formation of entirely new company to acquire the separate concerns necessitating the winding up of the latter company. Depamphilis (2011); is the combination of two or more firms in which all but one legally ceases to exists, and the combined organization continues under the original name of the surviving firms. Umoren (2007) defines a merger as an arrangement by which all the assets and resources of two or more companies and shareholders of the two companies are brought together under the control of one company which is owned jointly by the stakeholders of the original companies and shareholders of the two companies now become shareholders of the surviving company.

ACQUISITIONS

According to Anthony (2008); acquisition is the purchase of one organization by another. Such actions can be hostile or friendly and the acquiree maintains control over the acquired firm. Umar (2009) acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring company. Okpanachi (2011) defines acquisition as the taking over or purchase of small firm by a big firm, both of which are pursuing similar motives. Pandey (2005); defines acquisition as an act of acquiring effective control by one company over assets or management of another company without any combination of companies. Thus, in acquisition two or more companies may remain separate legal entities but the control of companies resides in one place.

STRATEGIC M&A: SEEKING A SOLUTION TO A BUSINESS PROBLEM

There are essentially two kinds of mergers and acquisitions: Strategic and Financial.

A financial merger or acquisition is pursued, as the name implies, for financial reasons—often to pick up some quick

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cash or as an investment.

Strategic mergers and acquisitions offer a solution to a different business problem. Perhaps the acquirer is looking to grab a new product line, add some additional facilities, enter a new market, or gain expertise and intellectual property. For professional services firms, a strategic M&A is often about gaining credibility, adding intellectual firepower, or changing the balance of power in a particular market.

The bottom line is a strategic merger yields value for both the acquired and the acquiring firm. To reluctantly use a hackneyed phrase, it's a "win-win" for both parties.

WHEN M&A WORKS AS A GROWTH STRATEGY

Mergers and acquisitions make perfect sense in a variety of situations. For example, maybe an opportunity presents itself that requires fast, decisive action. Or maybe a competitive threat compels a defensive move to get bigger, faster.

Here are five situations in which mergers and acquisitions have proven useful as a growth strategy:

1. FILLS CRITICAL GAPS IN SERVICE OFFERINGS OR CLIENT LISTS

When the marketplace changes in response to external events or new laws and regulations, it can create a gap in a firm's critical offerings. It is a prime opportunity for a strategic merger.

After 9/11, the national security and defense industry lacked the relevant skills to match rapidly changing federal requirements. Companies quickly realized they would be sidelined without the skills and experience necessary to meet the new security demand. The firms with the requisite experience and relevant client lists suddenly found themselves strategically valuable and highly sought-after acquisition targets.

2. EFFICIENT WAT TO ACQUIRE TALENT AND INTELLECTUAL PROPERTY

Many industries are seeing an acute shortage of experienced professional staff. Cyber security, accounting, and engineering are just a few examples that immediately come to mind.

The reality is, intellectual property (IP) is the new currency of modern business. Once squirreled away and carefully guarded, IP is now actively bought and sold. For many companies, the acquisition of a firm and its IP is the quickest path to market dominance—or at least a roadblock to competitive incursions.

3. OPPORTUNITY TO LEVERAGE SYNERGIES

A strategic merger, if done as part of a thoughtful growth strategy, can result in synergies that offer real value for both the acquired and the acquiring.

There are two basic types of M&A-related synergies: cost and revenue.

Cost synergies are all about cutting costs by taking advantage of overlapping operations or resources and consolidating them into one entity. In a strategic M&A, a number of areas are suitable for cost-cutting, such as redundant facilities, workforces, or business units and areas of operation. But cost synergies can also result in an increase in buying and negotiating power thanks to the larger combined budget.

Revenue synergies alter the competitive balance of power and create opportunities to change market dynamics, sell more products, or raise prices. Companies can take advantage of revenue synergies and make more money in many ways, including the following:

- Reduce competition
- Open new territories
- Access new markets (through newly acquired expertise, products, services, or capacity)
- Expand the customer base for cross-selling opportunities
- Develop sales opportunities by marketing complementary products or services.

4. ADD A NEW BUSINESS MODEL

Many professional services firms are based on a billable-hours business model, but that is certainly not the only option. Some firms generate revenue as a fixed fee or through performance incentives. Others may employ subscription models (popular in the software industry).

Of course, the value of an effective M&A growth strategy is not just about how you are paid. A merger may also offer a new type of service, such as brokerage, insurance or money management. If you're considering a new business model, the easiest way to develop and test it out is to acquire a firm that's already using the model successfully. That way you avoid possible missteps from inexperience.

5. SAVE TIME AND LONG LERANING CURVES

Much like adding a new business model, a strategic M&A may help you save considerable time and expense in your growth strategy.

Let's say you're considering a new service for your business. Your firm is fully capable of developing and delivering that service on its own, but it will take more time, money, and resources than you're willing to devote. It might be easier and more cost-effective to simply acquire the capability.

Not only is this a practical and smart shortcut to the sought-after service and expertise, you also acquire a built-in customer base and target audience. Bingo!

WHY MERGERS AND ACQUISITIONS FAIL

Straub (2007), opined that numerous empirical studies in United State show high failure rates of merger and acquisition deals. Druker(1982). However, in his opinion stated that even a deal that is financially sound may ultimately prove to be disastrous if it is implemented in a way that does not deal sensitively with the company's people and their different corporate cultures. There may be acute contrast between the attitude and values of the two companies. Especially if the new partnership crosses national boundaries, in which case there may also be language barriers to contend with.

Similarly, Applebaum (2000), said that a merger or an acquisition is an extremely stressful process for those involved. Job losses, restructuring and the imposition of new corporate culture and identity can create uncertainty, anxiety and resentment among company's employees. Tetenbaum (1999), in his opinion said that companies often pay undue attention to the short term legal and financial considerations involved in a merger or acquisition and neglect the implication for corporate identity and communication. Factors that may prove equally important in the long run because of their impact on workers morale and productivity. Also, managers suddenly deprived of authority and promotion opportunities can be particularly bitter. Sometimes they may be specific personality clashes between executives in the two companies.

METHODOLOGY

RESEARCH DESIGN

The researcher adopted ex-post facto. The choice of the ex-post facto design is because the research relied on already recorded events, and researchers do not have control over the relevant dependent and independent variables they are studying with a view to manipulation them. This study made use of secondary data covering a period of 10 years i.e. 2006 – 2015 obtained from the annual reports and accounts of the selected banks. The population of this study consists of all the commercial banks in india and Africa.

SAMPLE SIZE / CONVENIENT SAMPLING TECHNIQUE

This study selected some banks which includes some bank of india and Africa using convenient techniques of sample selection. To be selected as a sample, the banks met the following criteria; To retain their identities prior to and after the merger and acquisition activities secondly, members of the group as a result of merger and acquisition did not exceed three.

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DESPCRIPTION OF VARIABLES IN THE MODEL PROFIT AFTER TAX

Profit After Tax (PAT) is the net profit earned by the company after deducting all expenses like interest, depreciation and tax. PAT can be fully retained by accompany to be used in the business. Dividends, if declared, are paid to the share holders from this residue. The profit after tax is often a better assessment of what a business is really earning and

hence can use in its operations than its total revenues. A company's after-tax profit margin is important because it tells investors the percentage of money a company actually earns per dollar of revenue.

TECHNIQUES OF ESTIMATION

Time series data covering a period of 10 years will be estimated using Co-integration technique of analysis which is an improvement on the classical ordinary least square technique (OLS). This technique was chosen as it depicts long-run economic growth. The following techniques of estimation are employed in carrying out the co integration analysis.

UNIT ROOT TEST

This is the pre Co-integration test. It is used to determine the order of integration of a variable that is how many times it has to be differenced or not to become stationary. It is to check for the presence of a unit root in the variable i.e. whether the variable is stationary or not. The null hypothesis is that there is no unit root. This test is carried out using the Augmented Dickey Fuller (ADF) technique of estimation. This test is carried out using the Augmented Dickey Fuller (ADF) technique of estimation. The rule is that if the ADF test statistic is greater than the 5 percent critical value we accept the null hypothesis i.e. the variable is stationary but if the ADF test statistic is less than the 5 percent critical value i.e. the variable is non-stationary we reject the null hypothesis and go ahead to difference once. If the variable does not become stationary at first difference we difference twice. However it is expected that the variable becomes stationary at first difference.

MODEL SPECIFICATION

The following model was used to evaluate the study:
PAT = F(BS, GE, T) …… (1)
Where: PAT = Profit After Tax (it is used as a proxy for Bank growth)
BS = Bank Size (it is used as a proxy for Mergers and Acquisition) GE= Gross Earning (it is used as a proxy for Mergers and Acquisition)
T= Turnover (it is used as a proxy for Mergers and Acquisition) In a linear regression form, it will become
: PAT = $\beta o + \beta$ BS + β GE + β T + μ …… (2)
βo = Constant Term
β = Coefficient of BS
β = Coefficient of GE
β = Coefficient of T
μ= Error Term

SUMMARY OF THE FINDINGS

The model in a Bank Plc stated hypothesis have in pre-merger era that unit root test shows combination of 1 (1) and 1 (0) with relevant era of stationary at the given level of significance. And the output of pre-merger was (PP) while post-merger was (ADF). Regression demonstrated output of the three banks under the pre-merger and post-merger. In other words, bank size shows R^2 64%, Ad R 10%, F-st 1.19, Pro F-st 0.48 and Dw 2.05, so 36% variation is unexplained variables in respect of Access Bank while post-merger the goodness of the fit R^2=64% R = 10%, F-sta = 1.19, Prob F-st = 0.48 and Dw = 2.05. at the end in consistency of this result there is positive significant impact between bank size and profit after tax.

CONCLUSION

Descriptive statistics was applied in this study to checkmate normality test. Kurtosis was used to ascertain the peakness of the variables while skewness was used to ascertain the degree of symmetry of the variables. It was concluded that the model used in this study has goodness of fit as the R^2 of 57% suggests. This shows that 57% of the variation in the dependent variable is accounted for by the independent variables with an unexplained variation of about 53%. The F-statistics of 3.13 and the corresponding probability value of 0.03, indicates that the overall regression d statistically

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significant and can be used for meaningful analyses. The Durbin Watson Statistics of 2.83.

RECOMMENDATIONS

The following recommendations are made for this study:
1. Mergers should not be done out of desperation or necessity as was the case during the consolidation period but should be properly evaluated and carried out to ensure its success. The pros and cons should be weighed and it should be determined if that is the best option for the organization.
2. Banks should be innovative in the development and marketing of their products in order to increase their market share and performance and also enhance the competitiveness of the banking industry.
3. Mergers and acquisition have associated risks that if not properly managed can lead to failure. Inability of managers to handle the complex task of integrating two firms with different processes, accounting methods, operating culture, and misestimating of the value of the target firm by the buyer, must be avoided. A strategically integrated acquisition programme should be put in place to ensure a successful merger/acquisition.

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