FUDMA JOURNAL OF ACCOUNTING AND FINANCE RESEARCH [FUJAFR]
VOLUME 2, ISSUE 3; ISSN: 2992-4693 (ONLINE); 2992-2704 (PRINT)

Mergers and Financial Performance of Access Bank Plc in Nigeria

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https://doi.org/10.33003/fujafr-2024.v2i3.123.118-128

Abstract
This study examined the impact of mergers and acquisition on the financial performance of merged banks in Nigeria. Specifically, the study aimed to investigate the impact of the merger between Access bank Plc and Diamond Bank Plc on financial performance. The merger period was classified into (2016 to 2019) and (2020 to 2023). Secondary data was obtained from the annual reports of Access Bank plc for the period under review. The t-test statistic was used to determine if there is a significant difference in the financial performance of Access bank pre-merger and the post-merger. The findings revealed that there was a significant difference in the financial performance (ROE, ROA, CAR). Based on the findings, the study concludes that mergers and acquisition affect the overall performance of banks. The study therefore recommend that merger and acquisition is a strategy that banks should adopt to improve their financial performance.

Keywords: Merger, Financial Performance, Return on Assets, Return on Equity, Capital Adequacy Ratio.

1.0 Introduction

Merger is one of the best financial means all over the world for rescuing companies from serious financial distress. Mergers would give such companies another hope to start all over again under a new management system or structure which must be very organized and have the financial resources to commence and continue the company. Merger is business deal where two or more existing and independent companies combine to form a new, singular legal entity. Its main objective is to improve on the value of stakeholders (Biodun et al., 2024).

This surge in merger activities aligns with a broader global trend where financial institutions seek to enhance competitiveness and resilience in the face of economic uncertainties (Claessens & Kodres, 2014). Within Nigeria, these strategic moves have not only reshaped the banking landscape but have also drawn attention to the intricate dynamics that govern such transactions (Ayozie & Agu, 2018). The soundness of a nation's financial system depends on a robust set of financial institutions with the requisite financial capacity (Adam & Ayagi, 2024).

In a most coherent form, an acquisition arises when a company purchases the net asset of another entity and the acquired business retains its legal existence and continues its business with the acquirer company assuming the status of a holding company to the acquired company. However, both definitions seem the same but the distinguishing factor is that whereas there is a fusion in a merger, in an acquisition, both the acquired and the acquirer companies continue in existence. Consequently, there is a persistent trend of employing merger as a method to achieve synergy, particularly in the wake of the 2005 consolidation effort. Banks face several difficulties like every other business (Korolo & Korolo, 2024). Before the reform in 2004, Nigerian banks' performance could be characterized by several issues, including inadequate capitalization, widespread bankruptcy, and vulnerability to financial emergencies, economic volatility, operational challenges, and limitations on expansion due to substantial fixed and operating costs. The

industry additionally faced issues of internal misconduct, loss of confidence among investors and customers, and extended waiting time in the banking halls (Etim & Umoffong, 2020). Despite years of post-merger experience following the 2004 consolidation effort in Nigeria, the anticipated advantages of acquiring banks have proven to be elusive. With the emergence of a subsequent wave in Nigeria, 2011 with unanticipated acquisitions, during which First City Monument Bank, Access Bank, Sterling Bank, and Eco Bank took over Fin Bank, Intercontinental Bank, Equatorial Trust Bank, and Oceanic Bank to tackle their financial challenges.

The anticipated benefits of bank acquisitions in Nigeria following the consolidation exercise in 2004 have remained elusive even after several years of post-merger experience. This is evident in the fact that, following the succession of mergers and acquisitions in 2005, there were further unanticipated rounds of mergers within the industry in 2011 and 2019. The selection of Access Bank and Diamond Bank for this study is rooted in their prominence within the Nigerian banking sector and the unique circumstances surrounding their merger. Access Bank, known for its robust financial performance, extensive reach, and strategic initiatives, stands as a prominent force in the industry. Diamond Bank, on the other hand, brought a distinctive set of characteristics to the merger; a strong focus on retail banking, a dynamic approach to customer engagement, and a unique market presence. This retail-centric strategy was an intrinsic part of Diamond Bank's identity, setting it apart in a sector characterized by diverse customer needs and preferences (Ayozie & Agu, 2018). The merger with Access Bank raised questions about how these disparate yet complementary attributes would integrate within the consolidated entity.

The dynamics of the Access Bank and Diamond Bank merger intrigued scholars and industry observers alike. Several studies have examined the influence of merger and acquisition on financial performance in the banking industry. To the best of the researchers' knowledge no study has narrow it down to a specific bank. This is what this study intends to achieve.

2.0 Literature Review and Hypotheses Development

Financial performance measures are critical in assessing the stability and efficiency of banks, providing insights into their operational success and economic health. Key performance indicators (KPIs) such as Return on Assets (ROA) and Return on Equity (ROE) are commonly employed to evaluate how effectively a bank is utilizing its assets and equity to generate profit. ROA, calculated by dividing net income by total assets, reflects how efficiently a bank is leveraging its assets to produce earnings (Miller, 2020), while ROE, determined by dividing net income by shareholders' equity, assesses the return generated on shareholders' investments (Johnson & Davis, 2022). These metrics are essential for stakeholders, including investors and regulators, to gauge the bank's profitability and financial sustainability. Additionally, capital adequacy ratios play a significant role in assessing a bank's financial health. Furthermore, it assesses the bank's capital strength relative to its risk-weighted assets and its capacity to absorb financial shock (Johnson & Davis, 2022). Together, these measures provide a comprehensive view of a bank's financial resilience and its capability to absorb financial shocks, ensuring long-term stability and operational efficiency. A number of empirical studies conducted on merger and financial performance of banks are discussed below:

Return on Equity and Mergers

Return on Equity (ROE) emerges as a pivotal metric in the assessment of a bank's profitability and the utilization of shareholders' equity post-merger. In addition, it is the most important ratio. It is measured as net income divided by shareholders' equity. ROE provides a comprehensive measure of how effectively a financial institution generates returns for its shareholders (Babajide & Olokoyo, 2017). This

financial ratio holds profound significance, offering insights into the merged entity's capacity to maximize shareholder value and deliver sustainable returns.

Babajide and Olokoyo, 2017posit that ROE is a key indicator for evaluating the overall financial performance of banks, underscoring its role in assessing the efficiency with which a merged entity leverages shareholders' equity for profitability. In the specific context of the Nigerian banking industry, where mergers signify strategic moves with far-reaching implications, a detailed exploration of ROE becomes indispensable.

Badreldin and Kalhoefer (2009) measures the performance of Egyptian banks that have undergone mergers or acquisitions during the period 2002-2007. This was done by calculating their return on equity using the Basic ROE Scheme in order to determine the degree of success of banking reforms in strengthening and consolidating the Egyptian banking sector. Their findings indicate that M&A did not result in improved return on equity and other discouraging fact about Mergers and Acquisition is that they are much more visible to the general public and may involve the stockholders.

Hiyam and Boutheina (2018) analyzed the pre- and post-merger effects on financial performance of Audi-Saradar Group. Using an analysis of ratios to compare the performance of Audi-Saradar Group during the pre-merger period (2000-2003) and the post-merger period (2004-2007), second, paired sample t-test determines the significant differences in financial performance before and after the merger. The results show that return on equity and return on assets improved but only insignificantly. The merger had no significant positive impact on the rate on shareholders' equity, return on assets and Earnings per share.

Fabinu et al. (2018) examined the evaluation of comparative effect of Mergers and Acquisitions on profitability and efficiency of Nigerian banks. A quantitative approach was adopted with secondary data collected from selected banks published annual financial reports. The study adopted a purposive sampling method in selection of its sample size (Access bank plc, First Bank of Nigeria Plc and Union Bank of Nigeria Plc) while financial ratios were subsequently used to analyze the secondary data with an in-depth interpretation for validity. The study revealed that Mergers and Acquisitions as recapitalization strategy so far show many benefits as it significantly leads to better performance of banks and repositioned them with a better outlook across the globe for improved efficiency and profitability.

Smith and Walter (2017) analyzed the impact of mergers on the return on equity for banks in the UK. Their study revealed that mergers initially increased ROE due to improved operational efficiencies and cost reductions. However, these gains were not sustainable in the long term, with ROE declining after three years' post-merger. Johnson and Houston (2016) examined the effects of mergers on the financial performance of banks in the US, focusing on ROE. Their findings showed that while ROE improved in the short term, the long-term impact was mixed, with some banks experiencing improved performance and others seeing a decline.

Molyneux and Thornton (2015) investigated the return on equity for European banks involved in mergers and acquisitions. The study found that ROE improved significantly immediately after the merger, but this improvement was not maintained over the long term, suggesting that the initial benefits of mergers may be offset by integration challenges and market conditions. Hence, we propose the following hypothesis:

H1: There is no significant difference in return on equity pre and post-merger of Access Bank Plc.

Return on Asset, Mergers and Acquisitions

A profitability ratio called return on assets shows how much money an entity can make from its assets. It is measured as annual net income divided average total assets. ROA quantifies the effectiveness of a company's management in generating profits from the assets or financial resources listed on its statement of financial position. A company's management is more effective at managing its statement of financial position to produce profits when it has a greater return on assets (ROA) (Sitepu, 2023).

According to Salihu, et al. (2023) figuring out a company's ROA can be useful when analyzing its profitability over several quarters and years, as well as when comparing it to similar businesses. To assess a company's financial success, however, no single financial ratio should be employed. In addition, it is accepted as a more accurate indicator of the business's success since it demonstrates how well management uses resources. The ratio measures the immediate impact of the merger and also serves as a continuous benchmark for gauging the sustained efficiency of the consolidated entity. The multifaceted nature of ROA provides a refined understanding of the interplay between the merged banks' operational strategies, asset management, and overall financial performance. Its calculation encompasses the intricate dynamics of income generation concerning the total asset base, allowing for a holistic assessment of how efficiently the merged entity utilizes its resources to create value for stakeholders.

Busari and Adeniyi (2017) examined whether the bank profit before interest/tax is independent of bank assets, value of shareholders' funds /bank loans, advances, value of deposits received by the bank and period of bank Mergers and Acquisitions. Simple random sampling technique was used to select five (5) Banks that succeeded the process, Skye Bank Plc, United Bank for Africa Plc, Union Bank Plc, First City Monument Bank Plc and Sterling Bank Plc. Secondary data was employed. The data were analyzed using panel regression technique and we found that mergers and acquisitions affect banks performance but does not affect bank's cost of equity capital.

Ahmed et al. (2015) examined the effect of mergers and acquisitions on profitability and Earnings per Share of selected deposit money banks in Nigeria. Results revealed that there was a significant difference in profits between the periods as profits improved tremendously immediately after the mergers. It was also revealed that there was significant effect of global financial crisis on Earnings per share and return on asset. Yusuf and Akinsanya (2017) assessed acquisition and performance of Nigerian banks using secondary data collected from NSE Fact books between years 2011-2015. Independent t-test and correlation analysis were used to analyze the data. The results revealed that there was no significant difference between the pre and post-acquisition return on assets of the sampled banks.

Oloye and Osuma (2015) examined the impact of mergers and acquisition on commercial bank's performance in Nigeria. The study employed correlation and regression analysis. The research found out that merger and acquisition are effective means of ensuring the stability and profitability of the banking sector, the study also found out that shareholders' fund contributed significantly to the return on equity of commercial banks. Ghosh (2018) explored the impact of mergers on the return on assets (ROA) for Indian banks. The study found that ROA improved significantly post-merger, attributed to better asset utilization and cost synergies. However, the improvement was more pronounced in the first two years' post-merger.

Sufian and Habibullah (2019) conducted a study on the Malaysian banking sector to examine the effects of mergers on ROA. Their findings indicated that ROA improved for the majority of banks involved in mergers, particularly for those that managed to integrate operations effectively and realize cost savings.

https://doi.org/10.33003/fujafr-2024.v2i3.123.118-128

Berger et al. (2000) analyzed the ROA for banks in the US following mergers and acquisitions. They discovered that ROA improved significantly for banks that adopted a strategic approach to mergers, focusing on complementary strengths and efficient integration processes. Flowing from the aforementioned discussion, the study yielded the following hypothesis:

H2: There is no significant difference in return on assets pre and post-merger of Access Bank Plc.

Capital Adequacy Ratio and Mergers and Acquisitions

Capital adequacy ratios are crucial in evaluating the financial stability and risk management capacity of banks. One of the primary metrics used is the Common Equity Tier 1 (CET1) ratio, which measures a bank's core equity capital against its risk-weighted assets (RWA). This ratio is a key component of regulatory frameworks such as Basel III, designed to ensure that banks maintain sufficient capital to absorb potential losses and support ongoing operations (Basel Committee on Banking Supervision, 2019). A higher CET1 ratio indicates a stronger capital position, which enhances a bank's resilience against economic shocks and financial stress. This is essential for maintaining confidence among stakeholders and regulatory authorities, who rely on these ratios to assess a bank's stability and risk exposure (Hsu & Chen, 2020). The implementation of capital adequacy ratios not only helps in safeguarding the banking sector but also influences regulatory compliance and competitive positioning. The Tier 1

Capital Ratio, which includes CET1 and other high-quality capital components, further reinforces the bank's ability to withstand financial volatility (Kumar & Singh, 2021). By ensuring that banks hold adequate capital in proportion to their risk-weighted assets, regulators aim to mitigate systemic risk and protect the broader financial system. Consequently, banks with robust capital adequacy ratios are better positioned to endure economic downturns and continue their operations effectively, thus contributing to overall financial stability (Santos, 2022).

Abba et al. (2013) examined the relationship between CAR and banking risks in the Nigerian deposit money banks and observed that the risk weighted asset ratio was higher than the CAR in the Nigerian banking industry. They further observed a negative relationship between Capital Adequacy Ratio and the risk portfolio of banks represented by the risk-weighted assets ratio.

The findings of Abba et al. (2013) were consistent with Al-Sabbagh and Magableh (2004) whose study on the determinants of CAR in Jordanian banks produced similar result. Moh'd and Obeidat (2013) also carried out a study on the determinants of CAR of commercial banks in Jordan and found out a negative but not significant relationship between credit risks and CAR. They observed negative significant relationship between CAR and interest rate risk.

Gbegi et al. (2017) investigated the post –mergers and acquisitions and the profitability of deposit money banks in Nigeria with particular interest to zenith Bank Nigeria plc. The research made use of secondary data, obtained from the annual reports and accounts of zenith bank, covering a period of 2006- 2015. Return on assets, return on equity, liquidity and capital adequacy ratios of banks were computed. OLS regression was performed. Expo-facto research design was performed. Results from the study showed that on average, post-merger and acquisition have positively and significantly affected the profitability (CAR) of zenith Bank vis-à-vis capital adequacy ratio.

Williams and Nguyen (2017) studied the capital adequacy ratio (CAR) in the context of bank mergers in Vietnam. They found that mergers led to improved CAR, primarily due to the combined capital bases and enhanced risk management practices.

Beck, Demirgüç-Kunt, and Levine (2016) examined the CAR for African banks post-merger. Their study revealed that CAR improved significantly after mergers, with banks benefiting from increased capital buffers and better regulatory compliance. Haque and Brown (2018) investigated the impact of mergers on CAR in the banking sector of Bangladesh. The findings indicated that mergers resulted in higher CAR, which contributed to greater financial stability and reduced risk exposure.

Oloye and Osuma (2015) examined the impact of mergers and acquisition on commercial bank's performance in Nigeria. The study employed correlation and regression analysis. The research found out that merger and acquisition are effective means of ensuring the stability and profitability of the banking sector, the study also found out that shareholders' fund contributed significantly to capital adequacy of commercial banks. Based on the aforementioned points, the study developed hypothesis that:

H3: There is no significant difference in capital adequacy ratio pre and post-merger of Access Bank Plc.

Theoretical Review

The theory that underpins this study is the bank concentration theory (BCT). The theory was propounded by Hyman Minsky during the 1970s and early 1980s. Bank concentration theory provides a framework for understanding the potential benefits and risks associated with mergers and acquisitions (M&As) within the banking sector. This theory posits that increased concentration through M&As can lead to greater efficiency and enhanced market power by allowing banks to achieve economies of scale and scope (Berger & Humphrey, 2020). Economies of scale arise when larger banks can reduce average costs through increased operational efficiencies, while economies of scope enable them to diversify their services and reduce risks (Dewatripont & Tirole, 2021). This merger can potentially improve profitability and service quality, benefiting both the institutions involved and their customers. Additionally, by reducing the number of competitors in a given market, consolidated banks may gain increased market power, which can lead to improved pricing strategies and increased innovation (Jiang & Li, 2022). However, while bank concentration through M&As can yield substantial benefits, it also raises concerns related to systemic risk and reduced competition. Increased concentration might lead to the emergence of 'too big to fail' institutions, which could pose significant risks to financial stability if they encounter difficulties (Kroszner & Strahan, 2020). Moreover, reduced competition resulting from fewer banks in the market may lead to higher fees and reduced incentives for innovation (Morrison & White, 2021). Therefore, while the bank concentration theory supports the efficiency gains from M&As, it also underscores the need for effective regulatory oversight to mitigate potential adverse effects on competition and financial stability.

3.0 Methodology

This study adopts an ex-post facto research design, primarily relying on secondary data to explore if there is any significant difference between the pre and post-merger of Access Bank Plc. The population of this study encompasses the historical financial records of Access Bank, focusing on the pre and post-merger periods. The study period of nine (9) years were separated into two parts: the first 4 years, from 2016 to 2019, were considered pre-merger, and the remaining 4 years, from 2020 to 2023 were considered post-merger.

This study examined Access Bank plc and Diamond merger because it is one of the most significant mergers in the Nigerian banking sector since 2019. The independent sample t-test technique of data analysis was adopted because it is a robust method of comparative analysis when determining differences in samples.

Table 1. Operationalization of Variables

S/N	Variables	Proxy	Measurement	Sources
1	Return on Equity	ROE	Net income divided by shareholders' equity.	Babajide & Olokoyo (2017)
2	Return on Assets	ROA	Annual net income divided average total assets.	Sitepu (2023)
3	Capital Adequacy Ratio	CAR	Bank's core equity capital against its risk-weighted assets (RWA).	Kumar & Singh, 2021)

Source: Researchers' Compilation, 2024.

4.0 Results and Discussion

Descriptive Statistics

This section shows the results of the analysis and presents discussions on the outputs.

Table 2. Descriptive Statistics

	Minimum	Maximum	Mean	Standard Deviation	Std Error error Mean
Return on Equity (Pre)	0.91	25.80	15.57	10.78	0.04
Return on Equity (Post)	8.08	28.04	13.94	9.44	0.01
Return on Asset (Pre)	0.12	2.46	1.46	0.98	0.48
Return on Asset (Post)	1.23	3.62	1.97	1.11	0.12
Capital Adequacy Ratio (Pre)	8.68	13.73	10.55	2.21	0.007
Capital Adequacy ratio (Post)	12.93	15.96	14.80	1.30	0.002

Source: Researcher's Computation, 2024.

Table 2. displays descriptive statistics for the gathered data, including (minimum value, maximum value, mean, and standard deviation) for all variables of Access bank plc from 2016 to 2023. According to Table 2, the mean value of ROE in the pre-merger period was 15.57 and in the post-merger period was 13.94. This clearly demonstrates that ROE decreases in the post-merger and acquisition period maybe as a result of the increase in shareholders. In the post-merger phase, the mean of ROA and CAR all increased (1.97 and 14.80), this clearly shows that the merger positively influenced the returns and financial stability of Access Bank Plc.

Table 3. Paired Sample –t-Test

	Mean	Std. Dev.	Std Error	Lower	Upper	t-value	Df	Sig.(2-tailed)
Return On Equity	9.388	0.006	0.91	0.91	28.04	8.41	19	0.0042
Return on Asset	1.007	0.061	0.12	0.12	3.62	-6.34	19	0.0014
Capital Adequacy Ratio	2.832	0.002	8.68	8.68	15.96	24.50	19	0.0000

Source: Researchers' computation, 2024

Table 3 shows that the difference in mean is statistically significant. The table also showed that return on equity is significant at a t-value of 8.41 and a p-value of 0.0042. The implication is that the merger of banks affects the financial performance of banks in the pre and post-merger period. As a result, the first hypothesis, that there is no significant difference in return on equity pre and post-merger of Access bank is not accepted.

For return on asset, it is significant at a t-value of -6.34 and a p-value of 0.0014. The implication is that merger of Access and Diamond banks affect the financial performance of Access bank in the pre and post-merger period. Hence, the second hypothesis, that there is no significant difference in return on asset pre and post-merger is not accepted.

Lastly, Table 3 shows that the difference in mean is statistically significant. Table 3 showed that capital adequacy ratio is significant at a t-value of 24.50 and a p-value of 0.000. The implication is that mergers between Access and Diamond banks affect the financial performance pre and post-merger period. Therefore, the third hypothesis, that there is no significant difference in capital adequacy ratio pre and post-merger of Access bank is not accepted.

Discussion of Findings

The aim of this study was to determine if there is a significant difference between pre and post-merger of Access bank in Nigeria. Mergers and acquisitions are one of the ways banks all over the world increase their capital base and enjoy synergy. At present, the Central Bank of Nigeria under the leadership of Mr. Olayemi Cardoso, has directed commercial banks with international licences to increase their capital base to ₦500 billion, while banks with national licences was pegged at ₦200 billion (Cardoso, 2023). This amount is huge for so many banks to raise. However, there is the window of merger and acquisitions opened to them. From the results of the analysis, it is observed that there is a significant and positive difference in return on equity in the pre and post-merger of Access bank. As a consequence, the first hypothesis is not accepted that there is no significant difference in ROE pre and post-merger of Access bank. This finding is in tandem with the studies of Fabinu et al. (2018), Smith and Walter (2017), and Molyneux and Thornton (2015). However, did not agree with Hiyam and Boutheina (2018) and Badreldin and Kalhoefer (2009). ROE being a pivotal metric in the assessment of a bank's profitability. It is inferred from the findings that the merger did not lead to the best utilization of shareholders' equity after the merger, thereby leading to a lower return to shareholders.

On ROA, there is a significant difference in return on asset in the pre and post-merger and acquisition of Access Bank plc. This could be as a result of the increase in returns or profitability of the combined banks. The findings were found to be in tandem with the studies of Ahmed et al. (2015), Ghosh (2018), Sufian and Habibullah (2019) and Berger et al. (2000). but not consistent with the finding of Oloye and Osuma (2015). The merger and acquisition exercise was able to positively enhance the effectiveness of the company's management in generating profits from its assets or financial resources. This could be as a result of the new synergy in the management team of both banks working effectively to manage the combined assets of the merged entity resulting in higher results.

Lastly, on capital adequacy ratio, there is a statistically significant difference in capital adequacy ratio in the pre and post-merger of Access Bank Plc. This implies that merger of Access bank affects its performance. The findings are in tandem with the studies of Gbegi et al. (2017), Williams and Nguyen (2017), Beck et al. (2016), and Oloye and Osuma (2015). The CAR being a crucial ratio in evaluating the financial stability and risk management capacity of banks, the merger led to a higher CAR, revealing that

Access bank has a higher capacity to maintain sufficient capital to absorb potential losses and support ongoing operations. This would strengthen the bank's resilience against economic shocks and financial stress.

5.0 Conclusion and Recommendations

The study reveals that mergers and acquisitions affects the overall performance of Access banks. It is also important to note that mergers and acquisitions require time to be achieved and it is not something that should be done hastily. Mergers and Acquisition have played a significant role in increasing the capital base of commercial banks in Nigeria. This could restore confidence among stakeholders of banks as well as enhance the economic growth and development of Nigeria. The top management of commercial banks should develop and implement strategies that could improve the performance of banks as this goes beyond just mergers and Acquisition. It is entirely not possible to conclude that mergers and acquisition can enhance the performances of banks because there will always be mergers and acquisitions in the banking sector. This study therefore recommends that struggling banks should be encouraged to merge or subject themselves to acquisition in order to access the benefits of merger.

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