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Research Paper

Effect of merger and acquisition on performance of listed nigerian deposit money banks

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ABSTRACT

This study examined the effect of assets growth on performance of Nigerian Deposit Money Banks (NDMBs) from 2006 to 2023. Secondary data on issues such as Asset Profile (AP), Capital Structure (CS), Credit Risk (CR), Liquidity Risk (LR), and Return On Equity (ROE) covering the period of study were gathered from the annual reports and accounts of the seven (7) NDMBs out of a population of 14 listed on Nigerian Exchange Group (NXG) as at December, 2023. Panel regression analysis was adopted to evaluate the effect of asset growth (a surrogate for merger and acquisition) on return on equity (a surrogate for performance) in the NDMBs. The result of panel regression analysis on the effect of asset growth on ROE in the NDMBs revealed that three (3) out of the four (4) explanatory variables were significant in explaining the variation in ROE, these are AP (ρ = 0.0015), CS (ρ = 0.0001) and LR (ρ = 0.0002). The study concluded that M&A had positive significant effect on performance of NDMBs. The study recommends that banks' management should embrace efficient customer service delivery, aggressive deposit drive and periodic training of staff in order to achieve improved customer patronage and performance.

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1. INTRODUCTION

Growth is inevitable for every organization. As opined by [1], growth is a vital necessity for companies. As a result of this, every company strives to achieve growth in its turnover and earnings in terms of service delivery and product. The essence of this is to improve performance. This can be achieved through internal growth or external growth. The internal growth involves developing of new products, expanding of existing products or rebranding the existing products, while the external growth can be achieved through merging or acquiring of other existing firms [2]. Merger and acquisition is an integral part of external growth. Thus, merger and acquisition is being used to increase assets base, have greater market share, entering new market and be more competitive in the market place.

In order to improve service delivery and corporate survival, the Nigerian banking sector underwent reform and repositioning in 2004 through the use of mergers and acquisitions, which are recognized as an innovative business survival strategy [3]. In order to eliminate expansion bottlenecks, volatility between deposit and lending rates, and other constraints that the banks faced, the Central Bank of Nigeria (CBN), a regulatory body, initiated a recapitalization and consolidation exercise in the banking sector. Under the direction of Professor Charles Soludo, who was the CBN's governor at the time, deposit money banks were urged to increase their paid-up capital through public offerings or corporate restructuring exercises (mergers and acquisitions).

As a result, certain Nigerian Deposit Money Banks (NDMBs) began to think about mergers and acquisitions as a means of surviving. The management of Nigerian Deposit Money Banks (NDMBs) is well aware of the benefits of mergers and acquisitions since a healthy, stable, and dependable financial system especially the banking industry is essential to a robust and vibrant economy. According to [4], deposit money banks play a crucial role in the expansion of the national economy because of the services they offer, such as financial mediation between investors and savers, promotion of capital accumulation, and credit creation. Financial organizations authorized by the Central Bank of Nigeria, the regulatory body, to transfer deposits from surplus to deficit units and carry out other financial operations are known as Nigerian Deposit Money Banks [3]. Performance is defined as deposit money banks' ability to turn a profit and provide better, more praiseworthy services to all parties involved in the banking sector [1]. Therefore, following the consolidation exercise, an evaluation of NDMBs performance is required. Given the foregoing, the purpose of this study is to assess how mergers and acquisitions affect Nigerian Deposit Money Banks' (NDMBs') performance.

1.1 Statement of the Problem

Regarding the post-merger impact on bank performance or the obvious connection between mergers and acquisitions and performance, the majority of this research on mergers and acquisitions offer conflicting data and unclear guidance. There is still more research to be done on the connection between NDBMs' return on equity and asset growth. In order to explicitly examine whether mergers and acquisitions involving Nigerian banks result in improvements in the banks' financial performance, this study intends to employ a thorough methodology.

1.2 Research Hypotheses

In view of the above statement of the problem, the following hypotheses are tested.

1. Asset growth has no significant relationship with return on equity of Nigerian deposit money banks.
2. Asset growth has no significant impact on return on equity of Nigerian deposit money banks.

2. RELATED WORK

2.1 Conceptual Clarifications

2.1.1 Concept of Consolidation

The reduction in the number of banks and other deposit-taking organizations while increasing the size, concentration, and efficiency of the remaining businesses in the industry is known as consolidation [5]. [6] Believes that technological advancements, financial services deregulation, human capital development, branch network expansion, improved intermediation, heightened focus on shareholder value, privatization, and global competition are the main drivers of consolidation. According to [7], the consolidation procedure has been claimed to improve bank efficiency over time by lowering costs and raising income. By displacing weaker banks and acquiring the smaller ones by larger, more powerful banks, it also lowers industry risk and opens the door to more financial intermediation and diversification.

2.1.2 Concept of Merger

Mergers are a worldwide phenomenon that many firms use to expand their operations both domestically and internationally in order to grow internally. Nigerian banks were unable to meet the Central Bank of Nigeria's (CBN) mandated capital base requirements and enhance their performance. A merger is the union of two or more companies that result in the creation of a new company. [8] Describes a merger as the outcome of a procedure that unites two or more formerly independent businesses under a single management. A merger occurs when two or more separate companies merge to form a single business, typically when a dominant company absorbs one or more of the smaller companies [9].

2.1.3 Concept of Acquisition

When one entity purchases the assets or stock equity of another, this is known as acquisition. It is the acquisition of a business by another firm or business entity. The purchase of a firm or company by another business entity or company is referred to as an acquisition [10]. Among other methods, market research, trade shows, or internal business divisions might be used to find the acquisition target. Acquisitions may be categorized as hostile or friendly [11]. The board and management of the target firms consent to the transaction when it is carried out amicably; in contrast, a hostile deal is one in which the offer goes against the preferences of the target because the board or management declines to make the offer.

2.1.4 Financial Performance

The process of evaluating the results that financial institutions report in order to ascertain stability and profitability through the utilization of return on equity, return on assets, and earnings per share is known as financial performance [12]. A company's viability must be determined by measuring its financial performance. Ratio analysis is widely used by businesses to assess their financial performance [13]. The particular interests of the persons involved determine how it changes. Because they depend on several organizational factors including business development, size, and profitability, the various financial performance metrics that are employed by companies should not be seen in isolation but rather as a whole. Therefore, these metrics are essential for tracking an organization's overall financial success and development. The financial and managerial resources of a business can be used to calculate its growth rate. An organization's financial performance can be assessed using a wide range of criteria, leading to varying definitions of success.

2.1.5 Nigeria Deposits Money Banks

According to the CBN website, Nigeria Deposit Money Banks (NDMBs) usually referred to as conventional or commercial banks, are financial organizations authorized by the regulatory body to collect deposits from the surplus unit, transfer the money to the deficit unit through loans, and carry out other financial operations. Nigeria's central bank, the Central Bank of Nigeria (CBN), which began operations on July 1, 1959, is in charge of overseeing the country's banking sector. The Nigerian banking business began during the colonial era, when colonial banks were founded with the exclusive purpose of serving the commercial demands of the colonial administrations, and this was before the CBN began operations. Since the establishment of the country's first bank, the African Banking Corporation, in 1892, banks have been actively involved in the Nigerian economy [14].

When Nigeria's banking system was restructured in 2004, the number of commercial banks decreased from 89 to 25 and their capital base increased from N2 billion to N25 billion. Several banks were bought during this time, and others merged. CBN changed the Universal Banking concept in 2010 and divided banking licenses into three categories: development, merchant, and commercial. There were twenty-one (21) commercial banks in Nigeria as of 2014. But as of 2023, there are just fourteen Nigerian Deposit Money Banks (NDMBs) that are listed.

2.2 Theoretical Review

The relevant theories to mergers and acquisition include but not limited to the following value increasing, synergy, hubris and agency theories.

2.2.1 Value Increasing Theory

This theory is most commonly associated with Michael C. Jensen and Richard Ruback, who argued that merger and acquisition can create value by increasing the efficiency and performance of the combined entity. They argued that M&A activities result in wealth creation for shareholders of the acquiring and target firms. Value is created when resources are reallocated in a way that improves the overall efficiency of the firms involved [15]. According to the notion, both the target and the acquirer will benefit from value creation [16].

2.2.2 Synergy Theory

This theory is widely attributed to Chandler (1962), who posits that merger and acquisition can create value through synergies as a result of resources combination, market power and capabilities. Synergy theory believes that merger and acquisition is used to reduce cost and ensures efficiency of operation in order to improve economy of scale of a business entity [3]. This theory argues that economic of scale helps an organization to produce and sell goods as low cost with the use of effective and efficient mode of operations. Synergy is derived from the Greek word "synergos," which implies cooperating. This theory argues that the combined value of two firms after merger will be greater than the total of their individual values before merger, due to cost savings, enhanced capabilities and efficiencies.

2.2.3 Hubris Theory

This Hubris theory was proposed by Richard Roll in 1986. The theory argues that corporate executives might overestimate their ability to manage acquired firms, leading to overly optimistic acquisition decisions, being driven by self-confidence, overconfidence (hubris) and ego instead of rational analysis. The acquiring firm’s executives might be driven by ego and over confidence leading to pursuing of merger and acquisition that do not add value for shareholders, this resulting in poor post acquisition performance [17]. Because of their excessive pride or arrogance, managers make the mistake of being overly optimistic when assessing acquisition chances. He contends that a specific bidder can be persuaded that the value is accurate and fail to learn from previous errors in target firm valuation.

2.2.4 Agency Theory

In 1976, Michael C. Jensen and William H. Meckling came up with this notion. The link between the firms' principals (owners) and agents (managers) is examined in the theory, along with how crises may occur during mergers and acquisitions. According to the hypothesis, managers may not always behave in the best interests of shareholders, which could result in inefficiencies in business decisions like mergers and acquisitions. The theory argues that managers might pursue merger and acquisition for reasons that benefit them personally, but not necessarily in the best interest of shareholders [18]. As opined by [19], the theory regards merger and acquisition as agency problem of eliminating issues and provision of ways of expanding business activities.

2.2.5 Theoretical Framework

The hypothesis that this study is based on is displayed in the theoretical framework. According to the synergy theory, businesses combine because their combined value exceeds the sum of their separate worth. There are two types of synergies: financial and operational. When two businesses unite, the average cost of production is lowered, creating operating synergies. When two businesses unite, the average cost of funding their operations is lowered, creating financial synergy.

2.3 Empirical Review

Numerous academics have conducted extensive research into determining what is appropriate and economically rational for banks' performance, with sometimes inconsistent and varied results. [20] Used panel data from 2004 to 2011 to examine bank consolidation and lending for small businesses in Nigeria. The 23 banks that resulted from the consolidation exercise were included in the study. They discover that banks' asset bases and profitability have significantly increased since the period of consolidation. [21] Investigated how mergers and acquisitions affected Nigerian deposit money banks' financial results from 2002 to 2009. T-test statistics were used to examine the data, and the results showed that mergers and acquisitions had improved banks' financial performance, leading to increased financial efficiency in Nigerian deposit money institutions. [22] Investigated how mergers and acquisitions affected Nigerian banks' financial results. Secondary sources of data were gathered, and the regression method was used for analysis. The study elicited conflicting responses because it found both substantial and inconsequential relationships and suggested that companies looking to grow should pursue mergers.

[23] Examined the connection between Nigerian banks' performance from 2006 to 2013 and recapitalization strategy. The influence of recapitalization policy on bank performance was investigated using the regression analytical method. The results showed that the policy had a favorable impact and greatly enhanced bank performance in Nigeria. [24] Used secondary data and regression analysis to investigate how bank consolidation affected financial intermediation. The findings showed a strong correlation between the variables and suggested that a consolidation policy be implemented to control the nation's banking sector. Mergers and acquisitions in the financial system may have a favorable effect on the efficiency of the majority of banks, according to evidence presented by [25]. [26] Found that consolidation does not always translate into a bank's strong financial performance and that capital alone does not contribute to a bank's strong performance.

2.4 Conceptual Frameworks

The reviews of empirical studies indicate the significance of certain merger and acquisition variables influencing banks within the deposit money banks; this was shown in Figure 1 below.

2.4.1 Asset Growth

This is the rise of a company's assets that can be accomplished by mergers and acquisitions; following a merger, the acquiring company gains control of the target asset and controls both its and the target's assets, which increases the company's assets [27]. When purchasing assets, managers need to know how they will likely behave in the future. The management clearly wants a high and steady growth rate. Since asset profile, capital structure, credit risk, and liquidity ratio are important factors in determining a bank's performance, asset growth has been conceptualized for the purposes of this work in relation to these factors. Every one of the elements that have been found is thought to have an impact on how performance management might be enhanced in one way or another.

2.4.2 Financial Performance

Measuring the outcomes of a company's activities and policies in monetary terms is known as financial performance. It serves as a gauge of a company's overall financial well-being over a specified time frame. Institutions' financial performance is measured in a variety of ways. Nonetheless, return on equity and return on assets are the most often used metrics for evaluating financial performance. A financial ratio known as return on equity measures a company's earnings in relation to the total amount of shareholder equity invested in the business [13]. Return on equity is a measure of how well a company's management uses the capital of its shareholders; the higher the return on equity, the better the management is doing so. However, the idea of return on equity as a function of asset growth has been used for this study.

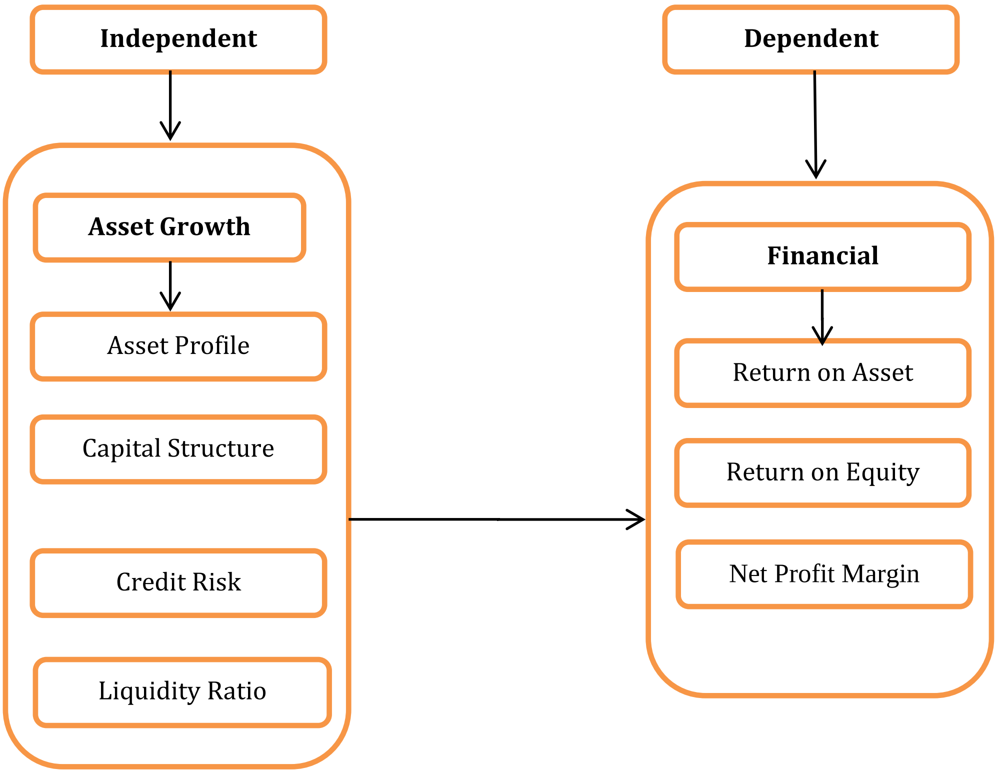

Figure 1. Conceptual Framework of the Study

3. METHODOLOGY

Ex-post factor research designs were employed in the study. The ex-post factor research approach analyzes previously gathered data to investigate the effects of an independent variable that was present in participants before the study on a dependent variable. According to its official website as of December 2024, the study's population comprised fourteen (14) Nigerian deposit money banks that were listed on the Nigerian Exchange Group's (NXG) floor [28]. Stratified and purposive sampling methods were used to determine the study's sample size. Seven banks from banks that participated in mergers and acquisitions make up the research sample size. The annual reports and accounts of these seven chosen banks are easily available for the study period (2006–2023), and they were also quoted in NXG as of 2023. According to Table 1, these banks are First Bank of Nigeria Limited, First City Monument Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc, Fidelity Bank Plc, Access Bank Plc, and Wema Bank Plc.

To produce the data required for this investigation, secondary sources of information were investigated. With a focus on the asset growth variables asset profile, capital structure, credit risk, liquidity ratio, and return on equity the secondary data was collected from the sampled banks' annual reports and accounts for the years 2006–2023. The study's focus, namely assessing how asset growth affects return on equity in Nigerian deposit money banks, was investigated using panel regression analysis. The results of earlier research on the connection between mergers and acquisitions and bank performance served as the basis for the model used in this investigation. Hence, the study employed this model.

$ROE_{it} = \beta_0 + \beta_1 AP_{it} + \beta_2 CS_{it} + \beta_3 CR_{it} + \beta_4 LR_{it} + \varepsilon_{it}$

Where:
ROE –Return on equity.
AP - Asset Profile
CS – Capital Structure
CR – Credit Risk
LR – Liquidity Ratio
ε_{it} - Error term.
β_0 - Constant
β_1, β_2, β_3, β_4– Regression coefficient

Table 1. List of Sampled Ndmbs Based on the Sampling Technique Adopted

S/N	Names of Banks
1	First Bank of Nigeria Limited
2	First City Monument Bank Plc
3	Union Bank of Nigeria Plc
4	United Bank for Africa Plc
5	Fidelity Bank Plc
6	Access Bank Plc
7	Wema Bank Plc

Source: Researcher's Compilation (2025)

4. RESULTS AND DISCUSSION

When panel least squares were used to determine the relationship between asset growth and ROE, as indicated in Table 2, it was found that while there was a negative relationship between liquidity risk (LR) and ROE in the study, there was a positive relationship between asset profile (AP), capital structure (CS), and credit risk (CR). For a more thorough and lucid explanation, the variables are further interpreted as follows: ROE and AP revealed a positive correlation, indicating that AP is having an increasing impact on ROE. This claim was supported by the variable's coefficient of 0.134554. This merely clarifies that an increase in AP of one unit may result in a rise in ROE of many percentages. The variable's t-start of 1.896533 and prob. value of 0.0015 showed that it was statistically significant at the 1% level of significance, supporting the coefficient. Because of this, the variable was a strong predictor of ROE for the chosen Nigerian deposit money banks. Additionally, CS showed a positive correlation with ROE, indicating that the variable has the potential to enhance banks' financial success. The variable's coefficient value of 0.479776 lends credence to the assertion. This suggested that ROE might rise by an astounding multiple percentages for every unit increase in CS. The variable was statistically significant at the 1% significance level, as shown by its t-start value of 4.051261 and prob. value of 0.0001, making this result trustworthy. This implies that CS is thought to be a factor in raising the ROE of the chosen deposit money banks in Nigeria.

Since CR showed a positive correlation with ROE in this instance, it has the ability to enhance the financial performance of the institutions included in this analysis. The coefficient of variation value of 0.157503 supports this assertion even more. This showed that an increase of one (1) unit in CR resulted in a multiple-percentage rise in ROE. The variable's t-start of 1.061047 and prob. value of 0.2919, however, indicate that it was statistically insignificant, hence the result might not be entirely trustworthy. Finally, there was a negative correlation between LR and ROE, indicating that LR had a delayed or diminished impact on ROE. The value of the variable's coefficient, -0.039343, supported this association. The coefficient suggests that a one-unit rise in LR has resulted in a fall in the ROE percentage. At the 1% level of significance, the variable was also found to be statistically significant, with t-statistic and prob. values of -0.620636 and 0.0002, respectively. This is consistent with earlier research by [29]. Therefore, we agree with the alternative hypothesis, which states that the return on equity of NDMBs is significantly correlated with asset growth.

Additionally, the model's independent variables were able to account for 55% of the overall variation in ROE for the chosen banks, according to the coefficient of determination (R^2) of 0.545710; the remaining balance was explained by other variables that were not included in the model. The model's joint significance, which was shown to be significant at the 1% level of significance, was explained by the F-statistic 6.087088. This merely stated that the alternative hypothesis is accepted and the null hypothesis is rejected, indicating that asset growth significantly affects ROE in the listed deposit money banks in Nigeria. There was no autocorrelation in the model, according to the Durbin-Watson (DW) value of 1.522316 see Table 2.

Table 2. Panel Least Square on the Relationship between Assets Growth and Financial Performance (ROE) of Listed Nigerian Deposit Money Banks

Variables	Coefficient	Std. Error	T-Statistic	Prob.
AP	0.134554	0.070947	1.896533	0.0015
CS	0.479776	0.118426	4.051261	0.0001
CR	0.157503	0.148441	1.061047	0.2919
LR	-0.039343	0.063392	-0.620636	0.0002
C	0.264150	0.048890	5.402974	0.0000
R-squared	0.545710	Mean dependent var		0.115833
Adjusted R-squared	0.529003	S.D. dependent var		0.081510
S.E. of regression	0.073046	Akaike info criterion		2.337769
Sum squared resid	0.421525	Schwarz criterion		2.193077
Log likelihood	103.1863	Hannan-Quinn criter.		2.279604
F-statistic	6.087088	Durbin-Watson stat		1.522316
Prob(F-statistic)	0.000254			

Source: Author’s Computation, 2025.

5. CONCLUSION

It has been determined that mergers and acquisitions (M&A) have an impact on the banks' overall performance based on data gathered to examine the impact of M&A on the performance of listed Nigerian deposit money banks. According to the study's findings, Nigerian deposit money banks' financial performance was significantly impacted by asset growth.

Generally speaking, deposit money banks' financial performance as indicated by ROE improved following mergers and acquisitions; as a result, banks looking to expand their assets may wish to think about merging. These results are in line with the synergy theory, which holds that businesses join or acquire one another to increase performance. The study's final conclusion was that mergers and acquisitions give supervisors the opportunity to develop their institutions by improving the quality of services they provide, which in turn helps to foster economic efficiency and increase financial performance. It is suggested that banks pursue a synergy-based merger plan that could take shape with minimizing technology-related expenditure as a goal. To achieve improved customer patronage and financial performance, banks' management should embrace efficient customer service delivery, aggressive deposit drive, and periodic training of staff. These recommendations stem from the study and subsequent results, regardless of the recommendations made by previous studies that have examined the variables used in this study and found findings similar to those of this study.

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Authors' Contribution Statement

Name of Author	C	M	So	Va	Fo	I	R	D	O	E	Vi	Su	P	Fu
Onaolapo Adekunle Rahman	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓	✓
Ajala OladayAyorinde	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓

C : **C**onceptualization
M : **M**ethodology
So : **So**ftware
Va : **Va**lidation
Fo : **Fo**rmal analysis
I : **I**nvestigation
R : **R**esources
D : **D**ata Curation
O : Writing - **O**riginal Draft
E : Writing - Review & **E**diting
Vi : **Vi**sualization
Su : **Su**pervision
P : **P**roject administration
Fu : **Fu**nding acquisition

Conflicts of Interest Statement

No conflicts of interest are disclosed by the writers. The choice to conduct the study, gather, analyze, or interpret data, write the report, or decide whether to publish the findings were all made independently by the authors.

Informed Consent

The authors affirm that the work presented in this manuscript is original and has not been published elsewhere.

Ethical Approval

All relevant ethical guidelines have been followed in the study, and appropriate ethical approval was obtained for the research.

Data Availability

Although not publicly available, the data supporting the study's conclusions can be obtained from the corresponding author (AJALA O. A.) upon reasonable request.

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