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Impact of Merger and Acquisition on Customer Service Quality of Deposit Money Banks in Nigeria

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***Abstract:** Merger and acquisition (M&A) perform a vital role in corporate finance by enabling firms achieve varied objectives and financial strategies. In Nigeria, banks have been merging with the goal of improving their performance. Hence, this study examined the effects of merger and acquisition on customer service quality of deposit money banks in Nigeria from 2006 to 2017. Primary data were used in this study. Primary data were sourced through administration of 350 copies of structured questionnaires on the customers of seven (7) sampled banks out of a population of 14 listed deposit money banks. Structural equation model was employed to evaluate the effects of merger and acquisition on customers' service quality in the Nigerian deposit money banks. The result revealed strong strategic relationship between merger and acquisition and customer service quality and this resulted in sustenance of the banks' efficiency in service delivery to customers. The conclusion drawn was that merger and acquisition (M&A) had positive significant impact on performance of deposit money banks in Nigeria in terms of customers' service quality (CSQ). It is therefore recommended that, managers of banks should pay particular attention to all service quality dimension and institute appropriate measures to deal with factors that militate against the delivery of services that delight customers and banks should be more aggressive in financial products marketing to increase financial performance thereby reaping the benefit of post- consolidation exercise.*

***Keywords:** Merger, Acquisition, Deposit Money Banks, Customer Service Quality, Confirmatory Factor Analysis, Structural Equation Model.*

1. INTRODUCTION

The mergers and acquisitions strategy has stood out among many firms as the most popular among firms seeking to establish a competitive advantage over their rivals (Akenga and Olang, 2017). In today's economy, mergers and acquisitions are being increasingly used worldwide with the major objective of working with other companies that can be more beneficial than working alone in the market, this has resulted to increase in equity and

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shareholders wealth as well as assets of the merged firms, it has also enabled the firm to reduce their operating costs (Malik and Khan, 2014). Acquisition creates corporate synergies which may result in more efficient management, improved production techniques and exploitation of increased market power (Muiru, Inoti and Onyuma, 2014). Pandey (2008) defined merger as the coming together of two or more firms to become one big firm, while acquisition is the takeover or purchase of a small firm by a big firm which are both pursuing a keen purpose, also Pandey (2008) defined acquisition as an act of acquiring effective control by one company over assets or management of another company without any combinations of companies.

The merger & acquisition process is one of the banking necessities required to develop the performance of small banks. Increasing their ability to grow and prosper in the market, successive developments in the information and technology fields, and the orientation towards large economic blocs are indicators of good development. This requires the composition of large banking units which would be able to contribute to the financing of large investment projects to serve the plans and programs of economic development. A sound and competent banking sector is essential for a stable macroeconomic environment, therefore, the importance of commercial banks in a country cannot be overemphasized, because they occupy key positions in a country's financial system and are essential agents that would lead to the growth of any economy.

Prequel to the above statements, therefore, there was a need for the overhaul of the Nigerian banking sector in order to restore the already dying confidence of the general public and other foreign investors who could not sleep with their two eyes closed as a result of the weak financial system that Nigeria operated. The Central Bank of Nigeria (CBN) as a regulatory body came up with the recapitalization and consolidation exercise in the banking industry under the leadership of the then governor of CBN Professor Charles Soludo who called on banks to increase their paid-up capital through public offers or corporate restructuring exercise (mergers and acquisition) with the view of eradicating the expansion bottlenecks, volatility between the deposit and lending rates and some other constraints faced by the banks. This made some of the commercial banks to consider Merger and Acquisition as a survival strategy.

Though the exercise was adjudged successful because it led to huge increases in the capital and asset base of the consolidated banks as well as their liquidity levels, stability of the sector was shot-lived as serious signs of systemic capital inadequacy and illiquidity was observed in the sector within three years of implementation of the programme. One school of thought argued that the inability of the sector to sustain the gains of the exercise was hinged on the mode of implementation. They argue that the strong banks acquired potentially profitable prospects leaving the weak ones that do not strongly appeal to "suitors" to merge into single entities. Another school also argues that the short implementation period led to "marriage of strange bed-fellows", due, largely, to poor evaluation of prospects. With the successful recapitalization exercise, commercial banks in Nigeria were expected to be virile and optimally efficient. But how far the exercise has made commercial banks in Nigeria to be virile, sound, strong and efficient so as to maximize their contribution to the growth of the economy is not very clear. This study therefore opined that successful merger and acquisition exercise has significant effect on customer's service quality of deposit money banks in

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Nigeria. As such we propose a strong relationship between mergers and acquisitions and customer's service quality of deposit money banks in Nigeria.

Literature Review

Conceptual Issues

Merger and Acquisition

Consolidation is viewed as the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size, concentration and efficiency of the remaining entities in the sector (Ajayi, 2005). Elumilade (2010) is of the opinion that consolidation is mostly motivated by technological innovations, deregulation of financial services, enhancement of intermediation and increased emphasis on shareholder value, privatization and international competition. Bello (2005) opined that the process of consolidation has been argued to enhance bank efficiency through cost reduction and increase in revenue in the long run.

Merger is global phenomena which many organizations employed to grow internally, by expanding its operations both globally and domestically. Nigerian banks were not left over to meet required capital base as being specified by Central Bank of Nigeria (CBN) and to improve banks' performance. Merger is the combination of two or more businesses that leads to the formation of a new business. Afolabi (2011) defined a merger as the result of a process whereby two or more previously autonomous concerns come under common control. Merger is the corporate combination of two or more independent business corporations into a single enterprise, usually the absorption of one or more firms by dominant one.

Acquisition occurs when one entity takes ownership of another entity's stock equity interest or assets. It's the purchase of one business or company by another company or business entity. The acquisition target can be identified through avenues such as market research, trade expos or sent up from internal business units among others. Acquisitions can be classified as friendly or hostile (Chunlai and Finlay, 2003). When this transaction is undertaken in a friendly manner, the board and management of the target companies agrees to the transaction, while a hostile deal is one that puts the offer against the wishes of the target, since the board or management refuses to offer.

Acquisitions can be friendly or hostile. In the case of a friendly acquisition the target is willing to be acquired. The target may view the acquisition as an opportunity to develop into new areas and use the resources offered by the acquirer. In the case of a hostile acquisition, the target is opposed to the acquisition. Hostile acquisitions are sometimes referred to as hostile takeovers. A review of the literatures on merger and acquisition shows that the definition of merger and acquisition significantly varies from country to country depending on factors such as the country's state of economic development, the performance of their banking sectors.

Customer Service Quality

Service quality is considered an important tool for a firm's struggle to differentiate itself from its competitors (Ladhari, 2008). The relevance of service quality to companies is emphasized here especially the fact that it offers a competitive advantage to companies that strive to improve it and hence bring customer satisfaction. Service quality has received a great deal of attention from both academicians and practitioners (Negi, 2009) and services marketing literature. Service quality is defined as the overall assessment of a service by the customer

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(Eshghi et al., 2008). Ghylin et al., (2008) points out that, by defining service quality, companies will be able to deliver services with higher quality level presumably resulting in increased customer satisfaction. Understanding service quality must involve acknowledging the characteristics of service which are intangibility, heterogeneity and inseparability (Ladhari, 2008). In that way, service quality would be easily measured.

Nigeria Deposits Money Banks

Nigeria deposit money banks (NDMBs) also known as conventional or commercial banks are financial institutions licensed by the regulatory authority to mobilize deposits from the surplus unit and channel the funds through loans to the deficit unit and perform other financial activities (CBN website). The banking system in Nigeria is under the directive of the apex bank in the country which is the Central Bank of Nigeria (CBN) which started operating on July 1, 1959. Prior to the CBN’s operation, Nigeria banking industry started during the colonial era during which colonial bank was established with sole objective of meeting the commercial needs of the colonial governments. Banks have been playing an active role in the Nigerian economy since the late 1800 when the first bank in Nigeria, the African Banking Corporation was established in 1892 (Oladejo, 2016).

Nigeria banking system was reformed in 2004, which resulted in increasing commercial banks capital base from N2 billion to N25 billion and their number reduced from 89 to 25. During this period, banks merged while some banks were also acquired. Another reform of the banking sector took place in 2009 with the establishment of the Asset Management Corporation of Nigeria (AMCON) by the National Assembly as well as the restriction of commercial banks to only banking activities. This reform also made AMCON to acquire non-performing loans of commercial banks and creation of non-interest banks. In 2010, the existing Universal Banking model was re-modified by CBN, classifying banking licenses into commercial, merchant and development licenses. As at 2018, the number of commercial banks in Nigeria is twenty-one (21).

Theoretical Review and Framework

In literatures, some theories have been identified, upon which the subject matter of this study is anchored. However, the researcher has decided to review few of such theories which are so pertinent to this study. Hence, this portion covers theories that are relevant to mergers and acquisition so as to get a deeper knowledge and understanding of the concepts. These theories among others include; value increasing (efficiency), synergy and concentration theories.

According to the value increasing theory, mergers occur, broadly, because mergers generate synergies between the acquirer and the target, and synergies, in turn, increase the value of the firm (Badreldin and Kalhoefer, 2009). The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties and synergies would be more achievable if the companies involved are engaged in related lines of business. Efficiency is the ratio of a system’s effective or useful output i.e. its total output. It can also be defined as the degree to which actual output(s) deviate from the optimum given a unit of measures of input. Bruner (2002) said that the economic literature distinguishes four types of efficiency, which includes: productive efficiency, transactional efficiency, allocative efficiency and dynamic efficiency.

In case of synergy theory, in mergers and acquisition literatures, synergy usually refers to financial synergy that is gained through the merging of conglomerates; while in the industrial economics literature, synergy features in the context of economies of scale that lead to cost

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savings (Chang, 1990). Synergy comes from a Greek word called "synergos" which means working together. Synergy is the ability of two or more business units or companies to generate greater value working together than when they work separately. It is expressed in this mathematical equation as [2+2=5] and sometimes it can also be expressed as [1+1=3]. Synergy motives are widely seen as the most frequently mentioned motives when managers want to embark on M&A project. Thus, Marco (2008) defined synergy as the increase in performance of the combined firm above what the two firms are already expected to accomplish as independent firms through gains in competitive advantage. Jrisy (2007) posited that Synergies are efficiencies that can only be achieved by merging, that is, they are merger specific. Synergy takes the form of revenue enhancement and cost savings, operating efficiency is also a form of synergy. Gaughan (2007) presents operational and financial synergy.

Concentration theory argues that economies of scale bring about bank merger and acquisition so that concentration will be based on bank efficiency (Demirguc and Levine, 2000) as cited in (Nwankwo, 2013). Concentration refers to the degree of control of economic activity by large firms (Sathye, 2002) as cited in (Olagunju and Obademi, 2012). According to Allen and Gale (2003), concentrated banking systems may also enhance profits and therefore lower bank fragility. Jrisy (2007) posited that each wave is characterized by a concentration of the type of merger and specific industries. The outcomes of numerous researches have resulted in the existence of numerous bank concentration theories in literature. Intensified competition in the financial markets, in which banks operate, has further encouraged consolidation, for example through mergers and acquisitions (M&A). A clear majority of M&A transactions has occurred between banks, but financial conglomerates involving; banks, insurance companies and securities firms have also been created. Domestic mergers continue to dominate international mergers. The relatively modest volume of international mergers could indicate that domestic banking mergers are apparently more advantageous than international mergers. Individual European economies are rather heterogeneous, implying that purely domestic banking mergers offer ample opportunities for asset risk diversification. Domestic mergers will therefore be preferred to international mergers, with their concomitant cultural and language problems, differences in national regulations, for instance; deposit insurance systems, taxation differences and country-specific restrictions on banking activities. This will discourage cross-border consolidation.

Empirical Review

Empirical evidence has shown that merger and acquisition have both significant positive and negative effects on customer's service quality of banks around the globe. Abbas, Hunjra and Azam (2014) examined the financial performance of banks in Pakistan after merger and acquisition, and this research took 10 sample of banks in Pakistan and this research emphasis on banking sector in Pakistan. Moreover, this data research was taken for 6 years, which is from 2006-2011. In this study, ratio analysis was used to determine the dependent variable such as profitability and efficiency, liquidity ratios and leverage, while the independent variables were pre and post-merger acquisitions. In additional, the findings of the study shows that there is no progress or development in the financial performance of banks in Pakistan after doing merger and acquisition activity. Even most banks show a decrease in the dependent variable such as efficiency, liquidity and profitability; however, some of the banks like the Dubai Banking Group LLC and HSBC Bank Middle East Limited having growth in

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their financial performance after mergers and acquisitions. In addition, the results of leverage and liquidity are not much advancement. The overall result for this study, it is conclude that mergers and acquisitions not perform proficiently in financial performance of banks in Pakistan

Mboroto (2012) makes a study to investigate the effect of mergers and acquisitions on the financial performance. This research was carried on with only 4 sample companies that doing merger and acquisition in the period of 2002-2012 in petroleum firms in Kenya. For this research, return on equity, return on asset, liquidity management, macroeconomics factors and management efficiency as the dependent variable. The result showed that in the era of post-merger / acquisition, ROA of standard size overall financial performance has a major impact of mergers and acquisitions activity.

Okpanachi (2011) conducted a comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. The study whose major objective was to make a comparative analysis of the impact of mergers and acquisition on the financial efficiency of banks in Nigeria, made use of gross earnings, profit after tax and net assets of three selected banks namely, Access Bank Plc, First Bank of Nigeria Plc and Wema Bank Plc, extracted from their annual reports and accounts as indices to determine financial efficiency of the banks by comparing pre-mergers and acquisitions indices with the post-mergers and acquisitions indices for the period 2002 to 2008. The period 2002 to 2004 was considered as pre-merger period, 2005 as base year while years 2006 to 2008 were considered as post-merger period. This was done to determine if there were any significant differences between the efficiency of the banks in terms of gross earnings, profit after tax and net assets. The secondary data (gross earnings, profit after tax and net assets), were analyzed by applying the t-statistic, using the Statistical Package for Social Sciences. The results showed that the post-mergers and acquisition period was more financially efficient than the pre-mergers and acquisitions period and recommended that banks should be more aggressive in their profit drive to improve their financial position and thereby reap the benefits of mergers and acquisitions.

Ayodeji (2018) sought to establish the Effect of Mergers and Acquisitions on Bank customers Service Delivery at First City Monument Bank Plc. The study employed descriptive data; sourced through panel of data method range between the period of 2009-2016. The data were tested using cross –sectional survey and chi square analysis with the help of statistical package for social science (SPSS 20.0). From this study, findings indicate that M & A's had an impressive positive effect on overall customers' service delivery, capital base and bank performance. As the results indicate; mergers and acquisitions offered competitive advantage which enabled the bank to grow in ten folds. This in turn has positively contributed to increase in efficiency and reduces the amount of time taken to deliver a service through improvement in service delivery.

2. METHODOLOGY

Study Area

The study was conducted across the deposit money banks in Nigeria.

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Population of the Study

The population of the study consisted of fourteen (14) deposit money banks in Nigeria listed on the floor of the Nigerian Stock Exchange (NSE) as specified on its official website as at September, 2018.

Sample Size and Sampling Technique

The research sample size includes seven banks from banks that were involved in mergers and acquisitions exercise. Banks that were judgmentally selected are those banks that retained their identities prior to and after the merger and acquisition activities. These selected seven banks were also quoted banks in NSE as at 2018. Another important criterion used to arrive at this sample size was for those selected banks to have their annual reports and accounts readily accessible for the study period (2006-2017).

Method of Data Collection

Primary source was explored to generate necessary data for the purpose of this study. The primary data employed consisted of a structured questionnaire wherein respondents' opinions were graduated using Likert scale design. Questions in the questionnaire were administered on selected customers of the sampled commercial banks. The questionnaire was categorized in three sections. The first section captures the socio economic characteristics of the respondents, the second addresses questions relating to merger and acquisition as a higher order construct while the third section deals with issues on customer service quality of the banks. The questions were carefully designed in line with the objective of the study.

Measurement and Explanations of Study Variables

Eight constructs were highlighted for the objective advanced for the study. The construct merger and acquisition is the independent construct while customer service quality is the dependent construct. Building on the prior research in the constructing measures and scale in similar studies, merger and acquisition was conceived as a latent multidimensional constructs comprising the technology, product availability, human capital and branch networks of the banks. Customer service quality was gauged using multi-dimensional construct including four different dimensions namely tangibility, reliability, responsiveness and convenience. Customer service quality was operationalized following the recommendation of Kumar et al., 2009. Thus, respondents were ask to tick their choice on a 5 point Likert scale on statement relating to technology, product availability, human capital, branch networks, tangibility, reliability, responsiveness and convenience

Model Specification

Following the constructs specification, the measurement theory model to be tested was developed as indicated in figure-1 below. The model displayed eight latent constructs with 32 measured indicators. The constructs correlate with all other constructs. The constructs were reflective in nature since they are based on the idea that the latent constructs caused the measured variables and that error resulted to the inability to fully explain the measured variables (Hair et al., 2010). The measured items loaded on only one construct. This is consistent with rules of unidimensional measures that a set of measured variables (indicators) can only be explained by one underlying construct (Ping, 2004). The error terms are not also allowed to relate with any other measured variables. The measurement model is congeneric and all constructs are indicated by four major measured items suggesting an over-identified measurement model.

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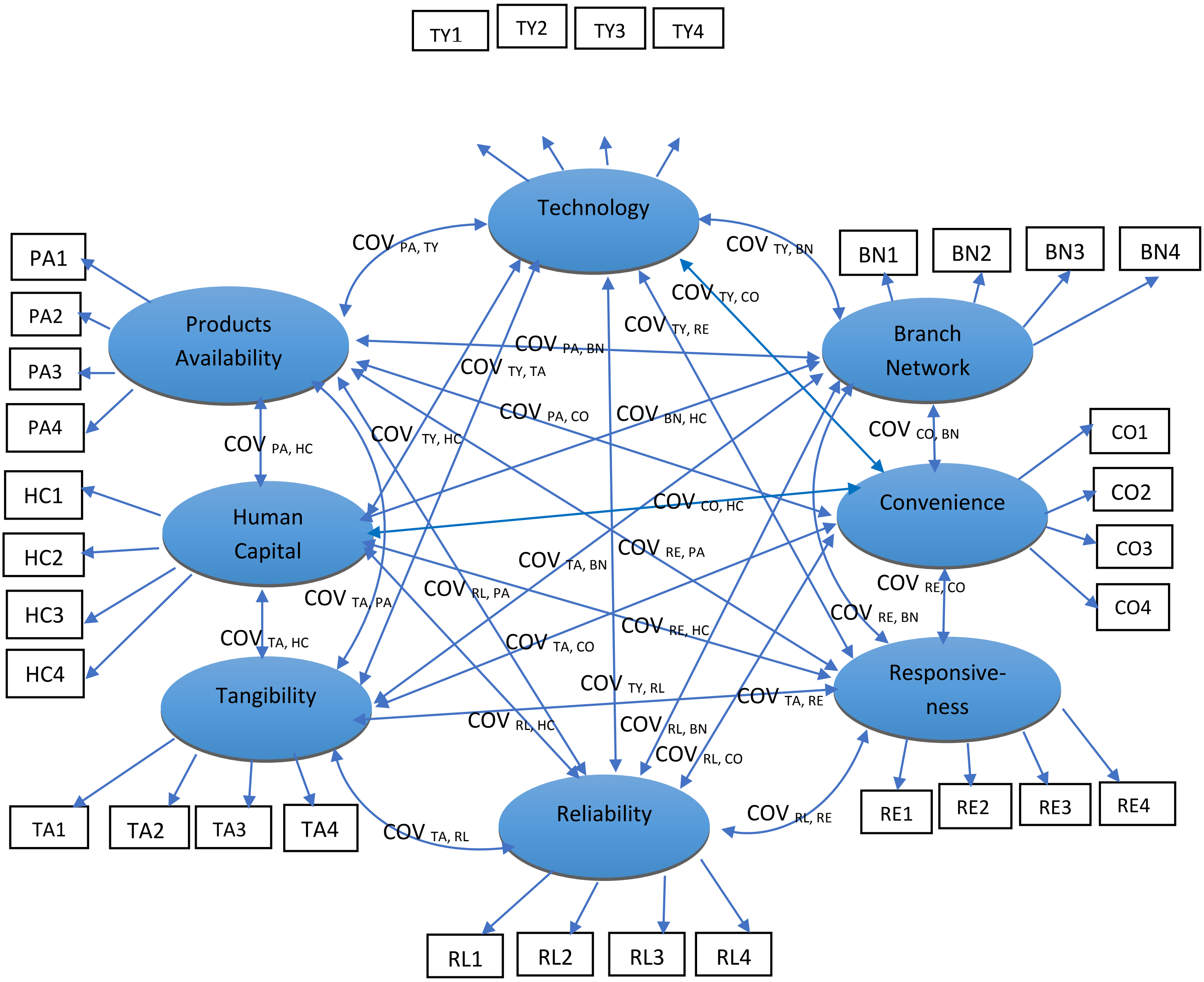

Figure 1: Measurement Model

Data Analysis Techniques

Analytical techniques used in this study consisted of both descriptive and inferential statistics. Descriptive statistics tools comprised frequency distribution, tables, mean, standard deviation and percentages. To evaluate the effects merger and acquisition on customer service quality of deposit money banks in Nigeria, Structural Equation Model (SEM) was employed; a multivariate statistical tool that seeks to explain relationship among multiple variables; it captures the relationship among constructs involved in analysis.

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3. ANALYSIS AND RESULTS

Confirmatory factor analysis (CFA) test was performed with merger and acquisition (M&A) as a higher order latent construct, consisting of the four first indicators (Technology, Products Availability, Human Capital and Branch Network). The first order loadings ranged from 0.58 to 0.73 with t-values greater than 1.96 and significant at $p<0.001$. The second order loadings ranged from 0.61 to 0.78 at a t-value>1.96 and significant at $p<0.001$. The outcome affirmed the higher order construct explicitly represents the causal constructs that impact the first order factors. The measurement model resulted in a good fit order chi-square (x^2) of 214.73; df =100, p=0.001, x^2/df=2.1473; GFI= 0.914, CFI=0.952.
Confirmatory factor analysis (CFA) test was also performed on customer service quality (CSQ) as a higher order latent construct, consisting of the four first order indicators (Tangibility, Reliability, Responsiveness and Convenience). The first order loadings ranged from 0.61 to 0.79 with t-values greater than 1.96 and significant at $p<0.001$.The second order loadings ranged from 0.61 to 0.75 at a t-value > 1.96 and significant at $p<0.001$. The outcome affirmed the higher order construct explicitly represents the causal constructs that impact the first order factors. The measurement model fit index accounted for chi-square (x^2)= 218.627; df=92, p=0.001, x^2/df=2.376; GFI=0.921, CFI=0.916.

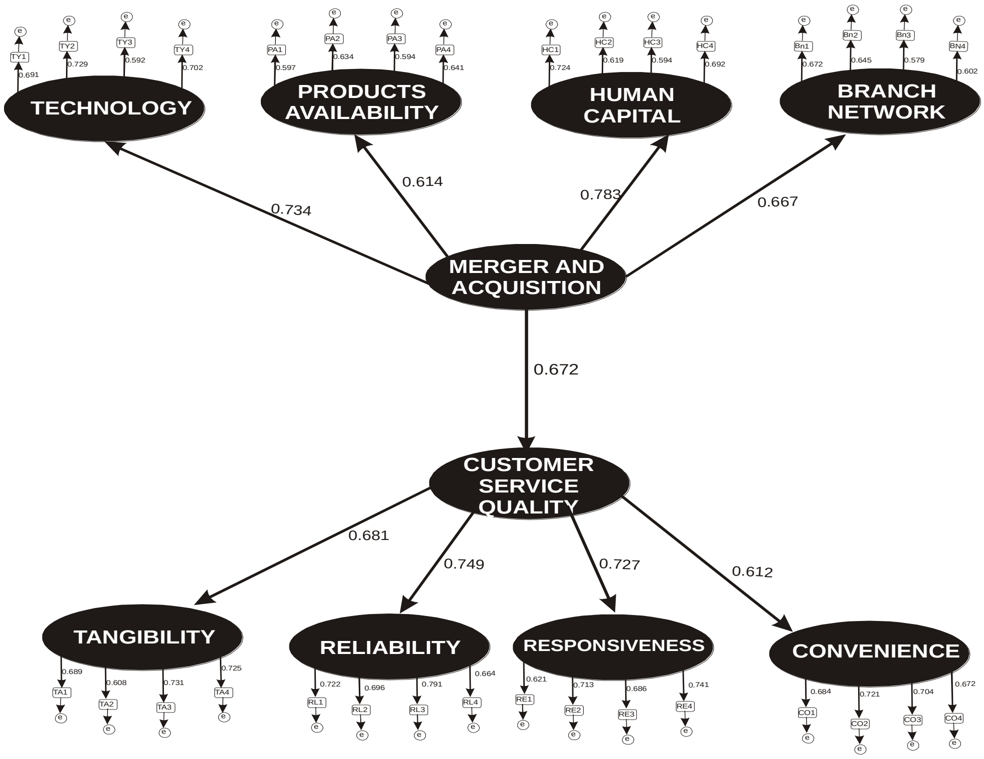

Figure-2: Research Model and Hypotheses

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4. DISCUSSION

This study examined the influence of merger and acquisition on customer service quality of deposit money banks in Nigeria. Merger and acquisition were found to have significant effect on customer service quality of deposit money banks in Nigeria. Specifically, the study found that technology usage of banks was noted to have a significant influence on the tangibility perception of customers in measuring customers' service quality of banks. This was evidenced from the positive correlation of 0.56 exhibited by the technology of banks on tangibility dimension of measuring customers' service quality of banks. The influence of technology on the reliability dimension was also noted to have a correlation of 0.58. Technology was also observed to have significant impact in responsiveness dimension of customers' perception towards customers' service quality of banks. The correlation of 0.62 attested to this. The technology advancement of banks was also noted to have a strong positive correlation of 0.53 with the convenience dimension of measuring customers' quality of banks. These results pinpoint the significant effect of technology advancement of merged banks in improving customers' service quality.

Product availability was equally found to have 0.38 positive correlations with the customers' tangibility perception of banks. Product availability was also noted to have a 0.41 relationship with the reliability dimension of measuring customers' service quality of banks. Also observed was the relationship between the product availability and responsiveness dimension. A relationship of 0.60 was exhibited. The relationship between product availability and convenience perception of customers towards customers' service quality was observed to have a correlation of 0.65. The above results were based on the perception of customers' tangibility, reliability, responsiveness and convenience of banks towards banks' product availability.

Human capital was found to have significant (0.58) positive relationship on tangibility dimension of customers towards banks' – customers service delivery. The table also shown total human capital has a correlation (0.59) with the reliability dimension. Also observed is the relationship (0.55) between the human capital and responsiveness dimension of measuring customers' service quality of banks. The relationship between human capital and convenience perception of customers was observed to have a correlation of 0.63. The implication of the above means that human capital has significant effect on tangibility, reliability, responsiveness and convenience perception of banks by the customers towards customers' service quality of deposit money banks.
Branch network was also noted to have a 0.46 relationship with the tangibility perception of customers towards the measuring of banks delivery of good customer service quality. Also observed was the relationship between branch network and reliability perception. A relationship of 0.56 was exhibited. Branch network was equally found to have 0.55 positive correlations with the responsiveness dimension of banks by customers. The relationship between branch network and convenience perception of customers towards measuring good customer service quality for banks was observed to have a correlation of 0.57. This was based on the perception that branch network of banks have significant effect on customers service quality for banks in post merger area.

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Table 1 Correlation Coefficient

Measures	1	2	3	4	5	6	7	8
Merger and Acquisition								
1. Technology	1.00							
2. Product Availability	0.43	1.00						
3. Human Capital	0.37	0.52	1.00					
4. Branch Network	0.46	0.34	0.22	1.00				
Customer Service Quality								
5. Tangibility	0.56	0.38	0.58	0.46	1.00			
6. Reliability	0.58	0.41	0.59	0.56	0.64	1.00		
7. Responsiveness	0.62	0.60	0.55	0.55	0.53	0.66	1.00	
8. Convenience	0.53	0.65	0.63	0.57	0.72	0.62	0.65	1.00

Source: Field Survey, 2019

Table 2 Shared Variances

Measures	Mean	Standard Deviation	1	2	3	4	5	6	7	8
Merger and Acquisition	3.437	1.445								
1. Technology	3.587	1.362	1.00							
2. Product Availability	4.152	1.453	0.31	1.00						
3. Human Capital	3.355	0.894	0.25	0.38	1.00					
4. Branch Network	4.723	1.537	0.32	0.27	0.25	1.00				
Customer Service Quality	4.051	1.424								
5. Tangibility	4.524	1.532	0.48	0.21	0.49	0.31	1.00			
6. Reliability	3.518	1.417	0.41	0.26	0.52	0.53	0.57	1.00		
7. Responsiveness	2.857	0.794	0.45	0.47	0.42	0.51	0.44	0.52	1.00	
8. Convenience	4.527	1.563	0.32	0.54	0.50	0.47	0.52	0.46	0.46	1.00

Source: Field Survey, 2019

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5. CONCLUSION

This study examined the effects of merger and acquisition on customer service quality of selected deposit money banks in Nigeria. Consequent upon data collected to unravel the effect of merger and acquisition on customer service quality of selected deposit money banks in Nigeria and based on findings from the obtained result, it has been established that merger and acquisition affect the banks and their overall performance. The study concluded that mergers and acquisitions have favourably impacted on the overall quality of service delivered by the deposit money banks in Nigeria. Finally, the study concluded that mergers and acquisitions offer supervisor growth option for banks through improvement in services delivery and thus contribute to promote economic efficiency that will enhance financial performance.

Limitation Study Forward

This study was limited by the selected Nigerian deposit money banks. It is suggested that a more comprehensive study, which will take into consideration the entire deposit money banks on the floor of the Nigerian Stock Exchange should be carried out. In addition to this, the present models could be expanded to accommodate other variables not captured in this study.

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