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**Operational and Financial Consequences of  
Merger and Acquisitions**

Case: Nigerian Banking Sector

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## **Thesis Abstract**

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The aim of this thesis is to establish the operational and financial challenges in mergers and acquisitions using the Nigerian banking sector as a case study. And also to proffer solutions on how these challenges can be mitigated or reduced.

The Nigerian banking sector has undergone several consolidation- mergers and acquisition and consolidation in the banking sector is still an ongoing process. The operational challenges experienced at the early years of operations of merged banks include: Information Technology (IT) issues, Human Resource (HR) issues, Communication issues and amongst others. The Financial issue is majorly on the maximization of the shareholders wealth of the merging banks.

The research methodology used was both quantitative and qualitative methods. For the quantitative aspect, online questionnaires were sent to employees of four different banks that have undergone consolidation process (two banks that merged and two banks that were acquired by other banks) and the feedback from the respondents were critically analyzed with the underlying theories. The qualitative method was the review of financial reports of one of the banks prior to merger/acquisition and after the merger/acquisition.

On a final note, conclusion was given.

Keywords: Operational, Financial, Consequences, Mergers, Acquisitions and Bank

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## Abbreviations

<b>CBN</b>	Central Bank of Nigeria
<b>IT</b>	Information Technology
<b>HR</b>	Human Resource
<b>M&amp;A</b>	Merger and Acquisition



# 1 INTRODUCTION

Mergers and Acquisitions are the consolidation processes of companies where two or more companies come together to form a single entity. Merger is simply means the coming together of two or more companies with the aim of expanding business operations while acquisition is when a company takes over the business operations of another company.

The number of companies that are being consolidated either through mergers or acquisition has been on the increase globally and since this involves the coming together of two or more different companies with different business culture, there are some operational and financial challenges that are usually experienced in the early period of new entity before the parties are fully integrated together.

Nigeria is however not an exception to the wave of mergers and acquisition, as this is experienced largely in the banking, automobile, information and communication technology, insurance, capital market and securities sectors of the economy. The researcher experienced the operational challenges in one of the Nigerian banks that underwent the merger process and these challenges impacted on the performance of the employees.

## 1.1 Background of the study

The Nigerian banking industry has gone through and still continues to experience consolidation processes in the form of both mergers and acquisitions and presently there are about 20 commercial banks from the initial number of over 120 banks. The mergers and acquisitions in the banking industry are seen to have contributed to a sound and financially stable banks in Nigeria.

The operational challenges experienced at the early years of operations of merged banks include: Information Technology (IT) issues, Human Resource (HR) issues, Communication issues and amongst others. The Financial issues are majorly on the maximization of the shareholders wealth of the merging banks.

## **1.2 The Statement of Problem**

Though the banking industry in Nigeria has been transformed through mergers and acquisitions, there are some operational challenges experienced through M&A and these include: human resource issues, psychological issues, communication issues and information technology issues. The financial challenges is majorly on the maximization of the shareholders wealth of banks after mergers or acquisitions

The research work is on the operational and financial challenges in Nigerian banks that have undergone both mergers and acquisitions and proffer solutions on how these challenges (especially the operational ones) can be mitigated or reduced.

## **1.3 Scope of the Study**

This research work focuses on the operational and financial challenges in mergers and acquisitions using the Nigerian banking sector as a case study. The scope however will cover four Nigerian banks that have undergone mergers and acquisitions- two of the banks experienced mergers while the remaining two experienced acquisition, to see the operational challenges that the employees of the banks experienced during the early operation of the new bank. The financial challenges on the other part is on the maximization of the shareholders wealth after the mergers and or acquisitions

The aim of this research is to provide information on the operational challenges include: human resource issues, psychological issues, information technology issues, cultural differences as a result of the M&A. The financial challenges are on the triangle of healthiness of the banks by considering the profitability, liquidity and solvency of the bank before and after M&A.

The information provided will help banks in Nigeria that intends to merge with or acquired by another bank on how they can design strategies that will reduce or eliminate these operational challenges while for the financial challenges, it will provide information to shareholders of Nigerian banks that intends to merger with or acquired by another bank if their shares will be maximized or not.

## 2 MERGERS AND ACQUISITIONS

### 2.1 An Overview of Mergers and Acquisitions

Mergers and acquisition are taking place in every industry at an increasing pace, typically in the financial services industry and this could be attributed to the economic recovery and the resulting improvements in the financial and credit markets in the post 2007-2009 financial crisis. (Zabihollah 2011, 127.)

The increasing pace of mergers and acquisitions has contributed to the global changes in technology, communication, transportation, scope of market, forms and intensity of competition amongst other factors that has contributed to the powerful change forces in the world economy. (Gupta 2010, 6).

Though the two terms- Mergers and Acquisitions are often used interchangeably but Melanie, Minna & Tuija (2011, 31) made a distinction between the two terms. Merger is as a result of the coming together of two or more companies who agree to combine their assets to create an entirely new company. Acquisition on the other hand, is when a company purchases a sufficient amount of an established company to provide control over the acquired company.

Melanie et'al (2011) classified M&A as one of the strategic options in planning new business creation with the remaining two being organic investments and Research and development investment.

The history of mergers and acquisitions started in the United States and can be traced back to the 19<sup>th</sup> century (business maps of india.com) and this has evolved in different dimensions. According to Zabiholla 2011, technology, pharmaceutical, financial services and energy resources industries are predicted to experience an increasing level of M&A at the beginning of 21<sup>st</sup> century.

There had been six periods of M&A activities in U.S history; these periods are also referred to as "merger wave" and these waves are cyclical in nature i.e. periods of high levels of activities followed by periods of low activities. The period between 1887 and 1904, 1916 and 1929, 1965 and 1969, 1990 and 2000 and 2003 and

2007 were the first, second, third, fourth, fifth and six merger waves respectively (Gaughan 2010, 35).

Nigeria is however not an exception to the wave of M&A activities is; the first merger was experienced in the early 1980s and the deals are consumed virtually in all sectors of the economy. According to Folashade and Adekunle (2013), all the activities of M&A in Nigeria are regulated principally by the investment and securities Act and the Securities and Exchange Commission, SEC is the overall supervising authority for mergers, acquisitions and business combinations in Nigeria. A large number of M&A activities in 2012 occurred within the financial services, insurance, telecommunications, consumer goods and oil and gas.

## **2.2 Types of Mergers and Acquisitions**

Economically, Mergers and Acquisitions can be classified into three main categories: Horizontal, Vertical and Conglomerate (Gaughan 2005, 4).

### **2.2.1 Horizontal Mergers and Acquisition**

This is the type of combinations between two competitors. BPP publishing 2012 300, stressed that this type of M&A occurs between company that were formerly competitors and who manufacture products that are considered substitutes by their buyers with the aim of achieving horizontal integration.

An example of horizontal M&A was the business combination of two pharmaceutical companies- Pfizer acquired Lipitor, both companies are in the pharmaceutical industry and this helped Pfizer to sustain the first position of pharmaceutical company in the world (Gaughan 2005, 4).

### **2.2.2 Vertical Mergers and Acquisitions**

This type of M&A occurs between companies that have a buyer and seller relationship with each other. It can be in the form of business combination

between companies that operate at different stages of the same production chain, or between companies that manufactures balancing or complementary goods. Vertical M&A can be forward, combinations between a company and a customer or backward, combination between a company and a supplier (BPP publishing 2012, 301).

Gaughan 2005, 6 gave an example of vertical M&A with merger between a drug manufacturer Merck and Medco Containment Services- a company that deals with the distribution of drugs. This merger took place in 1993 at a sum of \$6.6 billion.

### **2.2.3 Conglomerate Mergers and Acquisitions**

This is a type of business combinations that is neither vertical nor horizontal, it is a form of business combination where a company acquires or merge with another company in an unrelated line of business (BPP publishing 2012, 301).

During the 1960s, conglomerate M&A was very popular as a result of prevention companies from easily engaging in both vertical and horizontal business combinations by the antitrust enforcement. An example of conglomerate M&A is General Electric (GE) Company, a well-known diversified company (Gaughan 2005, 7).

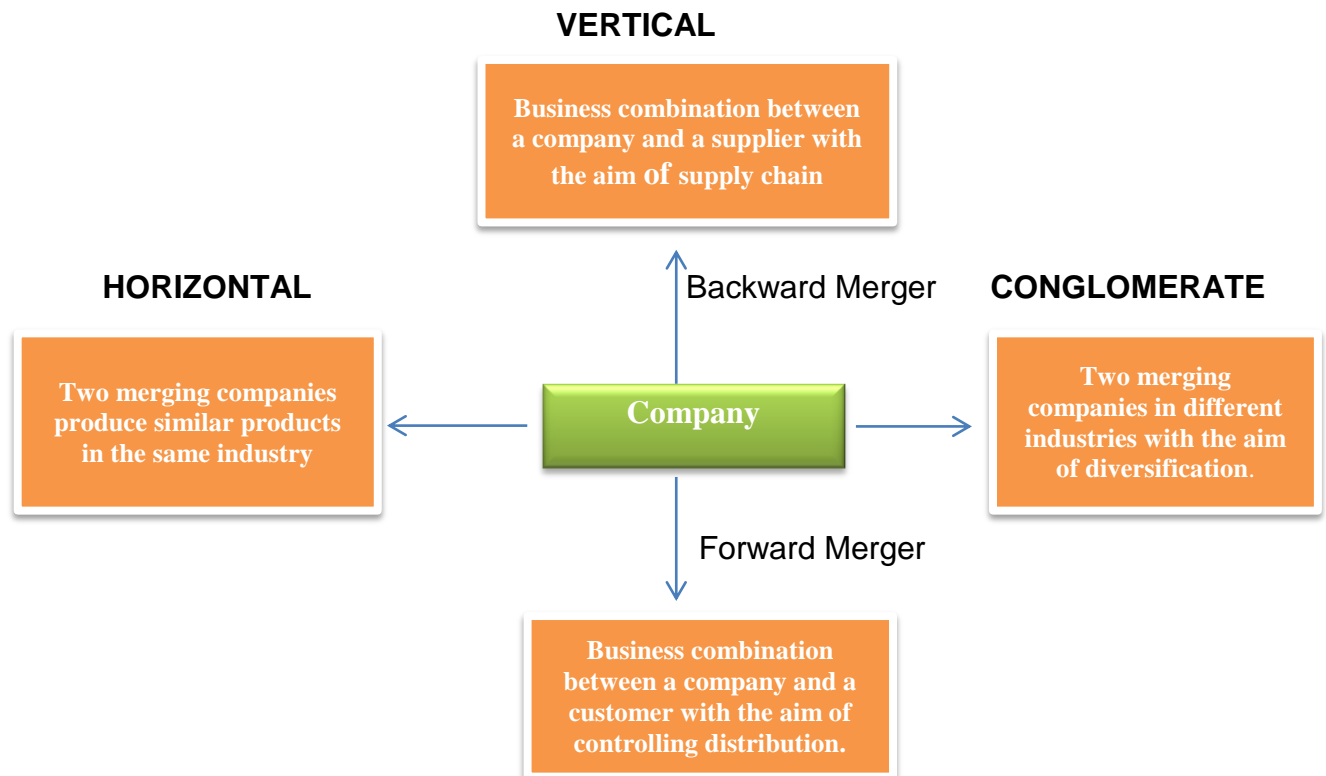


FIGURE 1. Types of Mergers and Acquisition (BPP publishing 2012, 301)

## 2.3 Motives of Mergers and Acquisitions

There are different theories on the motives of mergers and acquisitions. According to Friedrich 1990 319-328, there are seven theories on the motives of mergers and acquisitions.

### 2.3.1 Efficiency theory

According to this theory, M&A are planned to achieve three synergies which are: Financial, Operational and Managerial synergies.

Financial synergies aim in reducing the cost of capital by increasing the company size. Operational synergies could be achieved by the combination of operations of companies that are being merged and the transfer of knowledge thereby making the company to offer unique products or services. While the managerial synergies occur when the acquirer company has managerial expertise that is superior to the company to be acquired or target company.

### **2.3.2 Monopoly theory**

This theory views M&A as being considered and carried out in order to achieve market power; this could be said to occur only in horizontal form of M&A.

However, the conglomerate form of M&A can also occur in line with the monopoly theory if the company wants to cross-subsidize its product i.e. getting a big market share in another market, also when a company aims at reducing competition in more than one market and when a company aims in preventing a potential company from entering the market.

### **2.3.3 Valuation theory**

With this theory, M&A are embarked on by managers of a company that have better information about the company to be merged or acquired than the stock market.

This theory however has been subjected to various criticisms because if a company has privy to private information of the another company to be acquired or merged with, the information will be revealed in the bid thereby making the stock price of the company to be acquired to go up as a result of the information.

### **2.3.4 Empire-building theory**

With this theory, M&As are considered and carried out by managers of company in order to maximize their goals as against the company's goal of maximization of shareholders wealth.

The empire building theory is also known as the agency theory where agents of the company (directors and top management) strive to maximize their own utility functions and the agency problem can be mitigated by the enforcement of contractual commitments of directors and managers of companies and introducing incentive schemes that will encourage management of a company to act in the interest of the company's shareholders

### **2.3.5 Process theory**

The process theory is based on strategic decision process which is as an outcome of individuals having limited information processing capabilities and political power where strategic decisions come up as a result of political games between two companies where the company with the higher political power dominates decision process.

This therefore concludes that M&As activity are result of uncertainty, political influences, different process participants and not on comprehensive rational decisions.

### **2.3.6 Raider theory**

Friedrich 1990 defines a raider as someone who pays other stakeholders a premium to become the controlling stockholder of the company in a bidding process and this theory assumes that managers create wealth transfers from the stockholders of the companies they bid for.

### **2.3.7 Disturbance theory**

According to the disturbance theory, M&A occurs due to the economic disturbances. The economic disturbances brings about the changes in individual expectations with the general state of uncertainty rising. Thus bringing about the change in the order of individual expectations and resulting in a merger wave.



## **2.4 Other theories of Mergers and Acquisitions**

### **2.4.1 Internalization, Technical Competence and Transaction Cost Theories**

According to Das, Raskhit and Sathya 2009, the theories of M&A can be summarized into three main theories which are: internalization theory, technological theory and the transaction cost theory.

The internalization theory is on that a company merger with another or being acquired in order to obtain the intangible assets in the targeted company, the intangible assets will produce competitive advantage, thereby increasing profit.

Technological competence theory emphasizes that M&A activities do occur because of the technological competence of another company, this is an extension of the internalization theory.

The final theory is the transaction cost theory where a company acquire or merge with another company in order to ensure that a certain product or service is available thereby minimizing any uncertainties that has to do with the supply and or to reduce the cost of the product. The transaction cost theory is applicable to the vertical type of merger and acquisitions (Das et'al 2009, 83-84).

### **2.4.2 Value Increasing and Value Decreasing Theories**

According to the Value increasing theory, mergers and acquisition occur because of the synergy that will be created between the acquirer and the target company and this synergy will invariably increase the value of the firm. Two types of synergies are being created under this theory; the operative synergies which is the efficiency gains achieved through economies of scale and scope and the allocated synergies achieved from increased market power and improved ability to extract consumer surplus (Kilian & Wilfred 2013, 82).

The Value decreasing theory is when M&As activities fail to create value and this theory can be summed up into two division. Firstly, is when the acquiring company

incurs losses as a result of the constraint in getting information and the second category is when the management team of the company maximizes a private utility function which at least fails to maximize the shareholders wealth i.e. not affecting the company's value positively. (Kilian et'al 2013, 83).

## **2.5 Advantages and Disadvantages of Mergers and Acquisitions**

There are some benefits and disadvantages of M&As. According to Melanie et'al 2011, the advantages of mergers include: economies of scale, greater efficiency, increased value generation, increased market share and internationalization; while the disadvantages are managerial expenses, partners diverging capabilities, conflicts of interests and goals

Acquisitions on the other hand also have some advantages which are managerial autonomy and full control over local operations, rapid access to local resources and also knowledge and capability. The disadvantages of acquisitions include: difficulty in assessing intangible assets e.g. goodwill of the acquired company, companies that are available to be acquired may have hidden flaws and those that are at a good state may be more expensive than their true value and furthermore, post-acquisition integration failures which is mostly attributed to cultural difference and technology mismatch. (Melanie et'al, 2011)

## **2.6 Mergers and Acquisitions Failures**

There had been some failures in M&A activities and failures in this regard can be categorized to be qualitative or quantitative. The qualitative situation is when the reasons that made companies to merge did not seem to work out the way in the end and the quantitative situation, the operating results of the merged companies' declines instead of improving thereby making the shareholders to suffer. (Gupta 2010, 29).

Gupta further outlined some reasons why mergers and acquisitions fail and these failures are discussed briefly below

### **2.6.1 Lack of Research**

For a successful M&A activity, getting detailed information that relates to the important features of the company to be merged with or acquired; information like finance, management, capability, assets of the company (Gupta 2010, 30).

And if no thorough information is gathered prior for the merger or acquisition can result into merger failure thereby causing the destruction of the acquirers wealth

### **2.6.2 The Hubris Behavior**

This is a situation where a merger or acquisition activity is being carried out for the purpose of 'seeking glory', rather than from the view of corporate strategy in meeting the needs of the company. In this case, the top management team of a company is more interested in satisfying their 'executive ego'.

Since the hubris behavior of top management does not align with the overall goals of the company in the M&A activity, this might result in failure (Gupta 2010, 30).

### **2.6.3 Poor Organization Fit**

Organization fit is the match between the administrative practices, cultural practices and personnel characteristics of the target company and the acquired company (Das, et'al 2009, 90).

In this case, the M&A failure happen when there is failure in planning and execution of the integration process. Factors like organizational factors, internal cultural factors, adequate information about the target business should be thoroughly investigated and failure to do this can result in mismatch of organization fit thereby leading to failure of merger or acquisition process (Gupta 2010, 30-31).

#### **2.6.4 Mismatch in Size**

This is seen in acquisition process. According to Gupta 2010, many strong companies seek to acquire smaller companies in order to gain control while smaller companies look for bigger companies to acquire them in order to bail them out.

An acquisition may fail as a result of 'acquisition indigestion' where a company acquires another company that is too big for operation or failed to give the required time and attention for smaller companies acquired. (Gupta 2010, 30).

#### **2.6.5 Poor Strategic Fit**

A merger or acquisition activity can give a desired result if there is a strategic fit between the parties and lack of strategic fit can result into merger or acquisition failure. Strategic fit include the business beliefs of the two companies, time frame for achieving desired goals (long term vs. short term) and the utilization of the company's assets (Gupta 2010, 31).

Mergers or acquisition with a strong strategic fit helps in improving the profitability of the company by the effective utilization of facilities, reduction in overheads and the ability to raise funds at a lower cost. (Das et'al 2009, 90)

#### **2.6.6 Excess Premium**

This is another typical example in an acquisition process when the acquirers pay too much for the acquired company as a result of poor evaluation process that overestimates the benefits that be accrued from the acquisition(Gupta 2010, 32) .

When the acquirer company fails to achieve the synergies needed to compensate the price, the merger or acquisition will fail (Das et'al 2009, 90).

### **2.6.7 Poor Cultural Fits**

Since two or more different companies with different business cultures are coming to become one, there will be tendency of culture clash which could lead to failure in the merger or acquisition process if not adequately addressed. Thus there is need to identify the potential impact of cultural gap, and develop strategies on the impact of the cultural differences and how it can be reduced or mitigated.

An example of poor cultural fits was in the acquisition activity between Quaker Oats and Snapple Beverage Co.in 1994, after four years, Snapple business was sold off as a result of conflict between the corporate cultures. Snapple business style of marketing was towards its distributors while Quaker had a mass marketing approach. (Gupta 2010, 32).

### **2.6.8 Lack of Immediate Integration**

Integration cuts across all functions e.g. marketing, finance, production, human resource, information technology and so on. Delay in the integration of any of these functions could lead to failure of M&A activity because uncertainty and ambiguity for longer periods could disrupt the normal organizational life (Gupta 2010, 33).

Gupta further stressed that the importance of speed of integration because if the merging parties are not immediate integrated, it places greater stress on the employees and there will be so much distraction from work and the slow approach to integration also tends to dissipate the momentum and enthusiasm at work.

### **2.6.9 Lack of Proper Communication**

There is need for proper communication between the management of a company and the employees of the company after a merger or acquisition process and regardless of how well executives communicate during a merger or acquisition process, the issue of uncertainty can never be completely eliminated.

Where there is no proper communication, it might lead to inaccurate perceptions, lack of confidence in management, morale and productivity challenges, poor customer service and contributing to the loss of the support from the stakeholders of the company at a time where support is mostly needed (Gupta 2010, 34)

## **2.7 Mergers and Acquisitions Process**

The process of merging together of two or more different companies into a single entity or the acquisition of another companies requires a lot of time, money from the buyer and the seller and this is somehow considered to be extremely complex.

According to Alexander, William and Peter, 2012, the typical process or lifecycle changes in mergers and acquisitions can be categorized into seven different phases which are: inception, feasibility, pre-merger negotiations, contract formulation, the deal, implementation and the commissioning.

The inception stage is the stage where senior managers of a company initiate the merger or acquisition process; at the feasibility stage, the financial and logistics areas are considered and at this stage, a company makes the commitment to the merger or acquisition and allocates the funding and resources where necessary. At the pre-merger negotiation stage, senior managers of the companies enter into negotiations in order to come to an agreement on the structure and format of the new combined company and this usually involves external professional consultants. And the deal itself takes the form of a detailed merger contract. The implementation process commences after the contract and it is the mechanism of actually making the merger happens. The final stage is the commissioning stage and this is when the new company adapts to the new organizational structure (William et'al 2012, 12.)

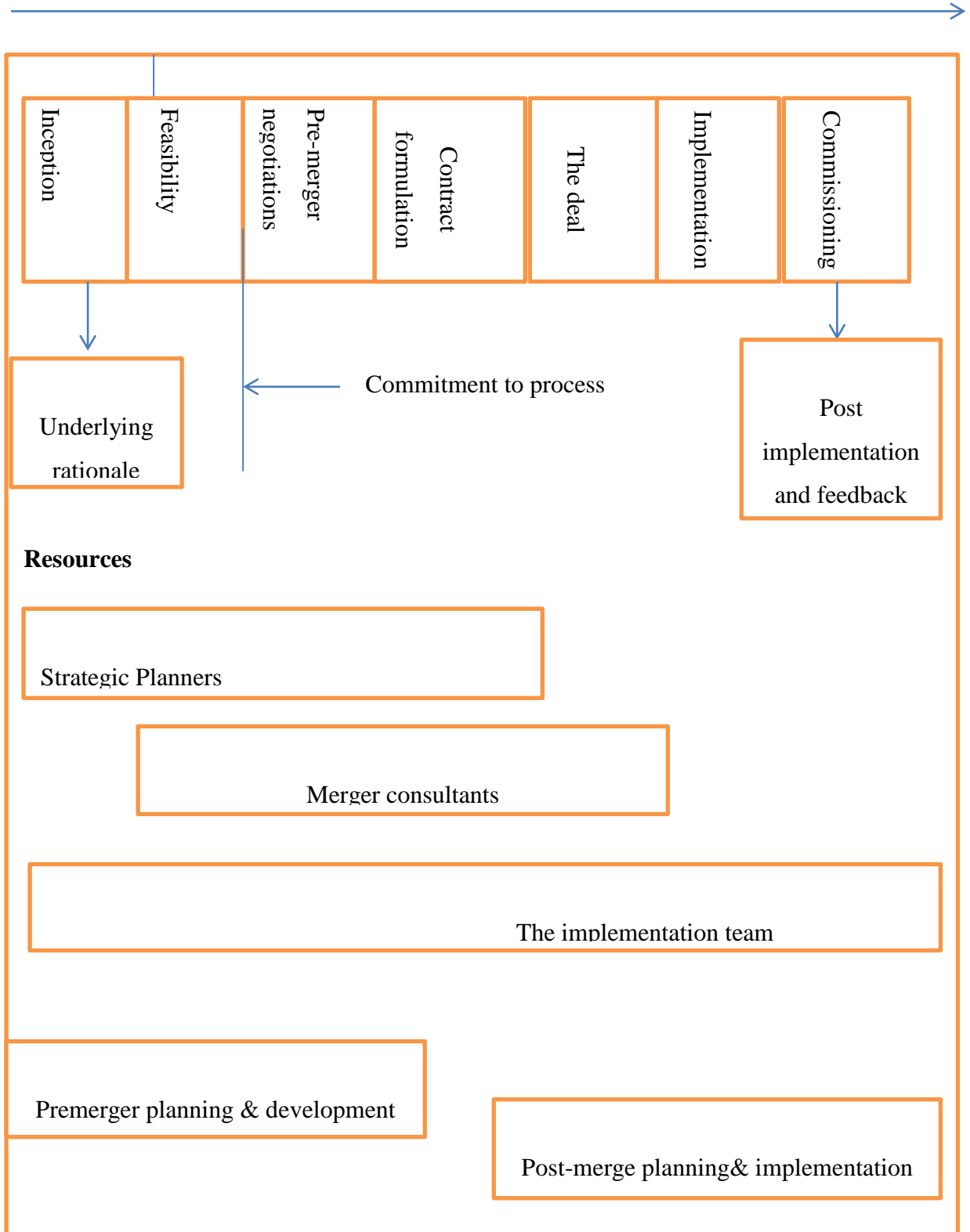


FIGURE 2. Typical phases of mergers and acquisitions (William et'al 2012, 11)

## 2.8 Trends in Mergers and Acquisitions

### 2.8.1 Global Trends in Mergers and Acquisitions

According to the Economist 2014, a ten year glance of M&A activities from 2004 to Mid-2014 shows that the highest record was in 2007 with a worth over \$1.7 trillion, the largest sectors were in the Health care and telecoms sector accounting for \$319 billion and \$261 billion respectively.

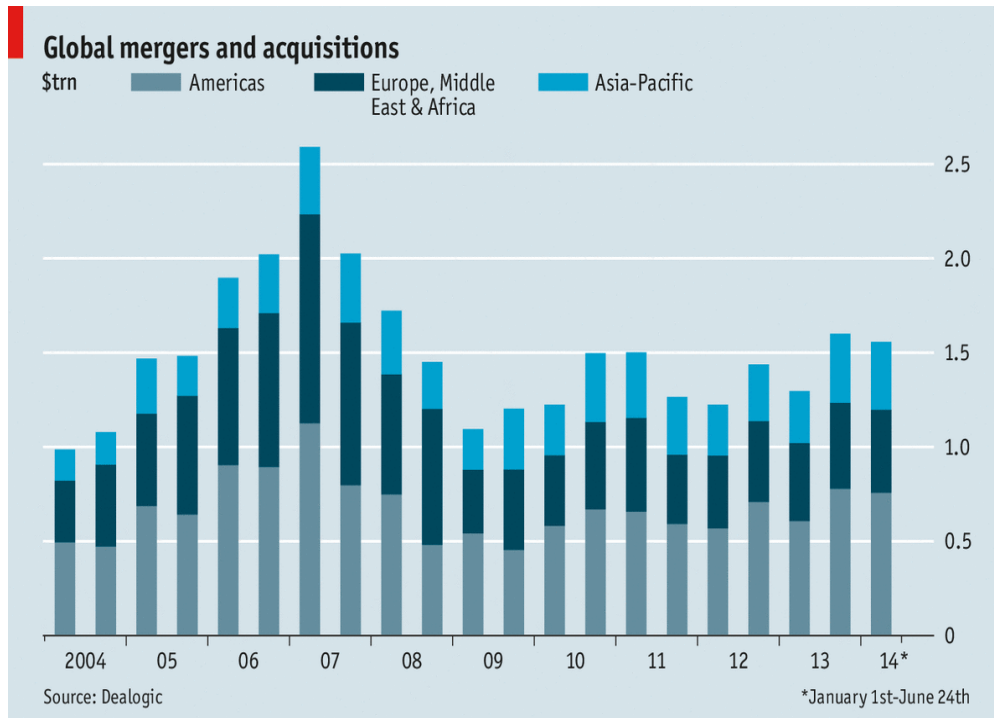


FIGURE 3. Global Mergers and Acquisitions from 2004 and 2014 (The Economist, 2014)



### 2.8.1 Top 10 Mergers and Acquisitions across the World and Europe

Date Announced	Date Effective	Value of Transaction (\$Millions)	Target Company	Acquired Company
14-11-99	19-6-00	202,785.13	Mannesmann AG- Germany	Vodafone Air Touch Plc- UK
10-01-00	12-01-01	164,746.86	Time Warner-U.S	America Online Inc. U.S
29-08-07	28-03-08	107,649.95	Philip Morris Intl Inc.- Switzerland	Shareholders- Switzerland
25-4-07	2-11-07	98,189.19	ABN-AMRO Holdings NV- Netherlands	RFS Holdings BV- Netherlands
4-11-99	19-6-00	89,167.72	Warner-Lambert Co- U.S	Pfizer Inc.
1-12-98	30-11-99	78,945.79	Mobil Corp- U.S	Exxon Corp U.S
17-1-00	27-12-00	75,960.85	Smithkline Beecham Plc. U.K	Glaxo Wellcome Plc. U.K
28-10-04	9-8-05	74,558.58	Shell Transport & Trading Co. U.K	Royal Dutch Petroleum Co Netherlands
5-3-06	29-12-06	72,671.00	BellSouth Corp. U.S	AT&T Inc. U.S
6-4-98	8-10-98	72,558.18	Citicorp U.S	Travelers Group Inc. U.S

TABLE 1. Top 10 Mergers across the world (Gaughan 2010, 6)

### **3 CONSEQUENCES OF MERGERS AND ACQUISITIONS**

Mergers and acquisitions is a strategic alliance is a strategic driver for market dominance, economies of scale, greater efficiency, increased value generation and internationalization of companies. The consequences or impacts of mergers and acquisitions are the effects after the post-acquisition phase.

The post-acquisition phase of a merger or acquisition is the integration of the companies involved in M&A after the deal has been done. The process of integration could be described as: human-and- task related integration, physical integration (which is the integration of physical assets, product lines, technologies), procedural and managerial integration and socio-cultural integration and the success of any M&A activity requires the integration of these aspects of the companies involved (Melanie et'al 2011, 110).

#### **3.1 Operational Consequences of Mergers and Acquisitions**

Company operations are the aspects of a business that makes the company functions and operates on a daily basis. According to business dictionary.com 2015, an operational consequence or impact is defined as the 'the effect of an accident on a company's operations which (is not quantifiable in financial terms) and may be among the most severe in determining the firm's survival and continuity'.

The major aspects of a company's business that are non-financials include the human resource (HR) and information technology (IT) while the financial aspect include the accounting segment

##### **3.1.1 Human Resource Consequences**

The management of people plays an important role in mergers and acquisitions because issues like staffing decisions, compensations, and organizational designs amongst others are part of the sensitive areas in the case of merger and

acquisition. Companies do earn the trust of their employees which enables them to attract and keep the best employees and when merger or acquisition occur, it is the same group of employees who are first to feel if their trust to the company has been violated or not.

And the ability for a successful merger or acquisition depends totally on the people who are driving the companies involved- the ability of the merging parties to do things collaboratively, ability to execute things, capacity to innovate and whether there is creativity. (Gupta 2010, 167).

The personnel issues include salaries, benefits, pensions of employees and these are also affected as a result of the merger and acquisition. The organizational structures of the merging companies are different thus there will also be difference in compensation packages. Other practical challenge in HR is the differences in the grading or organizational structures in the merging companies. Each of the companies have different organization structures for different positions for their employees, and during the integration of the two companies, the acquiring company need to develop a system where the differences in the grading system will be removed and bringing every employee at equal level, grade or position (Gupta 2010, 175).

According to Susan 2004, the circumstances of the merger or the acquisition deal and the compensation policies of the merging companies will help the HR to merge the compensation plans into a program that will fits the new merged company, or alternatively, the HR may disregard the original compensation policies of the merging companies and create a new program from the beginning that complements the merged entities.

### **3.1.2 Psychological Consequences**

Julie (1999, 1-2) expressed that mergers and acquisitions represents a significant and potentially emotional and stressful life event because as a result of it, employees sometimes do not have control over the merger and acquisition in which there are changes in the employees working life. The *merger syndrome*

explains the serial model of employees emotional reactions during a merger or acquisition and these are:

- **Denial-** this is due to the fact that employees feel that the merger or acquisition will not happen or there will be no change in their work or the organization
- **Fear-** the fear of the unknown, employees being pre-occupied with job loss as rumors of mass layoffs and terminations of job opportunities moves round the company
- **Anger-** employees displaying anger towards those responsible for the merger or acquisition with the feelings that the company has been sold out after quality years of service being provided
- **Sadness-** grieving of the loss of corporate identity by the employees and they tend to focus on the differences in the way the two companies operate
- **Acceptance-** this is the stage where employees start to accept the reality of the M&A activity by behavioral compliance but not with renewed organizational commitment
- **Relief-** this is when employees feel that things are actually better than they had expected; during this stage, employees become more familiarized with employees from the other company after much integration
- **Interest-** the employees are more secure in their new positions by considering the benefits of the new organizations and also having the perception that their situation as a challenge thereby proving their abilities in the new company
- **Liking-** the employees recognize new opportunities and begin to like their work
- **Enjoyment-** Employees become more commitment to their new company.

According to people and culture 2009, the merger syndromes identified above have some psychological impacts or consequences on the employees of companies passing through the M&A process. The psychological impacts are: anxiety, social identity, acculturation, role conflict, job characteristics and organizational justice. The table below shows the psychological issue, the source of the problem and the predicted outcomes on employees.

<b>Psychological Issue</b>	<b>Sources of Problems</b>	<b>Predicted Outcomes</b>
Anxiety	Uncertainty and anticipated impact on career and job	Low productivity Self-centered behaviors
	Prolonged anxiety and uncertainty	Mental and physical illness Lack of motivation
Social Identity	Loss of organizational identity	Sense of loss, anger, grief, denial and resistance to change
	Interacting with members of other organization	Intergroup bias and conflict Act of non-compliance
Acculturation	Adjustment to different culture	Cultural stress and resistance
		Inter-organizational stress and conflict
Role Conflict	Ambiguous and conflicting roles	Low productivity Low job satisfaction
Job Characteristics	Changes in post-merger job environments	Commitment Absenteeism/turn over
Organizational Justice	Perceived fair treatment of surviving and displaced employees	Sense of unfairness and a fall in trust.

TABLE 2. Psychological issues, sources of problems and predicted outcomes on employees (People and Culture, 2009).

### **3.1.3 Information Technology (IT) Consequences**

The human factors in mergers and acquisitions which include the merging cultures, retention of the talented employees and the motivation of the new employees are extremely difficult to get right and IT is very important in ensuring that the HR is able to communicate progress of the integration effectively to the employees. The M&A activity which is the marriage of two companies to become a new company and the employees who are used to a certain IT system will be reluctant to switching to a new IT system and this might lead to major delays in the realization of the operational synergies since more time will be taken to migrate to the new system. Thus, IT constantly features as a significant part of M&A activity. (Ernest & Young 2011, 11-12).

According to Hsu and Chen 2006, IT issues can greatly affect the process of post-merger and acquisition integration and consolidation due to the inability to consolidate the different IT systems of the merging companies into a single cohesive system. Hsu and Chen attributed this to lack of the involvement of the IT in the M&A decision making and planning, IT professionals are to be involved from the pre-merger feasibility studies, through to the integration and implementation plans.

### **3.1.4 Culture Clash**

According to Larry (2014, 2), cultural clash is what happens when two companies' philosophies, styles, values and habits are in conflict and this may be the most dangerous factor when two companies decide to combine through merger or acquisition process. A company's culture is made of the habits, values system, customs and norms that govern the behavior within the organization; the culture reflects the unwritten ground rules of behavior.

The organizational culture and national culture are two important factors to consider in the feasibility of integration after a merger or acquisition and organizational culture plays an important role in during the M&A process as the organizational practices, managerial styles and structures to a large extent are

determined by the organizational culture. The exposure to a new culture during merger and acquisition leads to a psychological state called culture shock where employees not only abandon their own culture, values and belief but also accept an entirely new different culture. (Gupta 2010, 170).

Bearing point 2007 2-3, identified five areas of cultural conflict which are: leadership, governance, communication, business process and performance management & rewards systems.



FIGURE 4. Five areas of cultural conflict (Bearing point 2007, 3)

The leadership aspect of cultural conflict is when there is difference in the leadership styles. One of the merging companies (Company A) leadership style may be a command-and-control style whereas in the other company (Company B), the leadership style might be a hands-off-approach. Employees from company B will find it difficult to adapt to the leadership style of company A if the leadership style adopted after the merger or acquisition is command-and-control style of leadership. Governance is about people and the way individual leaders make and carry out decisions which do vary from one company, the variance in



communication styles include confidentiality of information, the preference for formal or informal channels of communication, the business process is about the variance on how the core business of companies are carried out and the performance management and rewards systems variance are seen in the salaries and compensation packages of the merging companies. (Bearing point 2007, 4-5).

### **3.2 Financial Consequences of Mergers and Acquisitions**

According to Kilian et'al Wilfred 2013 82, the value increasing theory of mergers and acquisitions where there is synergy created between the acquirer and the target company and this synergy will invariably increase the value of the firm; the value decreasing theory is when the M&A activities fail to create value to shareholders of the company.

The financial consequences of mergers are the impact (value increasing or value decreasing) of companies- if the shareholders wealth is maximized or not. This will involve examining the financial performance of a company prior merger or acquisition and the financial performance after the M&A to see if the value of the company has increased (value increasing) or if the value of the company has decreased (value decreasing).

The Financial performance indicators are used in measuring the financial performance of a company. According to BPP Financial Publishing 2012, the traditional financial performance indicators or measures are: Profitability, Liquidity/Working capital, Gearing and Investors ratios

#### **3.2.1 Profitability Ratios**

- **Return on Capital Employed (ROCE)**

The return on capital employed (ROCE) is an important measure of the profitability of a company, it shows the net profit that is generated from every \$1 of assets employed.

The return on capital employed is calculated as:

$$\text{ROCE} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$$

The capital employed is calculated as:

Total assets less current liabilities or the total equity plus long term debt.

#### - **Gross Profit Margin**

The gross profit as percentage of turnover and it is calculated as:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100$$

#### - **Net Profit Margin**

The net profit of a company is the turnover less all expenses and the net profit margin can be calculated as a percentage of the turnover.

Net Profit Margin is calculated as:

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Turnover}} \times 100$$

- **Asset Turnover**

The asset turnover shows the turnover that is generated from each \$1 of assets employed and it is the turnover divided by the capital employed into the business.

$$\text{Asset Turnover} = \frac{\text{Net Profit}}{\text{Turnover}}$$

### 3.2.2 Liquidity Ratios

A company is liquid when it is able to pay its debts as at when due and liquidity ratios give some indications of the company's liquidity.

- **Current Ratio**

The current ratio measures the company's ability to meet its short term liabilities as they fall due and this is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio of 1 is desirable but this varies from one industry to another.

- **Quick Ratio (Acid Test)**

The Quick Ratio is also called the Acid test and this is similar to the current ratio but inventory is removed from the total current asset due to the poor liquidity in the short term. It is calculated as:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

- **Inventory Holding Period**

This ratio states the average number of days that inventory items are held for and this is calculated as:

$$\text{Inventory holding period} = \frac{\text{Inventory}}{\text{Cost of sales}} \times 365$$

An increase in the inventory holding period shows that the company is having problems selling its goods and a decrease indicates that the company does not have excess cash tied up to the inventory.

- **Receivables (debtor) collection period**

Receivables collection period is the time it takes the company's credit customers (debtors) to pay the company what they owe. It is calculated as:

$$\text{Receivables (debtors) collection period} = \frac{\text{Receivables}}{\text{Turnover}} \times 365$$

An increase in the receivables collection period could indicate that the company is struggling to manage its debts and a decrease shows that the company has improved its management of receivables.

- **Payables (Creditor) period**

This is the average time it takes for a company to pay for its purchases and this is calculated as:

$$\text{Payables period} = \frac{\text{Payables}}{\text{Purchases}} \times 365 \text{ days}$$

### 3.2.3 Solvency

Solvency is the ability of a company to pay off its long term obligations such as bank loans, bond payables and so on.

#### - Financial gearing

This is the long term debt as a percentage of equity.

$$\text{Gearing} = \frac{\text{Debt}}{\text{Equity}} \times 100$$

$$\text{Or} = \frac{\text{Debt}}{\text{Debt} + \text{Equity}} \times 100$$

A high level of gearing shows that the company depends mainly on debt to finance its long term needs and this will lead to increase of the level if business risk.

According to Macrothink Institute 2013, mergers and acquisitions are basically carried out in the maximization of shareholders wealth through improving the profits and productivity of the company and the M&A activity may have some economic impacts (positive or negative) on the shareholders. The positive impact is seen in the case of purchase where the shareholders of the acquired company benefited from the acquisition because the acquiring company pays a huge sum for the acquisition. Also, the negative impact is seen where the shareholders of the acquiring company faces some losses after the acquisition or merger due to the huge premium of the acquisition and the cumulative debt profile.

## 4 NIGERIAN BANKING INDUSTRY

### 4.1 Overview of the Nigeria Banking Industry

Omeje 2007 213, the first banking institution was First Savings Bank (formerly the Post Office Savings Bank) was set up in 1886 but the first deposit money bank was founded in 1892, the African Banking Corporation which is now First Bank of Nigeria. Between 1927 and 1951, many Nigeria banks were set up to participate in modern banking.

According to Ahmad 2011 371, the banks that firstly operated in Nigeria were foreign owned and in the 1930s there were partially or wholly owned Nigerian banks which experienced the challenges of fierce competition from the foreign owned banks, lack of regulation, insufficient capital and mismanagement. This lead to the need for banking regulation enacted in 1952 and the creation of Central Bank of Nigeria (CBN) in 1958.

CBN had the mandate to regulate the banking industry when it began operation in 1951 and in the new Central Bank of Nigeria Act of 2007, the core mandates of CBN are to:

- Issue legal tender currency in Nigeria
- Maintain external reserves to safeguard the international value of the legal tender currency
- Promote monetary stability and a sound financial systems in Nigeria; and
- Act as banker and providing economic financial adviser to Federal Government.
- Ensure monetary and price stability (Mordi et'al 2007, 2)

#### **4.1 Mergers and Acquisitions in Nigerian Banking Industry (Banking Sector Reforms of 2004)**

In 2003, there were 89 Nigerian banks with total number of 3,382 branches nationwide and the industry was characterized by low capitalization with the minimum requirement capitalization for new commercial banks of N2bn-about US\$16m; the total capitalization of all the banks in Nigeria was less than US\$146bn which in comparison was the size of a South African bank ABSA. Most of the banks were illiquid and insolvent. (Omeje 2007, 215).

With the ascension of new management team of CBN, the points out three broad components of reforms which are: the restructuring and realignment of institutions in the banking sector, improvement of the capacity and focus of the CBN and lastly the monetary policy agenda. The restructuring and the alignment banking institutions relates to the deposit bank and the reforms include:

- The raise of minimum capitalization of banks from N2bn to N25bn (about US\$200m) not later than 31<sup>st</sup> December 2015 and banks that fail to meet the required capital requirement will lose their banking license
- The consolidation of banks through mergers and acquisitions. This was more of the N25bn capitalization requirement. (Omeje 2007, 217-218).

The consolidation of banks through mergers and acquisition shrank the number of banks from 89 to 25. The table below states the components of banks that were consolidated

<b>S/N</b>	<b>New Bank</b>	<b>Members of the Group</b>
1	Access Bank Plc.	Marina Bank, Capital Bank International, Access
2	Afribank Plc.	Afribank Plc., Afrimerchant Bank
3	Diamond	Diamond Bank, Lion Bank, African International Bank(AIB)
4	ETB Plc.	Eco Bank
5	FCMB	FCMB, Cooperative Development Bank, Nig-American Bank, Midas Bank.
6	Fidelity Bank Plc.	Fidelity Bank, First States Bank, Manny Bank
7	First Bank Plc.	FBN Plc., FBN Merchant Bank, MBC
8	First Inland Bank Plc.	IMB, Inland Bank, First Atlantic Bank, NUB
9	IBTC Chartered Bank Plc.	Regent, Chartered, IBTC
10	Intercontinental Bank	Global, Equity, Gateway, Intercontinental
11	Oceanic Bank Plc.	Oceanic Bank, Intl Trust Bank
12	Platinum- Habib Bank Plc.	Platinum Bank, 0.. 30Habib Bank
13	Skye Bank Plc.	Prudent Bank, Bond Bank, Corp Bank, Reliance Bank, EIB.
14	Spring Bank Plc.	Guardian Express Bank, Citizens Bank, Fountain Trust Bank, Omega Bank, Trans International



		Bank, ACB
15	Sterling Bank Plc.	Magnum Trust Bank, NBM Bank, NAL Bank, INMB, Trust Bank of Africa
16	UBA Plc.	STB, UBA, CTB
17	Union Bank Plc.	Union Bank, Union Merchant Bank, Universal Trust Bank, Broad Bank
18	Unity Bank Plc.	New Africa Bank, Tropical Commercial Bank, Center-Point Bank, Bank of the North, NNB, First Interstate Bank, Intercity Bank, Societe Bancaire, Pacific Bank
19	Wema Bank Plc.	Wema Bank, National Bank
20	Eco Bank	Eco Bank
21	Guaranty Trust Bank-GTB	GTB
22	Nigeria International Bank	Nigeria International Bank
23	Stanbic Bank Ltd.	Stanbic Bank Ltd
24	Standard Chartered Bank	Standard Chartered Bank
25	Zenith International Bank	Zenith International Bank

TABLE 4. Merger and Acquisition of Nigerian Banks in the early phase 2004 and 2005 (Mordi et'al 2007, Central Bank of Nigeria CBN Briefs 2006-2007, 38)

After the consolidation of banks through merger and acquisitions in 2005, 8 distressed banks were acquired between 2011 and 2012. The table below shows the distressed banks that were acquired.

S/N	Distress Bank	Acquired Bank
1	Afribank Plc.	Mainstreet Bank Ltd.
2	Equatorial Trust Bank	Sterling Bank Plc.
3	First Inland Bank	First City Monument Bank
4	Intercontinental Bank	Access Bank
5	Oceanic Bank Plc.	Eco bank Nigeria Plc.
6	Spring Bank	Enterprise Bank Ltd.
7	Platinum-Habib Bank	Keystone Bank Ltd.
8	Union Bank Plc.	Owned by African Capital Alliance

TABLE 5. Distressed banks acquired between 2011 and 2012 (Articles 2013)

Presently, there are twenty one sound banks in Nigeria. The below shows the list of the banks

<b>S/N</b>	<b>Existing Sound Banks</b>
1	Access Bank Plc.
2	Diamond Bank Plc.
3	Fidelity Bank Plc.
4	First Bank Plc.
5	First City Monument Bank Plc.
6	Skye Bank
7	Sterling Bank
8	United Bank of Africa Plc.
9	Unity Bank Plc.
10	Wema Bank Plc.
11	Eco Bank Plc.
12	Zenith Bank Plc.
13	Standard Chartered Bank
14	Nigeria Intl. Bank
15	Guaranty Trust Bank
16	Enterprise Bank Ltd
17	Keystone Bank Ltd.
18	Union Bank Plc.
19	Mainstreet Bank Ltd.
20	Savannah Bank (Heritage Bank)
21	Stanbic IBTC Bank Nig. Ltd.

TABLE 6. Current number of Nigerian Banks (Articles 2013)

## **4.2 Impact of Reform in Nigerian Banks- Through Mergers and Acquisitions**

According to Sanusi 2012, the reform in the Nigerian banking sector has contributed immensely to the birth of new generation banks. Firstly, is the application of best corporate governance practices which enhance transparency in the banking sector. Secondly, most of the banks are now on the profit-making path. Thirdly, banks are gradually lending to the private sector, power sector and the SMEs at a single digit interest rate and these initiatives have contributed to creating thousands of jobs in the economy.

Furthermore, the banking reform also contributed to the issuance of a new code of corporate governance by the Central Bank of Nigeria (CBN) where the CEO of banks will serve for a maximum tenure of 10 year. In addition, the banking reform has also contributed to the recognition of Nigerian banks at the global ranking where most of the banks are amongst the Top 20 banks in Africa and Top 1000 banks globally.

## **5 RESEARCH METHODOLOGY**

Research is an academic activity which refers to the search for knowledge, an art of scientific investigation and the systematic approach concerning generalization and the formulation of a theory. As a systematic method, it consists of enunciating the problem, the formulation of a hypothesis, collection of facts or data, analyzing the facts and reaching certain conclusions either in the form of solutions towards the concerned problem or in certain generalizations for some theoretical formulations (Kothari 2004, 1-2).

According to Sachdeva 2009, research is not information gathering or the transportation of facts, it is the systematic process of collecting and analyzing information (data) with the aim of increasing understanding of the phenomenon about the area of concern or interest.

Research methodology on the other hand, is a way to systematically solve the research problem and it has many dimensions and research methods do constitute the part of research methodology. The other dimensions include: the logic behind the methods used and the reason explaining such methods. (Kothari, 2004).

### **5.1 Research Methods**

Method is defined as the techniques for gathering evidence and the various ways of proceeding in gathering of information. (Sachdeva 2009, 7).

There are two approaches in making research, namely, quantitative and qualitative approach. The quantitative approach entails the generation of data in quantitative form which can be subjected to quantitative analysis in a formal and rigid fashion while the qualitative approach involves the subjective assessment of attitudes, opinions and behavior. (Kothari 2004, 5).

The table below shows the differences between quantitative and qualitative approach to research methods

	<b>Quantitative Approach</b>	<b>Qualitative Approach</b>
<b>Focus of Research</b>	Describe, explain and predict	Understand and Interpret
<b>Researcher Involvement</b>	Researcher keeps himself away to reduce bias	High as researcher is participant and catalyst
<b>Purpose of Research</b>	Describe, predict and test theory	In-depth understanding, theory building
<b>Sample design</b>	Probability	Non-probability, purposive
<b>Sample Size</b>	Large	Small
<b>Participants</b>	No preparation desired to avoid bias	They need to be explained the process or purpose
<b>Data Type</b>	Data is reduced to numerical codes	Verbal or pictorial description

TABLE 7. Distinctions between quantitative and qualitative research methods (Sachdeva 2009, 182).

For this research work, the research method used comprises of both quantitative and qualitative approach. The quantitative method was the use of questionnaires (comprising of 18 questions) which focus on the operational challenges faced during mergers and acquisitions in Nigerian banks while the qualitative method was used for the financial challenges which focuses on the financial performance (by calculating some financial ratios from the annual reports) of banks that underwent mergers and acquisitions.

## 5.2 Data Collection and Implementation

The method used for gathering data involves both the primary data and secondary data. The primary data are those which are collected afresh for the first time thereby making it to be original in character while the secondary data are those which have already been collected by someone else and has already passed through statistical process. Primary data can be collected through questionnaires, observation method, interview methods while secondary data can be collected through published or unpublished data i.e. books, magazines, reports and publications of various associations connected with business and industry, banks, stock exchanges and so on. (Kothari 2004, 95-97; 111).

For this research work, primary and secondary data were used. For the primary data, questionnaires were used while the secondary data were culled from annual general meeting reports (financial aspect) of banks prior before merger and after merger.

An online survey was created using Webropol (an application used for online survey which is available on SeAmk's Intra-mail) and a link was generated in which with just a click; respondents had access to the questionnaires. This method was adopted because the case study of the research focuses on the Nigerian banking industry (while the researcher is studying in Finland) and the respondents to the survey will be those working in Nigerian banks that have experienced bank merger or acquisition.

The online survey was created and the link generated on 20<sup>th</sup> January 2015 to bank employees that have experienced mergers or acquisitions, the survey was left open for two months after which the results were collated. E-mail addresses of bankers were collected and the link was forwarded to the e-mail addresses, the link was sent to 50 employees while only 36 employees responded (representing 72%).

The employees were selected from four different banks with branches within Lagos State, Nigeria. The selection was due to the fact that Lagos State is the commercial nerve center of Nigeria with major banking activities and the

researcher was able to get contact email addresses of bankers in Lagos State. The online survey focuses on the operational challenges.

### **5.3 Scope and Limitation**

The scope for this research work is mainly for Nigerian banks employees that have experienced mergers or acquisitions. The research was limited to four banks; two banks that underwent merger and other two acquisition. The limitations of this research was firstly on the delay in answering the questionnaires, this could be attributed to the fact that for IT security reasons, employees were not able to open the link while at work and most of the banks employees in Nigeria leave home for work as early as 6a.m and closes as late as 10p.m. and the link could not also be opened on their mobile phones. Thus, most participation was done during weekends after sending several reminders and making phone calls.

Another limitation was that the names of the four banks were not indicated in the survey, this is because it is not a commissioned research and the inclusion of bank's name might discourage the employees in answering the questionnaires- the fear of divulging confidential information about the bank.

### **5.4 Reliability and Validity**

Student Affairs Assessment defined **Reliability** as the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects; i.e. the repeatability of a measurement.

This research work is reliable because prior to the publication of the online survey on Webprobol application, test survey i.e. a trial of the survey was sent to two respondents email addresses, the researcher and another person working in Nigerian bank. The answers were kept and when the survey was published online and sent to the same respondents, the answers were compared to the trial version and both answers were the same.



According to Edward and Richard 1979 16, **Validity** is the extent to which any measuring instrument measures what it is intended to measure i.e. does the measure employed really measure the theoretical concept.

The research is said to be valid because the questions in the survey are in accordance to the theoretical theory or concept of the consequences of mergers and acquisitions in Section 3 of this research work. Also, the respondents that participated in the survey were Nigerian bank employees that have experienced either merger or acquisition in the banking sector. In addition, the survey was carried out in four different branches in Lagos State, Nigeria; thus reliability and the validity of the results restricted to banks in Lagos State.

## 6 RESULTS

In this chapter, the results of the research are presented. For the operational challenges, the results are presented with charts while the financial challenges are presented from the calculation of financial ratios from the financial performance of the banks.

### 6.1 Results for Operational Challenges

#### 6.1.1 Descriptive Information of Respondents

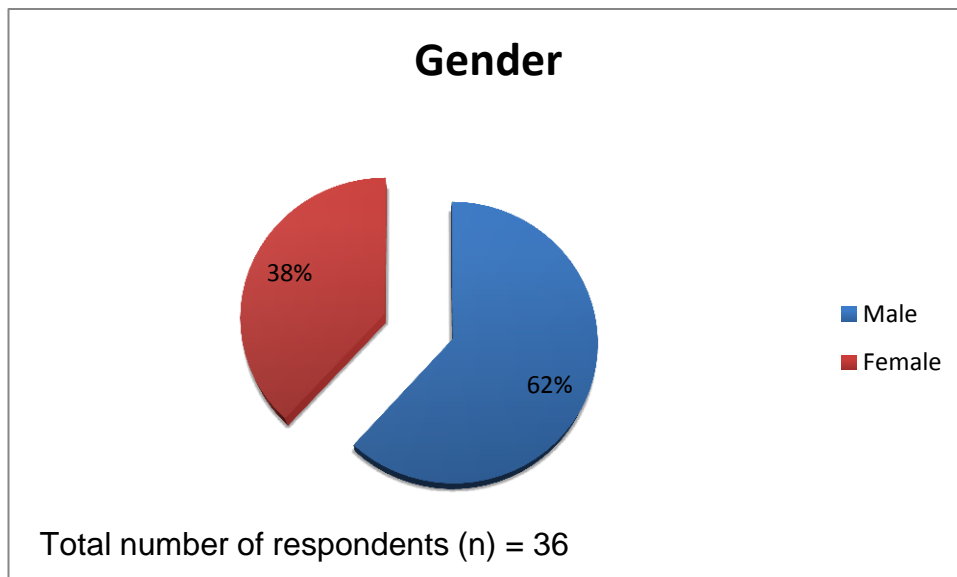


FIGURE 5. Gender of Respondents

The diagram above shows that more male participated in the survey with 62% while the female respondents were 38%

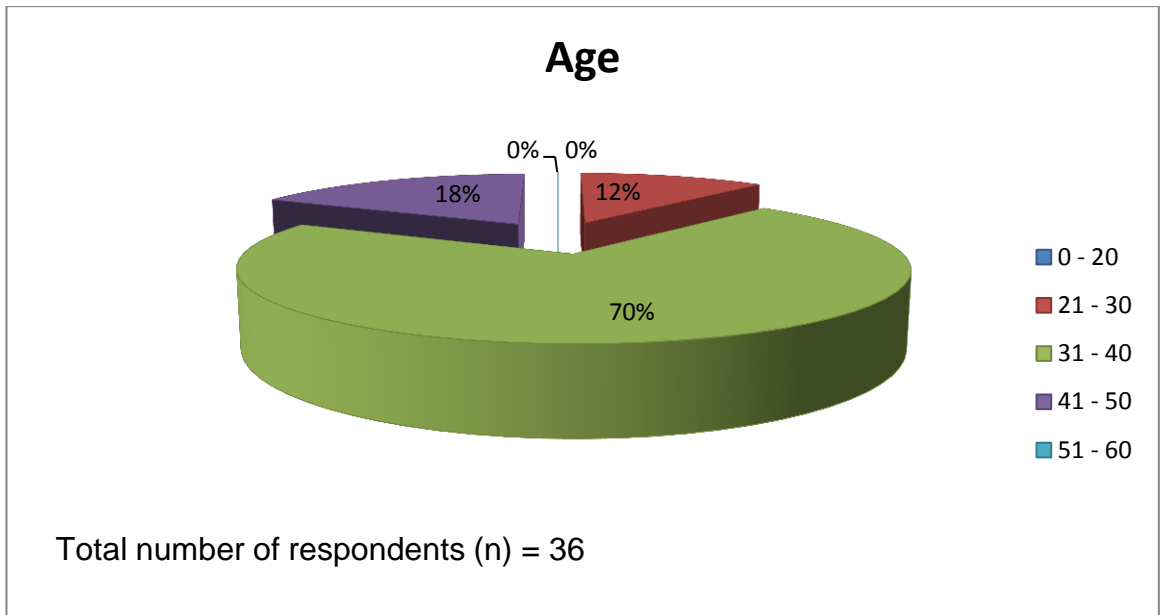


FIGURE 6. Age of Respondents.

The diagram of respondents' age shows that majority (24) of the respondents are between ages 31-40, this represents about 70%, 6 of the respondents were between the ages 41-50 and 4 between ages 21-30. None of the respondents were younger than 20 and older than 50 years of age.

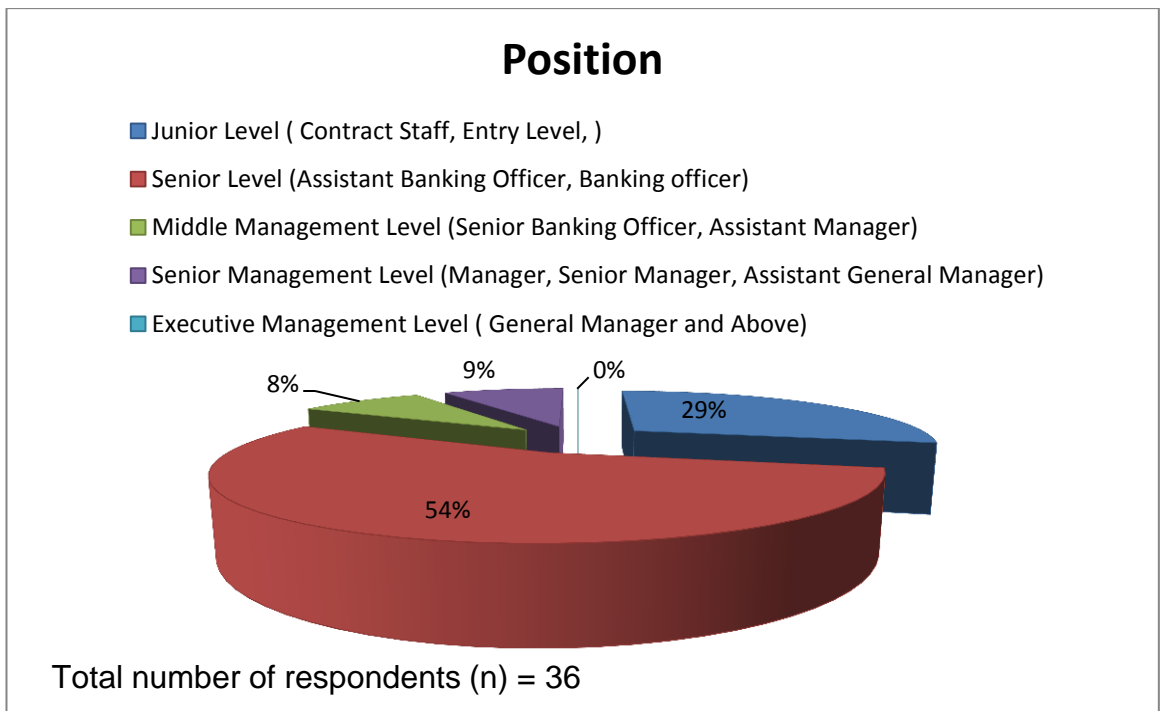


FIGURE 7. Position of Respondents.

Considering the position of respondents i.e. the grade or the level in the bank, majority (19 respondents) are in the senior level category; this represent about 54%. The junior level (10 respondents) represents 29% the middle and senior management are 8% and 9% respectively.

### 6.1.2 Research Results

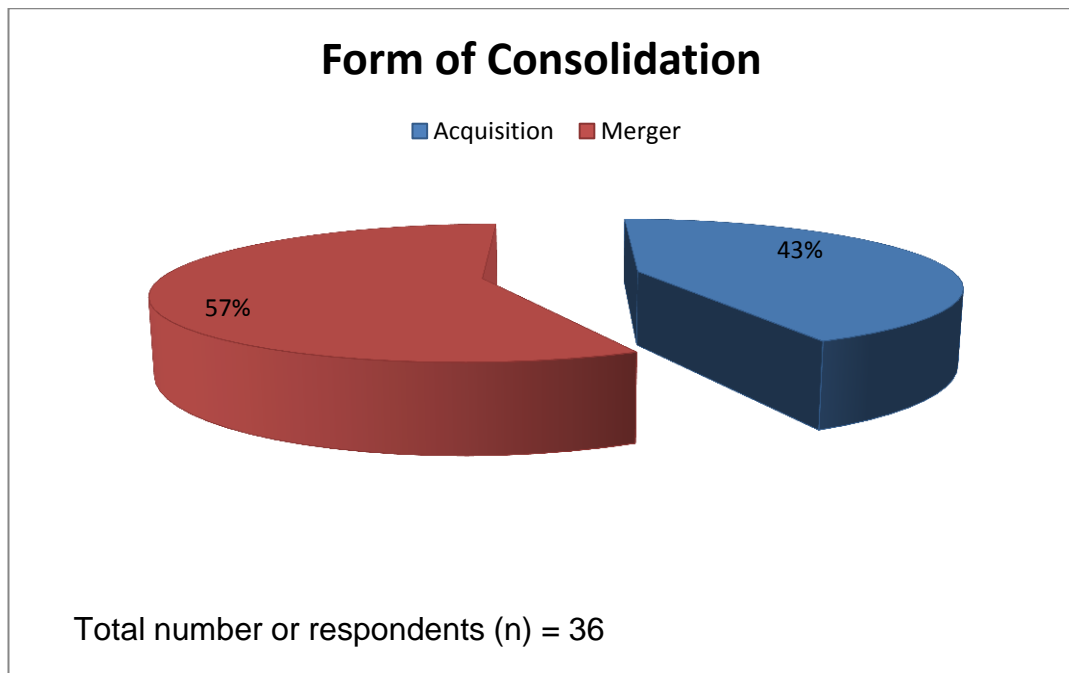


FIGURE 8. Form of Consolidation.

From the diagram above, 21 respondents (57%) experienced merger while 43% (15) experienced acquisition from the four banks used in this research.

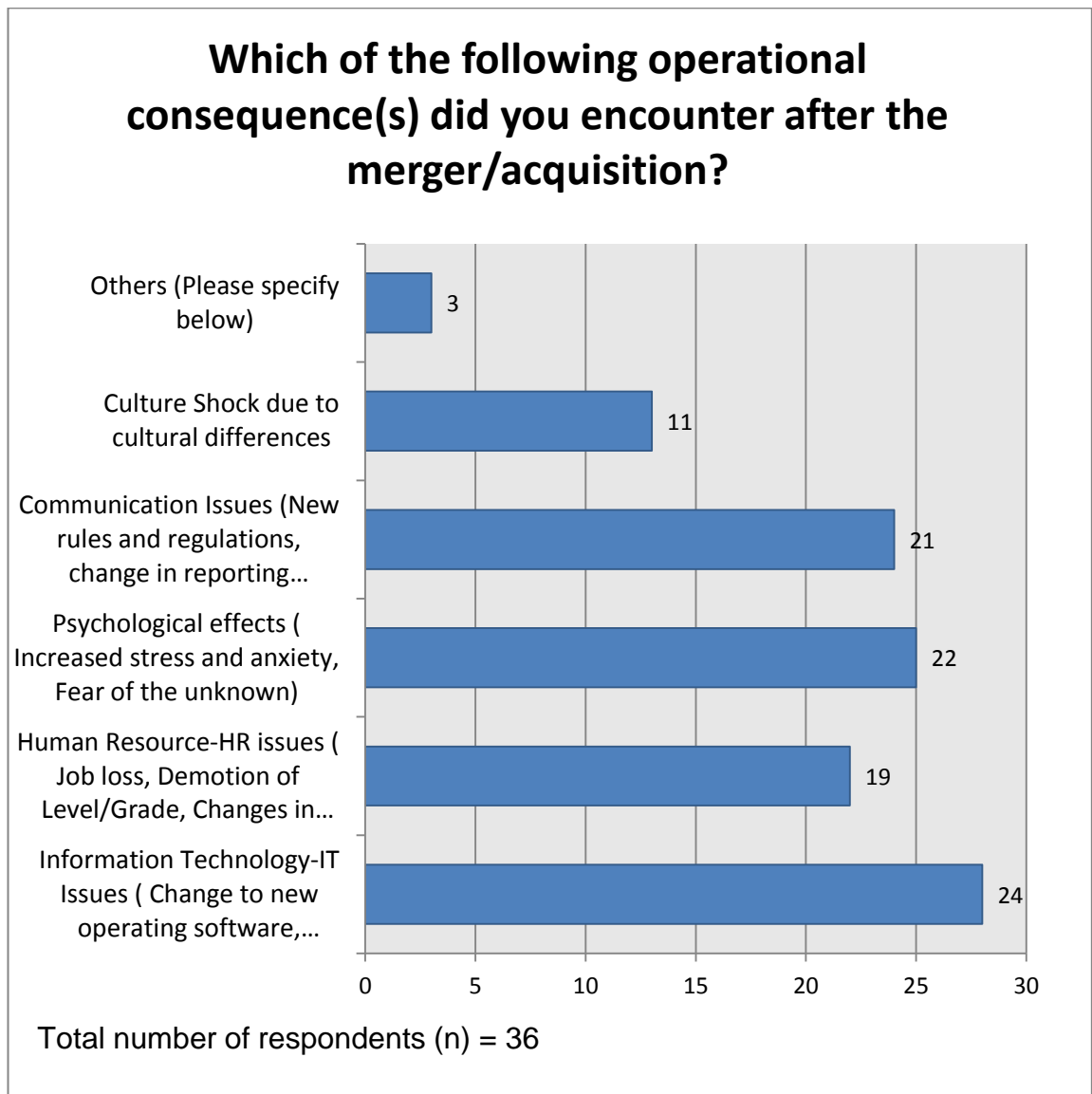


FIGURE 9. Operational consequences encountered after merger/acquisition.

This part of the survey is very important in this research write up; it displays the operational challenges experienced after the merger or acquisition. The respondents can choose more than one of the listed operational challenges and the result shows that majority of the respondents indicated IT issues, Psychological issues, communication issues and HR issues. This shows that the operational consequences experienced after merger and acquisition in the Nigerian banking sector from high to low rank is in the order of: IT issues, Psychological issues, Communication issues, HR issues and Culture Shock being the least experienced. The other consequences or challenges experienced are

indicated in the next section, where respondents indicated other issues that were not indicated above.

### **Other Operational Challenges Encountered**

Other operational challenges indicated by the respondents were the following:

- Getting to learn new ways of processing transactions and policies
- Staff from acquired banks were doing things awkwardly and difficulty in imbibing new culture of the acquirer bank
- Systematic exclusion of staff of the acquired bank from key job functions
- Deliberate attempts by the management of the acquirer bank to frustrate the efforts of the acquired bank out of the new merged entity
- Alignment of staff and job functions
- Challenge with managing customers reaction
- Integration of operational procedure, vision and mission of the different banks

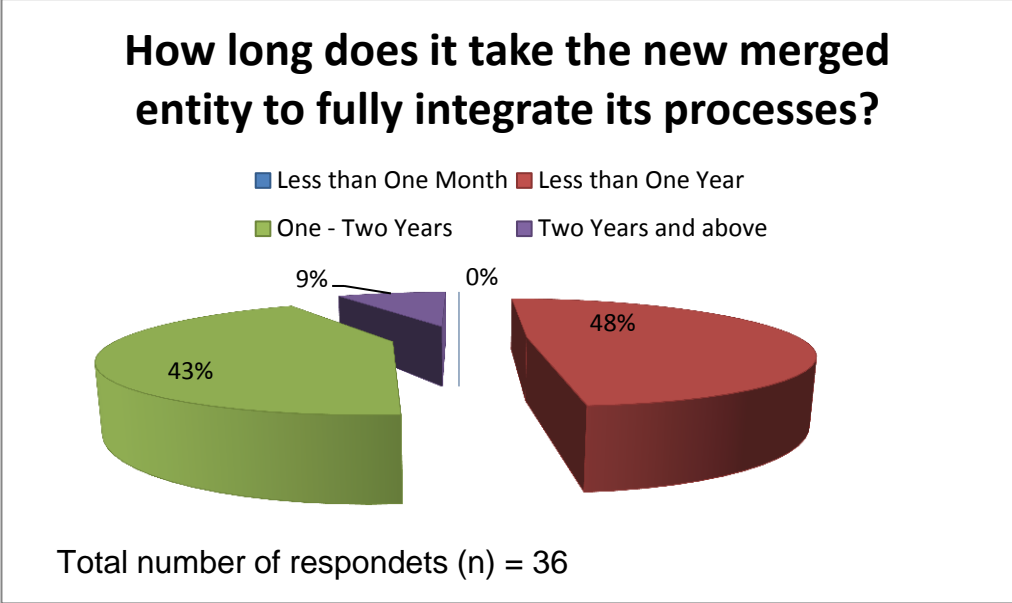


FIGURE 10. How long does it take the new merged entity to fully integrate its processes?

Under this section of the survey, the respondents were asked how long it took the new merged bank to fully integrate its processes. Majority about 48% (17 respondents) indicated less than one year, 15 indicated between one and two years while 3 respondents indicated above two years. This shows that in the Nigerian banking sector, the average number of years for merged banks to fully integrate their processes is about 2 years.

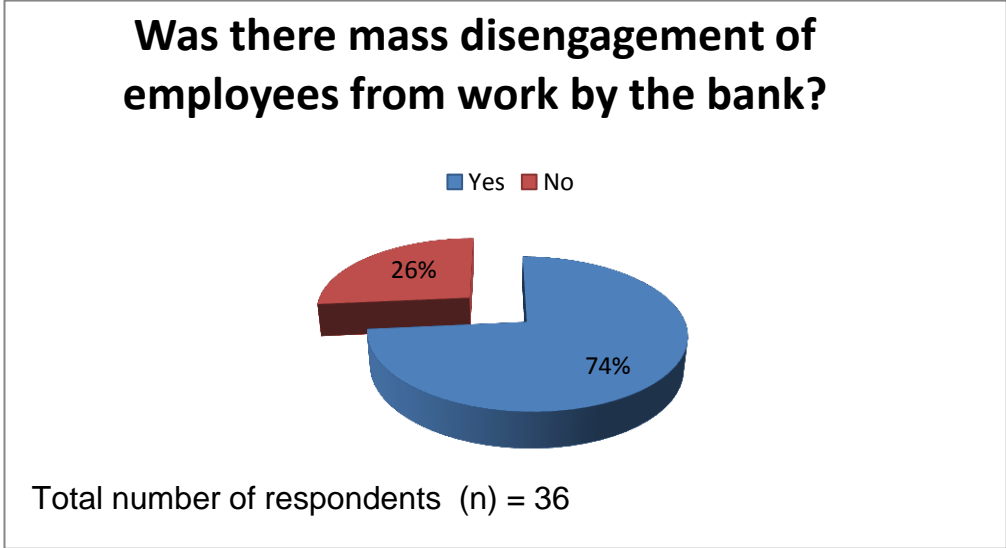


FIGURE 11. Was there mass disengagement of employees from work by the bank?

From the question asked if there was mass disengagement of employees from work as a result by the bank after the merger or acquisition, 74% of the respondents indicated yes while 26% indicated no. This shows that in Nigeria banking sector, after mergers or acquisitions, majority of the banks terminate the employment of some of their employees.

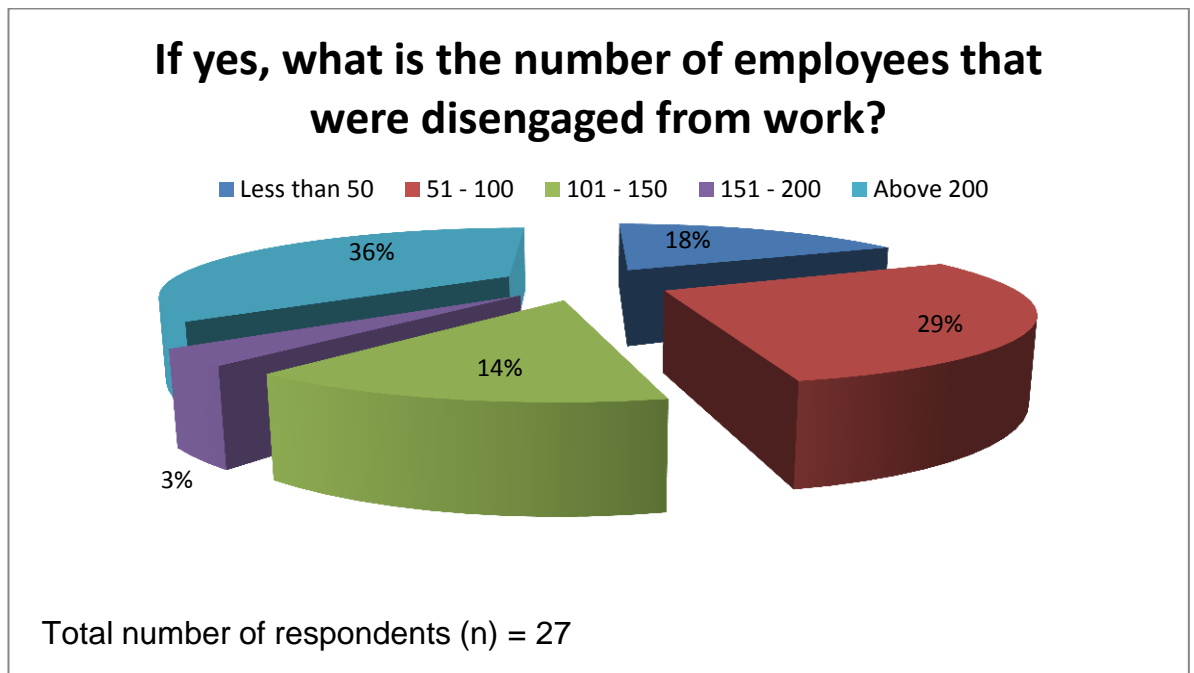


FIGURE 12. Number of Employees disengaged from work.

This part of the survey was answered by the 74% of the respondents (27) that indicated mass disengagement from work. And from the question of the number of employees disengaged from work, 10 respondents indicated that above 200 employees were disengaged from work after merger or/and acquisition. 1 indicated between 151 and 200, 4 respondents indicated between 101 and 150, 8 respondents indicated between 51 and 100 employees while 5 respondents indicated that less than 50 employees were disengaged from work after the M&A activity.



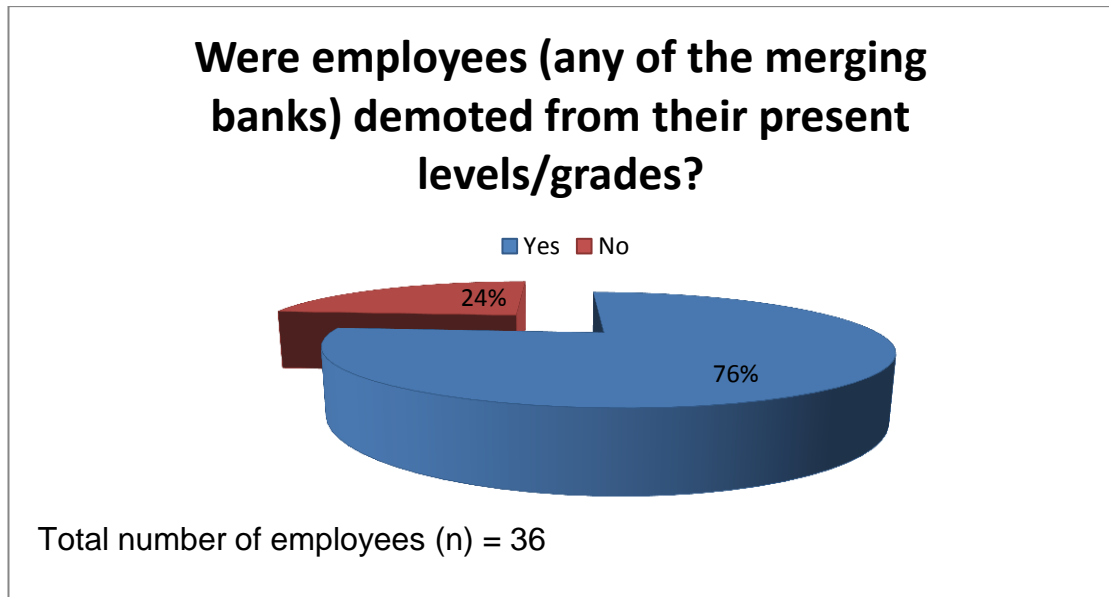


FIGURE 13. Were employees (any of the merging banks) demoted from their present levels/grades?

In a merger or acquisition, the entities involved often have different salary structure for different positions and after the merger or acquisition, the HR department will have to design a compensation package that will be uniform for all employees and thereby leading to demotion of employees to position that will be commensurate to the new compensation package. The result shows that majority of Nigerian banks after merger or acquisitions This aspect of the survey focuses on the demotion of positions or levels of employees of the merging entity. 76% of the respondents indicated that employees were demoted from their present positions after the merger or acquisition while 24% of the respondents indicated that there was no demotion of employees' positions.

do reduce the level or position of employees from any of the merging entities.

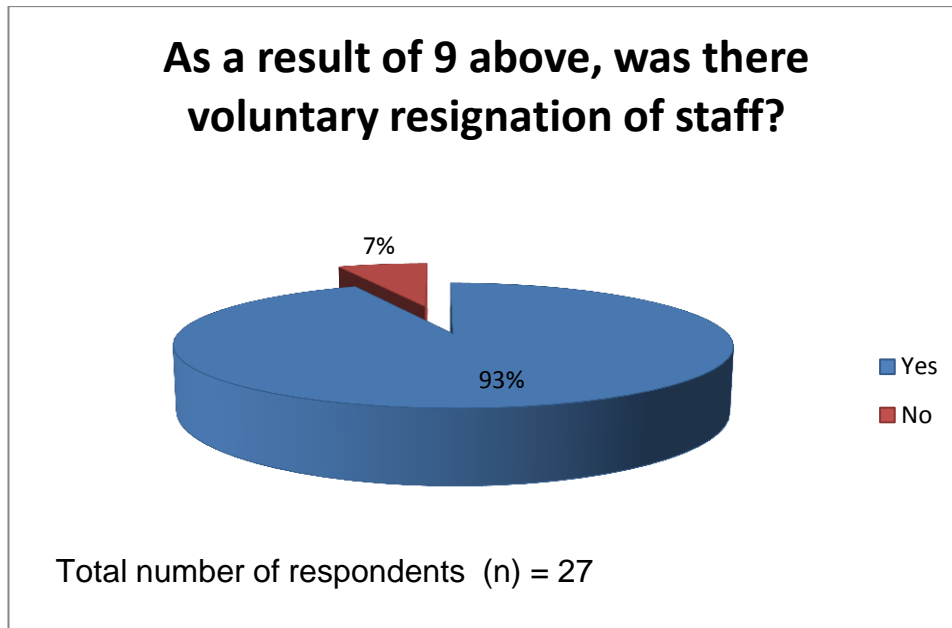


FIGURE 14. Was there voluntary resignation as a result of the demotion of positions/levels?

This question was answered by the respondents that indicated demotion of employees position/level in the previous question. The question focuses on the employees that were demoted and respondents were asked if there was voluntary resignation from work as result of demotion and 93% of the responded indicated yes and 7% no.

This shows that in the Nigerian banking sector, when employees were demoted after a merger or acquisition, most of those employees voluntary resign from their work.

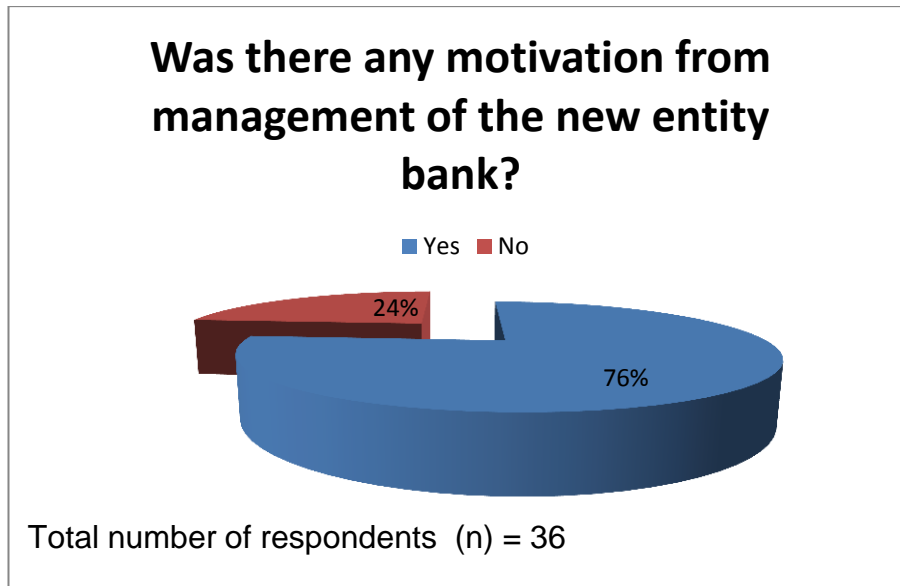


FIGURE 15. Was there any motivation from management of the new entity?

Here, the respondents were asked if they were motivated by the management of the bank after the merger or acquisition and 76% of the respondents indicated yes while 24% indicated that there was no motivation from the management of the new bank.

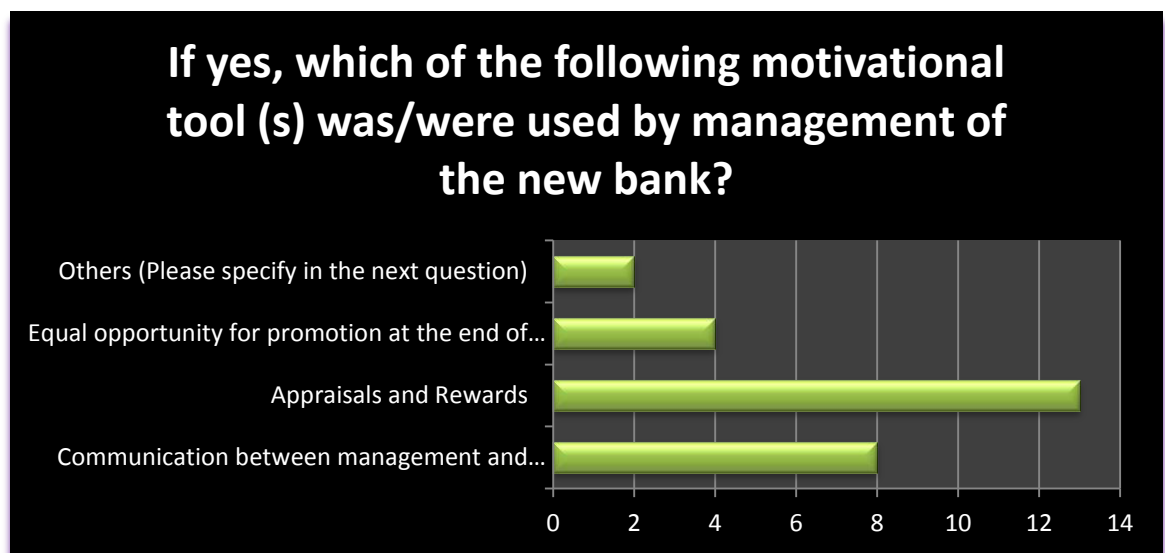


FIGURE 16. Motivational tools used by management of the new bank

For the respondents that earlier indicated that there were motivated by the management of the new bank after merger and/or acquisition, there were also asked the motivational tools used by the management of the bank. 13 of the

respondents indicated appraisals and rewards as the motivational tool used, 8 respondents indicated that there was communication between management and employees, 4 respondents indicated that there was equal opportunity for promotion at the end of the year and 2 respondents gave other motivational tools used by the management of the bank.

### **What other motivational tool(s) were used by the management of the bank?**

Other motivational tools indicated by the respondents are as follows:

- Salary review and grades level review
- Promotion opportunity to fill vacancy
- Equal treatment of employees
- Notch increase and for those not promoted
- Additional compensation benefits (health insurance, shares loan, variety of staff loans and additional staff family benefits).

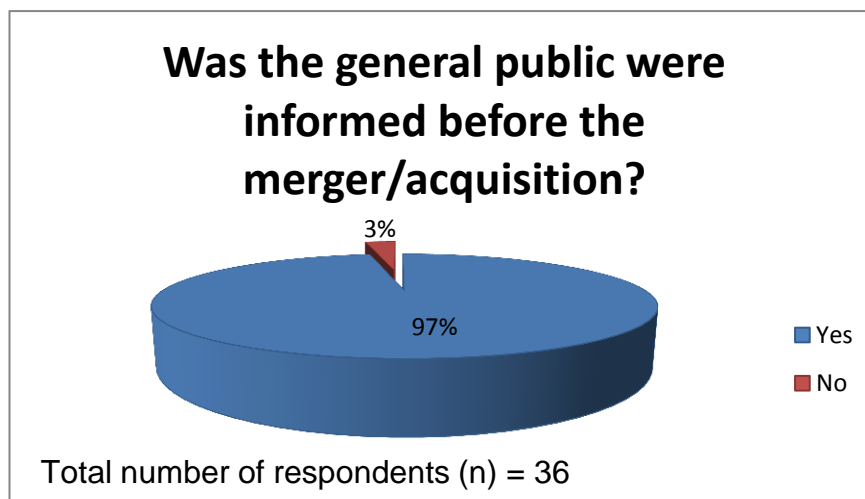


FIGURE 17. Was the general public informed before the merger/acquisition?

Respondents were also asked if the general public was informed before the merger or acquisition and 97% of the respondents indicated that the general public

was informed while only 3% of the respondents indicated that there was no information made to the general public before the merger or acquisition.

### 6.1.3 Respondents Opinions and Recommendations

After answering the research questions, respondents also gave their opinions and recommendations about mergers and acquisitions in Nigeria banking sector.

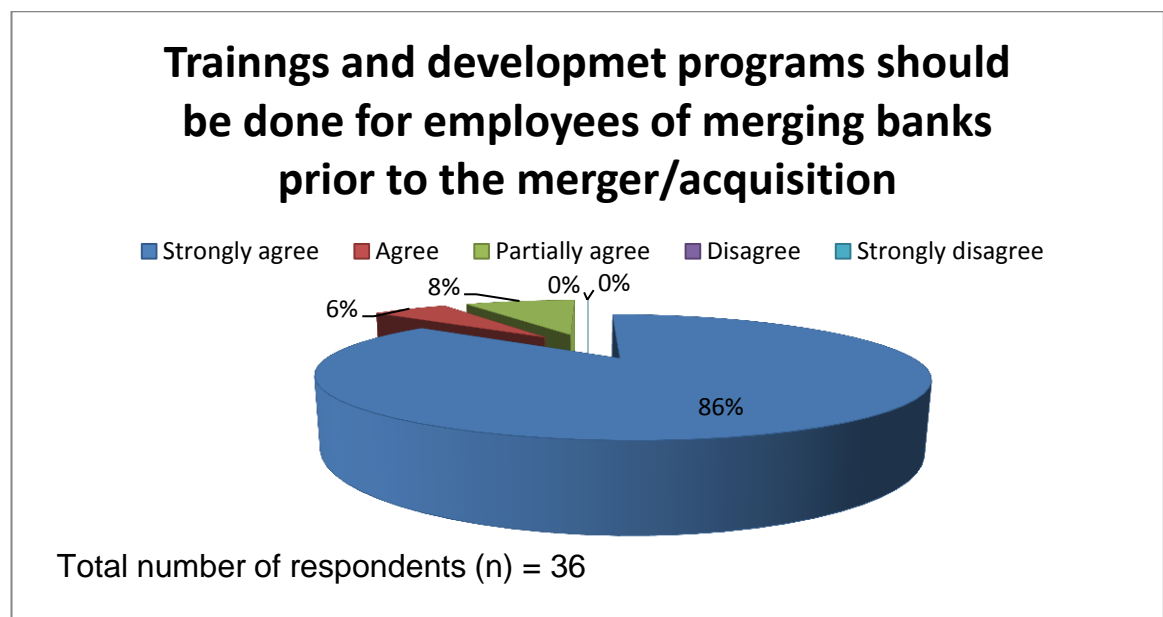


FIGURE 18. Trainings and developmental programs for employees' prior merger/acquisitions

The aim of this question is to know if trainings and developmental programs be done for employees of merging banks prior to the merger or acquisition and 30 respondents strongly agree to this, 2 respondents agree, three respondents partially agree to this while none of the respondents disagree or strongly disagree.

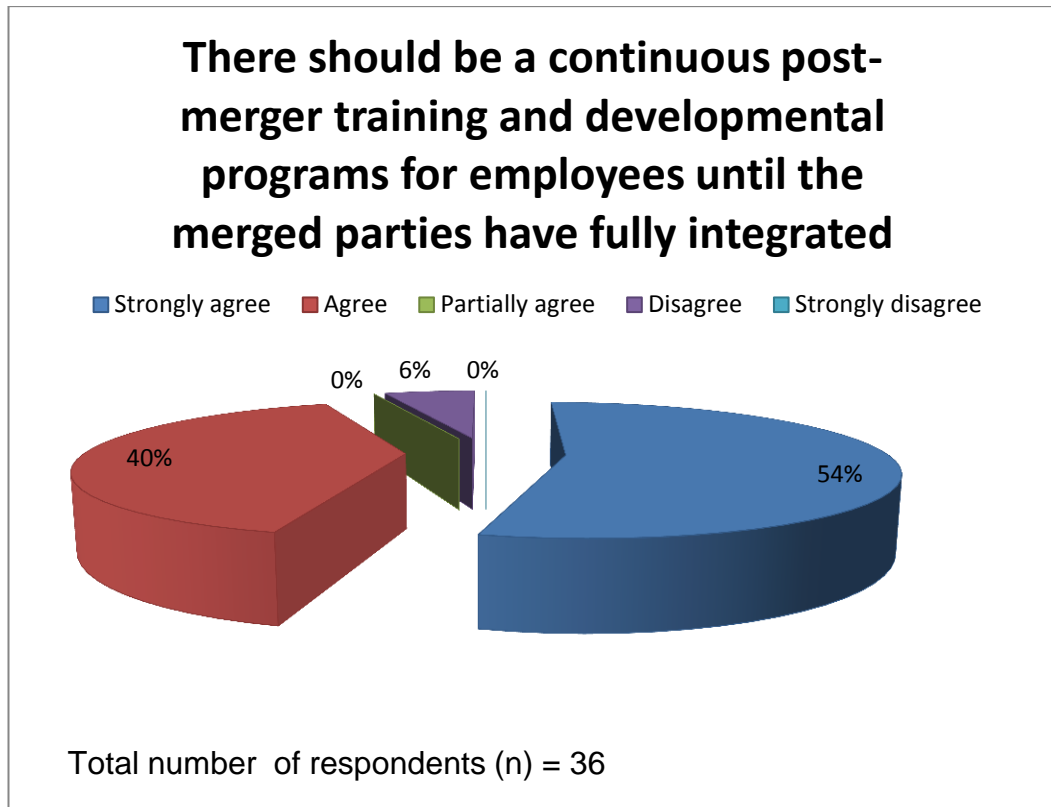


FIGURE 19. Continuous post-merger trainings and developmental programs for employees until the merged parties have fully integrated

Figure 19 shows the opinion of respondents on continuous post-merger trainings and developmental programs for employees until the merged parties have fully integrated together. Responses to this indicate that 19 respondents strongly agree for continuous post-merger trainings and developmental programs, 14 respondents agree, 2 respondents disagree to this while no respondent partially agree or disagree to this.

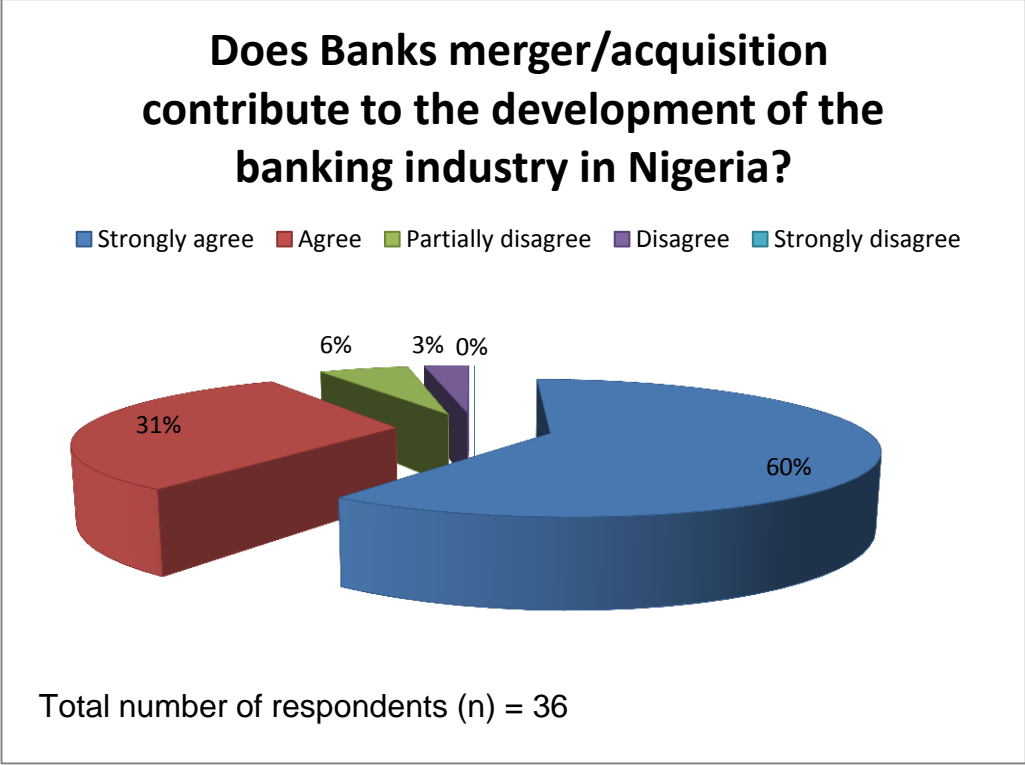


FIGURE 20. Does banks merger/acquisition contribute to the development of the banking industry in Nigeria?

Finally on the research questions, respondents were asked if banks mergers and acquisitions contribute to the development of the Nigerian banking industry, 21 respondents strongly agree to this, 11 respondents agree, 2 respondents partially disagree while just 1 respondent disagree to this.

**6.2 Financial Results**

Below is the snap shot of Fidelity Bank Plc. statement of Financial Position showing the pre-merger years, base year (year of merger 2005) and the post-merger years.

	Post-Merger Years			Base Year	Pre- Merger Years		
	2008 (=N=)'000	2007 (=N=)'000	2006 (=N=)'000	2005 (=N=)'000	2004 (=N=)'000	2003 (=N=)'000	2002 (=N=)'000
<b>Assets</b>							
Cash and other short term funds	30,904,349	19,733,974	12,174,536	5,219,332	5,321,948	6,023,194	2,990,470
Due from other banks	55,462,712	35,668,107	34,834,546	8,284,394	4,822,582	4,260,825	2,180,993
Treasury Bills	178,659,891	70,954,035	25,285,350	4,427,223	5,635,035	3,410,000	3,696,831
Investments	5,014,494	3,095,254	1,376,748	618,315	283,134	174,634	55,603
Loans and Advances	230,713,051	70,237,512	36,661,271	13,892,290	9,735,682	7,175,055	4,934,514
Finance Leases	5,228,229	1,373,452	251,814	123,817	-	50,628	208,511
Other Assets	10,247,424	9,086,505	2,587,204	1,220,900	728,986	394,485	598,970
Tangible Fixed Assets	10	427	3,426	-	16,363	-	72,463
<b>Total</b>	<b>500,754,497</b>	<b>210,149,266</b>	<b>113,174,895</b>	<b>33,786,271</b>	<b>26,543,730</b>	<b>21,488,821</b>	<b>14,738,355</b>
<b>Liabilities</b>							
Deposits	379,728,968	176,681,327	81,592,759	20,572,061	19,339,616	16,858,123	12,280,593
Other Liabilities	14,878,673	10,315,557	11,941,038	4,409,179	4,562,901	2,961,091	1,390,147
Taxation Payables	1,225,196	274,319	855,011	248,563	129,938	157,226	51,029
Deferred Taxation	1,425,408	116,262	-	-	-	-	-
<b>Total</b>	<b>397,258,245</b>	<b>187,387,465</b>	<b>94,388,808</b>	<b>25,229,803</b>	<b>24,032,455</b>	<b>20,001,640</b>	<b>13,721,769</b>
Gross Earnings	40,474,491	23,639,641	11,572,151	6,158,659	5,471,267	4,386,189	3,242,861
Gross Profit	15,795,951	4,403,393	3,587,300	1,564,390	1,077,509	1,085,070	633,796
Net Profit	12,986,570	4,160,007	3,162,347	1,236,790	913,604	856,885	539,242

Table 7: Statement of Financial Position of Fidelity Bank Plc. during the Pre-merger years, base year of merger and post-merger years.



### 6.2.1 Profitability Ratios

The gross profit margin will be calculated on the basis of the gross earnings of the company:

$$\text{Gross Profit margin} = \frac{\text{Gross Profit}}{\text{Gross Earnings}} \times 100$$

$$2002: 633,796/3,242,861 = 19.54\%$$

$$2003: 1,085,070/4,386,189 = 24.7\%$$

$$2004: 1,077,509/5,471,267 \times 100 = 19.69\%$$

$$2005: 1,564,390/6,158,659 \times 100 = 25.4\%$$

$$2006: 3,587,300/11,572,151 \times 100 = 31\%$$

$$2007: 4,403,393/23,639,641 \times 100 = 18.62\%$$

$$2008: 15,795,951/40,474,491 \times 100 = 39.02\%$$

### 6.2.2 Liquidity Ratios

The current ratio will be calculated as:

$$\frac{\text{Current Asset (C.A)}}{\text{Current Liabilities}}$$

The current asset is calculated as total asset less finance lease, other assets and tangible fixed assets while current liabilities is based on the total liabilities less deferred taxation and other liabilities.

2002: 13,858,411/12,331,622 = 1.12

2003: 21,044,068/17,040,549 = 1.23

2004: 25,798,381/19,469,554 = 1.32

2005: 32,441,554/20,820,624 = 1.56

2006: 110,332,451/82,447,770= 1.34

2007: 199,688,882/176,955,646 = 1.13

2008: 485,278,834/380,954,164 = 1.27

The Financial results are being summarized below:

Financial Ratios	POST MERGER YEARS			BASE YEAR	PRE-MERGER		
	2008	2007	2006	2005	2004	2003	2002
Profitability- Gross Profit Margin	39.02%	18.62%	31%	25.4%	19.69%	24.7%	19.54%
Liquidity Ratio- Current Ratio	1.27	1.13	1.32	1.56	1.32	1.23	1.12

Table 8: Financial Performance of Fidelity Bank Plc. before merger, base year and post-merger years.

## 7 CONCLUSION AND RECOMMENDATIONS

The operational consequences experienced after merger and acquisition in the Nigerian banking sector from high to low rank is in the order of: IT issues, Psychological issues, Communication issues, HR issues and Culture Shock being the least experienced.

In Nigeria, banks use different IT and operating system and when this happens in two banks that are merging or in an acquisition process, employees who are already used to a certain bank's IT system will be reluctant to switching to a new IT system and this might lead to realization of the operational synergies since more time will be needed to migrate to the new system. This challenge could be attributed to lack of involvement of IT personnel in the merger or acquisition process, i.e. the pre-merger feasibility studies, through to the integration and implementation plans.

The next operational consequence is Psychological Effects. These include increased stress (due to high volume of work to be carried out as a result of the merger or acquisition- more customers, more transactions), anxiety and fear of the unknown. Anxiety and fear of the unknown could be traced to employees being pre-occupied with job loss as rumors of mass layoffs and terminations of job opportunities moves round the new entity bank. Management of the new merged entity should endeavor to communicate to all employees on the modalities to be used in termination of employee's appointment - if any (e.g. professional qualification, length of stay and so on) and the compensation package for those affected. This would bring some reliefs to those not affected and hope for those affected from the compensation package that would be given to them.

Also, communication Issues as one of the operational consequences. This has to do with changes in reporting line, new rules and regulations, new operational practice procedures and so on. This challenge could be minimized if there is pre-merger or acquisition trainings for employees of both parties that are merging or those involved in acquisition. The new rules and regulations, reporting lines and any other communication issues would have been known and well understood before the merger or acquisition.

Furthermore, Human Resource (HR) also forms part of the operational consequences. An important practical challenge in HR is the differences in the grading or organizational structures in the merging banks thereby, leading to demotion of grade/level of employees. Each of the banks have different organization structures for different positions for their employees, and during the integration of the two banks, the acquiring bank need to develop a system where the differences in the grading system will be removed and bringing every employee at equal level, grade or position.

Other HR issue could be seen in variance in salary structures, compensation, pensions and so on; the circumstances of the merger or acquisition deal and compensation policies of the merging banks could help the HR to merge the compensation plans into a program that will fit the new merged bank or creating a new compensation program from the beginning that complements the merged entities.

Other operational challenges include: systematic exclusion of staff of the acquired bank from key job functions, difficulty in imbibing new culture of the acquirer bank, deliberate attempts by the management of the acquirer bank to frustrate the efforts of the acquired bank out of the new merged entity, management of customer's reactions and alignment of staff and job functions.

For the Financial consequences which is basically on the maximization of shareholders wealth, the parameters were used, the profitability ratio (gross profit margin) and liquidity ratio (current ratio).

The gross profit margin-profitability trend of the bank indicated that there is an increase in profitability of the bank after the merger (except in year 2007). The current ratio of the bank from the pre-merger years to the post-merger years has been above 1, which means that the bank is very liquid and is able to meets its financial obligations as at when due.

According to Figure 20, respondents strongly agree that banks merger/acquisitions in Nigeria strongly contribute to the development of banking industry in Nigeria and this is seen in the financial performance of banks where the bank's shareholders wealth were being maximized after merger/acquisition.

The research work focuses on the operational and financial consequences of mergers and acquisitions, with the focus on the Nigerian banking industry. Other research topics that could be carried out in line with mergers and acquisitions could include the following:

- The operational and financial consequences of mergers and acquisitions with the focus on a manufacturing industry rather than a service industry like Nigerian banks already carried out.
- Failed Merger/Acquisitions in Nigeria and causes of the failure
- Pre-merger and Post-merger trainings and developmental programs as pre-requisites for successful mergers and acquisitions.

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## APPENDICES

### Appendix 1: Thesis Questionnaires

# ***Operational and Financial Consequences of Mergers and Acquisition A Case Study of Nigerian Banks***

*All information will be kept confidential and will aid the completion of my Research Work.*

*Thank you for your anticipated participation.*

#### **1. Gender**

- Male
- Female

#### **2. Age**

- 0 - 20
- 21 - 30
- 31 - 40
- 41 - 50
- 51 - 60

#### **3. Position**

- Junior Level ( Contract Staff, Entry Level, )
- Senior Level (Assistant Banking Officer, Banking officer)
- Middle Management Level (Senior Banking Officer, Assistant Manager)
- Senior Management Level (Manager, Senior Manager, Assistant General Manager)
- Executive Management Level ( General Manager and Above)

#### **4. Form of Consolidation**

- Acquisition
- Merger

**5. Which of the following operational consequence(s) did you encounter after the merger/acquisition?**

- Information Technology-IT Issues ( Change to new operating software, frequent system downtime)
- Human Resource-HR issues ( Job loss, Demotion of Level/Grade, Changes in Salaries/Allowances)
- Psychological effects ( Increased stress and anxiety, Fear of the unknown)
- Communication Issues (New rules and regulations, change in reporting relationship)
- Culture Shock due to cultural differences
- Others (Please specify below)

**6. Other Operational Challenges encountered.**



**7. How long does it take the new merged entity to fully integrate its processes?**

- Less than One Month
- Less than One Year
- One - Two Years
- Two Years and above

**8. Was there mass disengagement of employees from work by the bank?**

- Yes
- No

**9. If yes, what is the number of employees that were disengaged from work?**

- Less than 50
- 51 - 100
- 101 - 150
- 151 - 200
- Above 200

**10. Were employees (any of the merging banks) demoted from their present levels/grades?**

- Yes
- No

**11. As a result of 9 above, was there voluntary resignation of staff?**

- Yes
- No

**12. Was there any motivation from management of the new entity bank?**

- Yes
- No

**13. If yes, which of the following motivational tool (s) was/were used by management of the new bank?**

- Communication between management and employees
- Appraisals and Rewards
- Equal opportunity for promotion at the end of the year
- Others (Please specify in the next question)

**14. What other motivational tool(s) was/were used by the management of the bank?**



**15. Was the general public informed before the merger/acquisition?**

- Yes
- No

**16. Trainings and development programs should be done for employees of merging banks prior to the merger/acquisition**

- Strongly agree
- Agree
- Partially agree
- Disagree

Strongly disagree

**17. There should be a continuous post-merger training and development programs for employees until the merged parties have fully integrated**

Strongly agree

Agree

Partially agree

Disagree

Strongly disagree

**18. Banks merger/acquisition contribute to the development of the banking industry in Nigeria**

Strongly agree

Agree

Partially disagree

Disagree

Strongly disagree

Submit





