MERGERS AND ACQUISITIONS: AN IMPERATIVE FOR THE NIGERIAN BANKING INDUSTRY?

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APPROVAL PAGE

This is to certify that this thesis was written by PATRICK CHUKWUEMEKA OKOLO and has been read and approved by the undersigned as having met part of the requirements for the award of Doctor of Philosophy Degree (PhD) in Financial Management by St. Clements University, Turks & Caicos Islands, British West Indies.

SUPERVISOR	**SIGNATURE & DATE**
ACADEMIC ADVISER	**SIGNATURE & DATE**
ADMINISTRATOR	**SIGNATURE & DATE**

DEDICATION

To my amiable kids,

Chitoo & Okwunna

and the memory of

my late elder brother,

Dr. Tony Okolo.

ACKNOWLEDGMENTS

It is not always easy in a work of this nature to remember everyone who has in one way or another contributed to the successful completion of it. Nonetheless, some people deserve special mention.

In that respect, my immense gratitude first goes to God Almighty for the wisdom, inspiration and strength to embark on this worthwhile venture, despite the “inauspicious” timing and obstacles on the way. To my project supervisor and academic adviser, Dr. Umar Galadima and Prof. David Iornem respectively, I cannot thank them enough for the invaluable advice and words of encouragement. Their patience in handling my “troublesome” nature regarding many issues even at odd times cannot pass without acknowledgment.

The financial, moral and spiritual implications of this work could not have been shouldered single handedly without assistance from some quarters. In this regard, my childhood friend and classmate at both primary and secondary schools, Rev. Fr. Chris Amaechi Oranyeli, OP deserves outstanding gratitude. To Sylvester Okonkwo (aka S.O), Prince Emeka Mamah, Dr (Mrs) Catherine Okpareke, Frank Emeka Okeke and Messrs Azuka Alagwu, Emeka Onwuka, Sylva Ashimole, Olisa Okudoh, Eze Echesi, and Laz Iloka, I am equally grateful. For making his office and his Secretary (Oliseh) available for the final preparation of this work for submission, Barrister Mbanugo Udenze (aka my SAN) merits my deep appreciation.

The logistic challenges involved in the distribution of the questionnaires used in this study could not have been confronted effectively without the active support of my mail dispatch – Michael. Biodun Kareem’s untiring effort in rolling out copies of the project even at short notices cannot be ignored.

My special thanks must also be placed at the doorsteps of my wife who had to endure my ‘nocturnal lightening’ of our room to get the work going. To my kids, Chitoo and Okwunna, I wish to express my deepest gratitude for showing amazing understanding in my not “co-operating” sometimes when they needed my attention. To my late elder brother, Tony, I will continue to cherish fond memories of you in lending support at the initial stage of the study before the cruel hands of death snatched you away.

Notwithstanding the help I had received, full responsibility for any errors and/or omissions that may be found in this work is still entirely mine.

DECLARATION

I, Patrick Chukwuemeka Okolo do hereby declare that this dissertation is entirely my own research work and that where works of other persons were used, had been duly acknowledged by way of proper citation.

PATRICK CHUKWUEMEKA OKOLO DATE

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ABSTRACT

This study was essentially an empirical one aimed at inquiring on the imperativeness of mergers and acquisitions for the Nigerian Banking Industry, following the Central Bank of Nigeria's (CBN's) directed banking consolidation programme unfolded July 6, 2004, of which mergers and acquisitions was an important integral part. Four hypotheses (in null forms); reflections of the research questions were formulated for the study. These were: lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is not because they considered their capital bases adequate; fear of dilution in ownership structure inherent in mergers and acquisitions is not more pronounced amongst banks that did not merge with others than those that did; the apparent resistance to mergers and acquisitions is not because banks do not want to be dictated to or "coerced" into embracing same and the feeling is not more with those that did not merge with others than those that did; and the costs, procedure and processes associated with mergers and acquisitions cannot be a deterrent to banks willing to merge. All except the third were validated in the course of the testing. The alternate in hypothesis 3 was consequently the only one accepted amongst the entire four alternate hypotheses. Data were gathered via questionnaire designed in both open and closed format. A total of 39 banks comprising the 25 that met the CBN's minimum capital base of N25 billion as at December 31, 2005 and the 14 that could not, were sampled. However, 31 responded. Findings arising from hypotheses testing and some responses in the questionnaire indicated that although many banks recognized some inadequacies in their operations prior to July 6, 2004 necessitating mergers and acquisitions and the benefits derivable from such an exercise, they nevertheless felt that mergers and acquisitions should be voluntary. Many contended that within the time frame given coupled with the somewhat compulsory nature of the exercise, which in some cases promoted cover ups and desperation among some merging partners, it was not possible for them to conduct meaningful due diligence on their proposed partners. Yet, others took the route to non-merging on the ground that embarking on such would compromise their standards set over the years. The study concluded that to all intents and purposes, the issue of mergers and acquisitions within the Nigerian Banking Industry is a *desideratum* that must be anchored on providing the necessary impetus (as captured in the recommendations) that would throw up mergers and acquisitions voluntarily instead of pursuing it by fiat. This is informed by the need to avoid unnecessary squabbles and disagreements that trailed the recently concluded mergers and acquisitions initiated by the CBN, resulting in many fits and starts and pullouts.

CHAPTER 1

INTRODUCTION

1.1 Overview

The distress syndrome that ravaged the Nigerian Banking Industry in the 1990s which saw the exit of about 30 banks from the scene and the signals that it was yet to abate coupled with the demands of globalization and some reforms undertaken by the apex bank – the Central Bank of Nigeria (CBN); the least not being the introduction of the settlement system in April 1, 2004 – have thrown up for discussion on how adequately prepared the Nigerian banks are for the challenges of modern banking.

To effectively perform the roles expected of them, adequate capitalization of banks has been identified as a *sine qua non.* An enhanced capital base gives a bank a competitive edge, enables it to acquire relevant technology, engage high quality personnel, absorb losses, provide better services and ultimately increase its earnings. Universal banking, globalization, competition from foreign banks and non – bank financial institutions, electronic banking and the related heavy financial outlay, have made the level of capitalization an issue of strategic importance for Nigerian banks, if they are to remain relevant to the banking public.

The foregoing no doubt has made it imperative for the CBN to raise the statutory paid - up share capital of banks from time to time as occasion demands. For example, in anticipation of the adoption of universal banking in Nigeria in January 2001, the statutory minimum paid – up capital for banks was reviewed from N500 million to N1billion in 2000, with a compliance deadline set at December 31, 2002. For new banks, the capital base was then set at N2 billion (CBN, 2002). However, the N2 billion requirement was later adopted for all banks and compliance deadline set at December 31, 2005 (CBN, 2004). Just when banks were grappling with raising the N2 billion paid – up share capital, the CBN jolted them on July 6, 2004 by jerking the minimum capital base to N25 billion – this time shareholders' funds - with compliance deadline set at same December 31, 2005 (Okwe, 2004).

In mobilizing capital, banks have various options which include amongst others, Capitalization of profits and reserves through bonus issues to existing shareholders; Rights issue to the existing shareholders, usually at a concessionary price; Offer for subscription to the entire investing public; Private placements; Mergers and/or Acquisitions; Consolidation; Buy – ins and Management buy – outs.

In Nigeria, capitalization options favoured by banks are capitalization of profits and reserves, rights issue, offer for subscription and private placements. The acquisition method has been successfully but sparingly used to assist some banks in meeting their capitalization needs. For instance, in the mid – 90s, some insolvent state – owned banks were successfully acquired by individuals or consortia of banks, in order to prevent their liquidation. Such acquisitions were facilitated by the CBN, which invited prospective investors to submit bids, re-capitalization and business plans as well as details of the proposed management team (CBN, 2002). Mergers amongst banks in the real and technical sense have been virtually non – existent in Nigeria, save for some induced by government in the not distant past, namely that between Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) to form the Bank of Industry (BOI); the fusion of Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP) to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB); and Nigerian National Mortgage Bank (Ninam Bank) formed from the merger of Federal Mortgage Bank of Nigeria (FMBN) and the Federal Mortgage Finance Ltd (FMFL) (CBN, 2001). Even at that, the induced mergers were restricted to development finance institutions; none was recorded among the commercial and merchant banks. The closest among commercial and merchant banks prior to December 31, 2005 have been the acquisitions of some unhealthy ones by their healthy counterparts – about six of such were recorded between 1995 and 2003 (see table 2.2.6). No merger among the healthy ones was recorded during this period.

1.2 Statement of Problem

One of the dominant features of a free market economy is **Free Entry** and **Free Exit,** which have an underlying attribute of competition. Competition in business in itself results in either survival or extinction of companies. While the surviving ones will be contending with how to optimally manage their resources to maintain or increase their market share through expansion or diversification to remain in contention, the victims of competition i.e. the failing ones would need to be resuscitated through restructuring to survive.

A principal strategic business practice by which firms diversify and expand is Mergers and/or Acquisitions (M & As).

Although developments in recent times in some sectors of the economy have indicated some improvement, such has not been the case in the banking sector prior to July 6, 2004 (where too many fringe players existed and conditions more than conducive for mergers and acquisitions) directive by the CBN for all banks to shore up their shareholders' funds to minimum of N25 billion by December 31, 2005. What with chronic illiquidity and the threat of distress starring some of the banks in the face! The situation was not made any better or lighter by the introduction of the clearing system, which offered no escape routes for banks to overdraw their accounts with the CBN.

A major consequence of the lukewarm attitude of banks to M & As was underscored by the fact that no Nigerian bank (even with government induced mergers and acquisitions already highlighted prior to December 31, 2005) was reckoned with in African Continent. Yet most of the top banks then were actually products of M & As.

This study is therefore strictly on the banking industry in Nigeria prior to July 6, 2004 directive of the Central Bank of Nigeria (CBN) for banks to merge or be acquired before December 31, 2005 and whether banks then considered Mergers and Acquisitions as a viable and veritable option for survival and growth, despite CBN's prodding and apparent coercion to embrace same.

1.3 Purpose Of Study

The Study will strive to accomplish the following:

1. Help identify the obstacle(s) militating against the enthronement of the culture of mergers and acquisitions (i.e. without coercion) in the Nigerian Banking System.

2. As a corollary, while projecting mergers and acquisitions as important strategy for survival and growth amongst banks in the highly competitive business world of today, seek to find whether "directed" M & As pursued by CBN then is the best option for the survival of the industry.

3. Make informed recommendations based on the findings of this study which will guide policy formulators (especially the financial regulatory bodies in Nigeria) and the operators in the industry alike in so far as the issue of M & As is concerned.

1.4 Research Questions

For the purpose of this research, the following questions will apply:

1. Is it true that lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is because they considered their capital bases adequate?

2. Is it true that fear of dilution in ownership structure inherent in mergers and acquisitions is more pronounced amongst banks that did not merge with others than those that did?

3. Is it possible that the apparent resistance to mergers and acquisitions is because banks do not want to be dictated to or "coerced" into embracing same and this feeling is more with those that did not merge with others than those that did?

4. Can the costs, procedure and processes associated with mergers and acquisitions be a deterrent to banks willing to merge?

1.5 Hypotheses

In reflecting the research questions posed, the following are pertinent to the study:

1. Lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is not because they considered their capital bases adequate.

2. Fear of dilution in ownership structure inherent in mergers and acquisitions is not more pronounced amongst banks that did not merge with others than those that did.

3. The apparent resistance to mergers and acquisitions is not because banks

do not want to be dictated to or "coerced" into embracing same and the feeling is not more with those that did not merge with others than those that did.

4. The costs, procedure and processes associated with mergers and acquisitions can not be a deterrent to banks willing to merge.

1.6 Significance Of Study

It is envisaged that this study will contribute its quota to the clamour for banks in Nigeria to embrace mergers and acquisitions as a strategic business policy for their survival and growth, especially in the present day highly competitive global environment.

It will be useful to Board members, Management and Staff of many banks in Nigeria as well as the regulatory authorities and Government. For the regulatory authorities in particular, it will provide insight into whether the banks would have ordinarily merged among themselves without any "coercion" or "arms twisting".

Furthermore, it is hoped that the study will serve as either a rallying point for future discussion or at least a point of departure.

1.7 Delimitation and Limitations Of Study

Due to interest shown on the subject of mergers and acquisitions, highlighted not long ago by CBN's directive to banks to merge or be acquired as one of the means of complying with the set minimum capital base of N25 billion on or before December 31, 2005, the issue of M & As has assumed a very dynamic nature in Nigeria financial circles. Consequently there is need to have a cut off period for the study if it is not to be an open-ended one. As a result, the study focused on the attitude of banks to mergers and acquisitions as at December 31, 2005. To that end, the study will focus on all licensed banks operating in Nigeria prior to December 31, 2005; both those that met the N25 billion minimum capital base and those that did not.

In a study of this nature, getting all banks to attend to the questionnaires and accurately no doubt proved a Herculean task, despite all efforts. On account of this, therefore, the study can only make some limited generalizations.

Equally a limiting factor is the fact that Banks in Nigeria then were of different sizes and "Complexion" and their numbers differed significantly along those lines. For example, those that merged outnumbered those that did not and as such population sample cannot be said to be even.

1.8 Definition Of Terms

For the purpose of this study, the following are operationally defined to apply:

1. Banks that did not merge: These include those that have been taken over by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) as at December 31, 2005 and those that met or surpassed the minimum capital base on their

own without resorting to mergers and/or acquisitions. In the former category are the 14 banks slated for liquidation by the CBN while the latter include banks like Ecobank Plc, Guaranty Trust, Citi Bank, Stanbic Bank, Standard Chartered and Zenith Bank.

2. Banks that merged: These are banks that met or surpassed the minimum capital base largely through mergers and/or acquisitions.

3. Foreign Subsidiary Banks: These are the ones that have offshore parent bodies as at July 6, 2004.

1.9 Summary

The bearing for the study has been set in this chapter.

It has been noted that the issue of mergers and acquisitions as a strategy for survival and growth was somewhat alien to banks in Nigeria prior to the directive of the CBN that all banks operating in Nigeria must have a minimum capital base of N25 billion on or before December 31, 2005. Save for the induced mergers of some Development Finance Institutions by the Federal Government of Nigeria and the acquisitions of majority equity shareholding in some unhealthy banks by their healthy counterparts, no mergers in the strict sense have occurred among the banks, especially the healthy ones prior to December 31, 2005.

The study has therefore set for itself the task of identifying the whys and wherefores behind this scenario. This, it hopes to accomplish through the formulated Research Questions which in turn are reflected in the Hypotheses. It is hoped the study would make some input into the growing body of researches, journals, et cetera on the subject of mergers and acquisitions in Nigeria with banks as focal point.

The chapter highlighted a major delimitation which borders on the need to have a cut off period for the study if it is not to be an open ended one, considering the interest the subject has assumed of late in Nigeria financial circles. Also, a major limitation factor was highlighted in the area of coverage which can only make limited generalizations inevitable.

Finally, the operational definition of some terms as applicable to the study were offered.

1.10 References

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CHAPTER 2

REVIEW OF LITERATURE

2.1 Concept Of Mergers and Acquisitions

Conceptually, the subject of mergers and acquisitions (M & As) has been given varied treatments depending on the background and perception of the individual or institution handling it.

In her treatment of the concept, Uduk defines merger as the fusion of two or more enterprises through a direct acquisition by one, an acquisition is essentially the purchase of all or a substantial interest of one company by another, such that the acquired company becomes a subsidiary or division of the acquirer (Uduk, 2002).

To her, the consideration for mergers is either shares or cash. Where the mode of payment is with shares, the acquirer issues its own shares to the shareholders of the acquired company in exchange for their former shares. But where it is for cash, the offer to the acquired company's shareholders would be in cash and the payment would be made either from the reserves of the acquirer or with money raised through the capital market (if quoted).

Van Horne regards merger as a combination of two corporations where only one survives. The merged corporation goes out of existence, leaving its assets and liabilities to the acquiring corporation. He goes further to assert that a merger must be distinguished from a consolidation, which involves the combination of two or more corporations whereby an entirely new corporation is formed. All of the old companies cease to exist, and shares of their common stock are exchanged for shares in the new company. He posits that when two companies of about the same size combine, they usually consolidate. However, when two companies differ significantly in size, usually a merger is involved (Van Horne, 1980).

Peterside sees a merger as the amalgamation of the undertakings or any part of the undertakings or interest of two or more companies. The target company (ies) in the merger ceases (sic) to exist. An acquisition is the take-over by one company of sufficient shares in another company to give the acquiring company control over the target company (Peterside, 2003). According to him, in Nigeria, all mergers, acquisitions or combinations between or among companies (both private and public) involving the acquisition of shares or assets of another company are subject to the prior review and approval of the Securities and Exchange Commission (SEC).

The above is not different from the meaning given to it by the Companies and Allied Matters Decree of 1990 (CAMD 1990).

Long while defining a merger as the combination of two (or more) separate corporate entities into a single firm, normally without the process of winding-up, however, believes that an acquisition takes place when an acquirer takes over the controlling shareholding interest in a target company. To him, a subtle distinction exists: whilst all mergers can, fundamentally, be regarded as an acquisition, the latter differs from the former in the formal sense that the entities involved need not necessarily be consolidated into a single corporate entity. The implication is that following an "acquisition", the two companies involved may both remain in existence, with the target company becoming a division or subsidiary of the acquirer. However, in practice, the role of the former target company is likely to diminish significantly, post-acquisition, e.g. Total Fina S.A. and ELF S.A. (Long, 2003).

According to him, the post – merger entity so formed can take any of the following new entities:

Scenarios			**Identity**
Acquirer	+	Target	= Acquirer
Acquirer	+	Target	= Target
(often referred to as a "reverse take – over")			
Acquirer	+	Target	= New Identity

Like Long above, Amedu (2002) sees acquisition as more embracing than merger. He goes a step further by positing that a firm can use either merger or consolidation to **acquire** another firm.

He thus refers to merger as an amalgamation or a combination of two or more companies where only one survives. He sees it as an arrangement where the affairs of two or more companies are brought under the ownership and control of one company. The two or more companies cease to be distinct. The acquiring firm retains its name and identity, and it acquires all of the assets and liabilities of the acquired firm(s). After a merger, the acquired firm ceases to exist as a separate entity. Examples include:

1. BOC Gases + Industrial Gases Plc	= BOC Gases Plc
2. BMW + Rolls Royce	= BMW
3. Vodafone (UK) + Manesmann (Germany)	= Vodafone

Though he views consolidation as being similar to merger, he notes however that in consolidation, an entirely new firm or entity is created. Here, both the acquiring firm and the acquired terminate their previous legal existence and become part of a new firm. Examples include:

1. Akintola Williams & Co + Adetona Isichie & Co	= Akintola Williams & Adetona Isichie
2. Price Waterhouse + Coopers & Lybrand	= Pricewaterhousecoopers
3. Dalmer Benz (Germany) + Coopers & Lybrand	= Dalmerchrysler
4. Mobil + Exxon	= Mobil Exxon

5. Total Fina S.A. + Elf Aquitaine S.A. = Total Fina Elf Group

6. BP + Amoco = BPAmoco

Adetunji's treatment of the subject is not radically different from that of Amedu. He posits that in generic terms, while mergers and acquisitions are often used synonymously, such other terms as takeovers, amalgamations and consolidations are also used to express the various variants of business combinations. He notes however, that technically, some distinctions, albeit minute do exist amongst the terms. To him, a business combination which involves the fusion of two or more corporate entities into one, largely on equal terms is often referred to as a merger. The evolving entity could assume an entirely new name or retain the identity of one of the emerging companies. He notes that the global practice tends towards the latter.

On the other hand, he views acquisition as essentially the purchase by one company of all or substantial interest of another such that the acquired company becomes a subsidiary or division of the acquirer (Adetunji, 1997).

2.2 Types Of Mergers and Acquisitions

Broadly, the Securities and Exchange Commission (1988) has identified the following as common ones:

a) Horizontal Merger/Acquisition:
This involves the combination or fusion of enterprises in the same line of business (i.e. competitors). This implies that the merger of two or more Breweries, IT companies, Banks, Textiles or Stock broking firms is horizontal in nature. Examples in Nigeria include: Union Bank of Nigeria Plc's acquisition of Citi Trust Merchant Bank to form Union Merchant Bank Ltd.; UNT Plc's acquisition of Nichemtex Industries Plc while foreign examples include Cap Gemini's US $11.2 billion acquisition of the Global IT Consulting Business of Ernst Young; Cisco Systems' US $5.5 billion acquisition of Arrow Point Communications (Amedu, 2002). Fears have often been expressed that such mergers or acquisitions have the propensity to create monopolies if uncontrolled (Adetunji, 1997).

b) Vertical Merger/Acquisition:
This is common with firms at different steps of the production process. In other words, vertical merger or acquisition involves the combination or fusion of two or more companies which are engaged in complementary business activities. For instance, the acquisition of a steel mill by an automobile manufacturer, a cocoa processing company by a beverage company, barley or hops producing firm by a brewery or a travel agency by an airline company would be regarded as vertical merger. This is often used to achieve either a backward or forward integration. Local examples include Cadbury Nigeria Plc's acquisition of Stanmark Cocoa processing co. Ltd and Afprint Nigeria Plc's acquisition of Sunseed Nigeria Plc.

c) Conglomerate Merger/Acquisition:

This takes place where merging firms businesses are unrelated. An example would be the combination of a Pharmaceutical company with an insurance firm, acquisition by an airline company of an entertainment company or the acquisition of an insurance firm by a bank. A local example is Intercontinental Bank Plc's acquisition of WAPIC Insurance Plc. Companies engaged in this form of business combination are most often motivated, inter alia, by the desire to diversify risk with the ultimate goal of maximizing returns.

While noting the above as mergers according to the nature of the companies (relationship of the products of the fusing companies), Obadan (2004) takes it a step further by positing that mergers can equally be categorized according to the mode of coming together of the companies. According to him, those arising due to the mode of association take the following forms

a) Merger by the formation and promotion of a new company:

In this case, the companies involved in the merger are wound up and a new company formed to take over the assets and liabilities of the original companies. This type of merger (amalgamation) may occur where the companies, which have agreed to merge are relatively equal in size and power.

b) Merger by forming a holding company:

Under this arrangement, the merger companies come under the umbrellas of a holding company. A holding company employs its capital to acquire and hold the shares of other companies, but they retain their separate existence. The holding company may be the sole shareholder or major shareholder by owning over 51per cent of the shares. With careful selection, a holding company can establish a closely integrated group, with each unit being complementary to others.

c) Merger by absorption:

This is a case of acquisition in which one company acquires the business of another. It may occur where one powerful company purchases and takes over the entire business of another company, which is often a smaller and weaker rival. The firm taken over completely loses its identity.

d) Merger by the acquisition of controlling interest:

This occurs where one company purchases not less than 50 per cent of the shares of another company to have controlling interest, in which the company whose shares it purchases becomes its subsidiary. The shares can be acquired by agreement with the shareholders or by purchase in the open market. The merger can also be the result of take-over bids.

In a take-over bid, new shareholders acquire a controlling interest in a company by buying shares at much higher prices than those prevailing on the stock exchange, or by a company offering (with incentives) to acquire all or a significant proportion of the shares of another company it wants to control. This is done in order for it to control the market or have a large-scale production.

2.3 Why Mergers and Acquisitions?

There are numerous reasons why companies should opt for mergers and acquisitions, all of which are invariably linked to risk and returns. These reasons invariably translate to the inherent benefits accruing to the companies and range from economic to non-economic (Amedu, 2002). They are however, not mutually exclusive as more than one reason, usually, could be involved.

A. Economic Benefits/Reasons:

1. Income Enhancement:

A fundamental reason for acquisitions is the desire to enhance income; a combined company is more likely to generate greater income than two separate companies. Increased income may come from improved marketing, strategic advantage, market power and increased market share. The points are now taken seriatim:

With regard to improved marketing, a merger can bring about a significant improvement in previously ineffective media programming and advertising efforts, a weak existing distribution network, and an imbalanced product mix.

In respect of strategic advantage, some acquisitions are done purely to obtain this. This is a process of entering a new industry or line to exploit perceived opportunities. For example, the acquisition of 75% of Citi Trust Merchant Bank Limited (now Union Merchant Bank Ltd.) by Union Bank of Nigeria Plc in 1995 was a strategic move by the latter to gain foothold in that line and exploit perceived opportunities in merchant banking business where its arch rival, First Bank of Nigeria Plc was already holding sway through its FBN (Merchant Bankers) Limited. Also, a few years ago UAC Nigeria Plc acquired Grand Cereals and Mills Limited and Spring Waters Nigeria Limited both at Jos. These acquisitions enabled UAC Nigeria Plc to position itself well in "pure water" and "oil milling" businesses well ahead of competition.

Though market power is not a significant reason or benefit for seeking mergers, it is a fact that one company can acquire another within the same industry to reduce competition. Where competition in an industry is stiff, it has been argued that a merger there reduces competition. Some mergers and acquisitions are done with the aim of increasing the company's market share. A recent merger in Nigeria that best explains the point in discussion is that between Total Nigeria Plc and Elf Oil Nigeria Limited. It was stated in the scheme of merger document under the benefits/effects of the merger that the merger would give rise to synergies and in particular the following benefits:

- The combination of Total's 10.8% market share with Elf Oil's 4.75% market share will result in approximately 16% market share to form one of the leading oil marketing companies in Nigeria.
- Total product range will be significantly enhanced by the addition of Elf Oil's products.

- There will be a substantial reduction in operating costs as a result of improved efficiency when duplicated administrative and marketing functions are combined following the merger."

2. Cost Reduction:

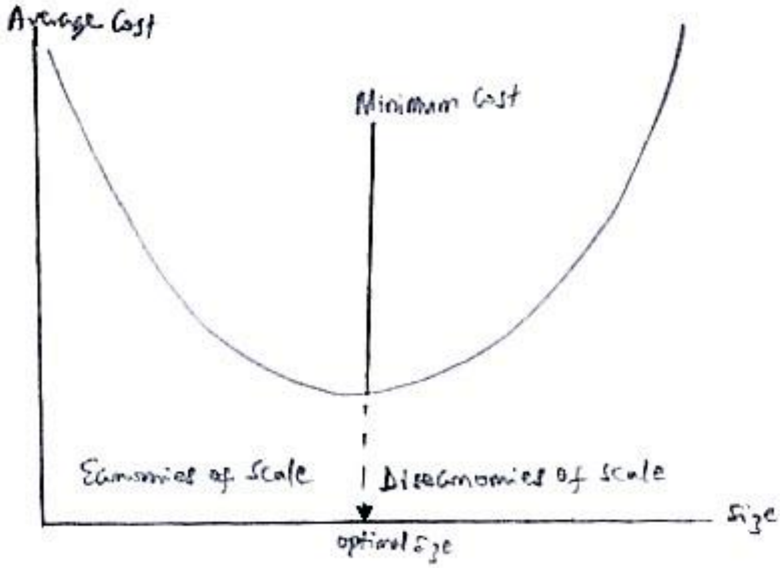
   This is one of the fundamental reasons advanced by companies involved in mergers or acquisitions. A combined company may operate more efficiently than two or three separate companies. The major objective cited for the merger between PZ Industries Plc and PZ Nigeria Plc, Ekopack Nigeria Plc and Groove Properties Limited is to achieve substantial cost savings and efficiencies in management, administration and accounting functions of the four companies, especially with respect to:
   - Super VAT administration and reporting
   - Reduction in number of internal management accounts and statutory accounts
   - Savings in annual audit work
   - Elimination of inter company charges
   - Reduction in the number of bank accounts maintained
   - Savings in stationery/pre-printed forms etc

   The issue of "reduction in operating costs resulting from the elimination of duplicated management, administration and accounting functions" was also posited by UNT Plc as a major benefit for its merger with Nichemtex Industries Plc.

Cost reduction is usually achieved through economies of scale, economies of vertical integration and complementary resources, amongst others.

Economies of scale occur when average cost declines with increase in Volume. The teaming up of efforts by companies usually produce increases in output while average cost declines resulting in improved efficiency for the company. This is often referred to as synergy i.e. the fused company is of greater value than the sum of the parts. In other words, $2 + 2 > 4$ or algebraically, $VAB > VA + VB$ i.e. the value of the combined firm AB is greater than the value of the industrial firms VA and VB, brought together by the merger (SEC, 1988).

Economies of scale are often thought of as relating only to production. However, Amedu (2002) posits that economies of scale can be achieved in marketing, purchasing, distribution, accounting and even finance. The idea is simply to concentrate a greater volume of activity with a given facility, into a given number of people, into a given distribution system and so forth. In other words, increase in volume permit a more efficient utilization of resources. Like anything else, however, there are limits. Beyond a point, increases in volume may cause more problems than they remedy, and a company may eventually become less efficient. Figure 1 below illustrates that economies of scale result while the firm grows to its optimal size. After this point, diseconomies of scale occur.



Economies is best realized with a horizontal merger in which two companies in the same line of business are combined. The economies achieved by this means result primarily from eliminating duplicate facilities such as corporate headquarters, top management, IT facilities and offering broad product line in the hope of increasing total demand. This point was highlighted in the scheme of merger of Nichemtex Industries Plc with UNT Plc.

A vertical merger, whereby a company either expands forward towards the ultimate consumer or backward towards the source of raw material, may also bring about economies. The main purpose of vertical acquisition is to make coordination of closely related operating activities easier. This may explain why most airline companies in Europe acquire hotels and car rentals or Cadbury Nigeria Plc acquired Stanmark cocoa Processing Industries.

Some firms acquire others to make better use of existing resources or to provide the missing ingredient for success. This is the essence of complementary resources. This may explain why a company reputed for the production of umbrella, raincoat and boots could merge with garment manufacturing company to produce more to even sales over both rainy and harmattan seasons and better use of warehouse capacity.

3. Lower Taxes

Some companies embark on mergers or acquisitions simply because of tax gains. The possible tax gains that can come from an acquisition include the use of tax losses from net operating losses, the use of unused debt capability and the use of surplus funds. While mergers and acquisitions based on tax gains is more pronounced in the advanced countries, the scheme of merger of PZ industries Plc and PZ Nigeria Plc, Ekopack Nigeria Plc and Grove Properties Limited cited simple VAT administration and reporting as one of the reasons for their merger.

4. Lower Cost Capital

The cost of capital can often be reduced when two firms merge. This is especially so with companies operating on the capital market where costs of issuing securities are subject to economies of scale. It has been observed that the costs of issuing both debt and equity are much lower for larger issue than for smaller issues.

5. Management Acquisition

M & A experts have advised and favoured acquisitions for the purpose of acquiring key management. If a firm finds that it is unable to hire top quality management and that it has none coming up through the ranks, it may seek a combination with another company having aggressive and competent management. To foster the long run wealth of shareholders, the latter may be the only realistic alternative.

6. Growth

This is often mentioned by companies engaged in M & As as the expected benefit for embarking in such an exercise. It is believed that a company may not be able to grow at a fast rate by internal expansion and may find that its only way of achieving a desired growth is by acquiring other companies. The cost of growth by acquisition may well be cheaper than the real cost of internal growth. The numerous costs and risks involved in developing and embarking upon a new product line, or a new research may be avoided through acquisition of a going concern. In addition, it is usually quicker to acquire new products and facilities through mergers than through internal development. Mergers and acquisitions often lead to higher earnings and growth.

February 2004 acquisition of network security provider - NetScreen Technologies Inc., - by Juniper Networks Inc., at a cost of $4 billion in stock, apart from enhancing its earnings and growth was seen as an opportunity to give it the chance to go toe to toe with Cisco Systems Inc. (Pete Lindstrom, 2004).

7. Diversification

This is the motive in some mergers either as a hedge against possible failure or to maximize returns. This is particularly common with conglomerate mergers whereby a manufacturing company for instance, diversifies into an unrelated line of business such as taking an` equity interest in a bank. It is generally believed that by acquiring a firm in a different line of business, a company may be able to reduce cyclical instability in earnings. In 1982 when U.S. Steel adopted an agreement to merge with marathon oil, one of the economic benefits that was listed the shareholders would derive from the merger was an attractive opportunity to diversify into the energy business. Related to the argument for diversification is the notion of spreading risk. To the extent that investors in a company's share are averse to risk and are concerned only with the total risk of the firm, a reduction in earnings instability would have a favourable impact upon share price.

B. Non – Economic Factors
As earlier indicated, many reasons are given by firms to justify M & As. Researches have shown that often the non-economic factors are not disclosed. It is only the economic benefits that are listed in the scheme of merger sent to all shareholders.

Amedu posits that non-economic factors have been found to be of equal importance and they include personal reasons, the fear of being swallowed up, vanity (the desire to be a league table player and/or to be big and global) and novelty (Amedu, 2002).

1. Personal reasons

   The owners of a tightly held (private) company may have too much of their wealth tied up in the company. By merging with a publicly held company, they obtain a market improvement in their liquidity, enabling them to sell some of their shares and diversify their investments. Unlike the previous reasons, this reason relates to specific shareholders as opposed to investors at large. The fear of inevitable collision with the rock or an iceberg has forced some directors to seek for other companies to acquire or to acquire their company. In the face of a persistent turbulent economic environment (characterized by harmful government economic policies, lowering of entry barriers, increases in minimum paid up capital and strong regulations) several owners of tightly held companies have found M & A the best alternative or escape route to an inevitable death of their companies. A few stock broking firms in Nigeria over the past two years quietly offered their companies to be acquired by new entrants. But a few other firms, banks and companies that neglected this option either because of lack of knowledge or pride died avoidable death.

2. The Fear of Being Swallowed Up

   It has become clear that a performing or non-performing company has no hiding place in the market particularly in the western countries. The belief held by several directors is that the market place has turned into a jungle, filled with predators and targets. You either swallow-up (acquire) and become bigger, thereby warding off predators or you get swallowed up (acquired). Previously, it used to be non-performing companies with good value that were target for acquirers but lately, even performing companies and directors are more prime targets. Performing companies include companies with sizeable market share, good cash flows, good EPS, low P/E ratios, or competitors in the same industry or in unrelated industry. Companies that are considered large or multinational in outlook are no longer content with priding themselves as multinational corporations as cross border corporate raiders (mergers and acquisitions) are giving several directors, sleepless nights. A practical example is that of Vodafone's (U.K.) hostile takeover of Mannesman (Germany).

3. Vanity

   Vanity here refers to the desire to be 'big and global' and to be 'a league table player'. This is another reason adduced by some directors of companies in some mergers. Though this is seen as not a very good reason for M & A but the truth is that vanity is one of the undisclosed reasons for mergers. Christoph Von Ungern Sternberg, ex Financial Director of ATECS Mannesmann once disclosed in an interview that a company does not have to be big and global to survive. He said vanity was one of the reasons why some Boards go for M & A activities.

4. Novelty

Another undisclosed reason for mergers and acquisitions is novelty: because others are merging or acquiring let us do same "mentality". In advanced countries, some firms seek merger or embark on acquisition simply because their industry is consolidating. For instance, Daily Mail and General Trust, a U.K. based media giant since 1955 to date have done 100 acquisitions, even though some of them are small outfits or small deals. Part of the reason for the acquisition as disclosed by the company's group treasurer, Andrian Perry in an interview during Second Annual Corporate Finance Forum in London was that their industry (media) is consolidating. Related to this point is the fact that once two companies merge, the new company would instruct all their subsidiaries in other countries to do same. A number of mergers in Nigeria were as a result of mergers of the parent companies in Europe or America. Examples include Mobil and Exxon, Total and Elf, to mention just two of them.

2.4 Why Mergers and Acquisitions Are Regulated

The point had been made that mergers and acquisitions if uncontrolled may lead to emergence of monopolies with attendant negative consequences which may include loss of jobs, asset stripping, etc. However, given that the most obvious reason for opting for a merger/acquisition is to enhance the fortunes of the integrating companies, why then should it be regulated?

Adetunji submits that economic theorists argue that regulation becomes necessary because independent agents in an economy in their drive for economic wealth do produce socially undesirable consequences termed "externalities". These externalities, the theorists argue, create detrimental effect which is passed on to the larger society. While pollution is perhaps the most commonly cited externality, horizontal mergers and acquisitions which may be beneficial to the integrating companies could produce socially undesirable consequences if such integrations restrain competition or lead to monopolies. It is therefore for public interest that mergers and acquisitions are regulated (Adetunji, 1997).

Amedu provides the synopsis for regulating mergers and acquisitions and they essentially include:

1. To provide information and time. Shareholders need full information and proper time to reach a well-considered decision.
2. To ensure equal treatment of all shareholders. Shareholders (within a single class) should be treated equally and fairly.
3. To protect the interest of shareholders. Management of a target company should act in the interest of the shareholders, not in its own self-interest.
4. To promote a fair market. The market should operate in a manner that is fair to all and not discriminatory.
5. Competition policy. Mergers, should not be allowed where the dominant policy (monopoly) or otherwise is not in the public interest (Amedu, 2004).

In order to realize the foregoing, many countries have put in place anti-trust legislations (provisions) to control the growth of "market power" exercised by monopolists and their restrictive practices. For example, Ndanusa remarks that the need to regulate mergers and acquisitions have prompted many developed economies to set up specialized agencies to handle such. For example, he notes that in U.K., there are two separate bodies: "The City Panel on Takeover and Mergers" and "The Monopolies and Mergers Commission" which has been renamed "Competition Commission". In the U.S.A., there is the "The Mergers and Monopolies Commission" (Ndanusa, 2003).

The potency of many regulations bordering on anti-trust provisions was recently played out when The U.S. Justice Department in conjunction with seven states had to step in to block Oracle's hostile $9.4bn takeover of fellow business software company Peoplesoft on the ground that any merger between the two would create a monopoly and stifle competition (BBC News, 2004/02/27).

In Nigeria, to curb the negative tendencies usually associated with uncontrolled mergers and acquisitions, Uduk notes that some basic regulatory statutes on mergers and acquisitions have been put in place. These include:

- Part 10 of Investment and Securities Act (ISA) No. 45, 1999;
- Section 591 of Companies and Allied Matters Act (CAMA), 1990;
- Section 7 of Bank and Other Financial Institutions Act, 1991;
- Sections 30, 47 and 95 of the Insurance Act, 1997; and
- Rules 228-238 of SEC Rules and Regulations pursuant to the ISA (Uduk, 2002).

Specifically, Part 10 of the ISA and Rules 228-238 of SEC empower the Commission to regulate the operations of mergers and acquisitions in Nigeria.

Section 99 (2) particularly provides that "Notwithstanding anything to the contrary contained in any other enactment, every merger, acquisition or business combination between or among companies shall be subject to the prior review and approval of the Commission".

Furthermore, section 99 (3) which contains anti-trust provisions states that "The Commission shall approve any application made under this section if and only if the Commission finds that:

a) Such acquisition, whether directly or indirectly, of the whole or any part of the equity or other share capital or of the whole or any part of the assets of another company, is not likely to cause a substantial restraint of competition or tend to create a monopoly in any line of business enterprise, or
b) The use of such share by voting or granting of proxies or otherwise shall not cause a substantial restraint of competition or tend to create a monopoly in any line of business enterprise (Federal Republic of Nigeria Official Gazette, 1999).

For mergers and acquisitions involving banks which is our focus, in addition to the foregoing and without prejudice to the powers conferred on the Commission, the Central Bank of Nigeria gets involved. Specifically, Section7 of the Banks and Other Financial Institutions Decree (BOFID) No. 25 of 1991 in referring to mergers and acquisitions states: "except with the prior consent of the Governor, no bank shall enter into an agreement or arrangement:

a) which results in a change in the control of the bank;

b) for the sale, disposal or transfer howsoever, of the whole or any part of the business of the bank;
c) for the amalgamation or merger of the bank with any other person;
d) for the reconstruction of the bank; and
e) to employ a management agent or to transfer its business to any such agent

In other words, mergers involving banks require the prior approval of the Central Bank before consent of the Commission can be given.

Regulation in mergers and acquisitions does not end with the consummation of the deals. Though not yet a common feature in Nigeria, post-merger regulation often resulting in sanctions is a routine affair in other economies where M & As are daily occurrences.

In doing a post-deal assessment, Balto notes that the government in U.S.A. looks at three factors: have prices gone up, have efficiencies been established, and is there a remedy that can be implemented (Balto, 2004).

The notion that deal makers can not assume their regulatory headaches are over once the ink on the purchase contract dries, came to the fore recently. In 2004, The FTC in America mounted two challenges to recent consummated mergers.

In January 2004, the Commission approved a consent order stopping **Chicago Bridge & Iron Co. NV** from dismantling or closing any of the facilities it acquired from **PiH – Des Moines Inc**., in an $84 million deal three years ago. The agency has been trying to undo the deal.

In a second challenge to a done deal, the Commission moved in February 2004 to unravel **Evanston Northwestern Healthcare Corp's** acquisition of **Highland Park Hospital**. The two Illinois based hospitals merged in 2000.

In the first case, the agency originally had concerns that the deal illegally combined the two major producers of tanks that store liquid natural gas. On learning that the company planned to close a plant (that might overcome regulatory objections), the FTC staff held that the shutdown would create "substantial new impediments" to restoring competition in the sector. The agency argued that closing the facility would lower the value of divested assets and make it less likely that any buyer would emerge as a successful competitor. A second objection was that the plant shutdown, if done in the midst of an anti-trust battle with the Commission, might signal other companies whose consummated mergers were being challenged that they could sidestep regulators by taking unilateral action that would make divestitures an inadequate tool to maintain competition.

In the second case, the Commission is challenging the Evanston/Highland Park hospital deal on the grounds that the merged hospital imposed anticompetitive price increases (Thomson Media, 2004).

2.5 Procedure and Processes In Packaging M & As In Nigeria

In his well-researched paper, Onwionoko posits that all applications for mergers must be submitted through a capital market operator registered by The Securities and Exchange Commission to undertake the function. The registration of such an operator, he notes, must however be current.

He further asserts that to obtain approval for a scheme of mergers, the application must be processed through the following stages:

1. Pre-Merger notice (to seek Approval – in – principle)
2. Review of Scheme Documents, and Court-ordered meeting
3. Formal Approval
4. Post-Approval Documentation and Filing
5. Post Merger Inspection (Onwionoko, 2003)

The stages will now be taken seriatim.

1. Pre – Merger Notice Stage:

The objective of the Pre-merger notice is to ensure that the post-merger position of the merging companies will not result in a monopoly or restrain competition. This is ably covered under section 99 (3) a and b of the Investments and Securities Act (ISA) elaborated on in the preceding (2.4) section of this work. Companies wishing to merge must file a joint pre-merger notice with the commission through their financial advisers. The following are the documents that should be filed at this stage:

i) A letter of intent from the financial advisers of the merging companies in support of the mergers;
ii) Detailed information memorandum on the proposed scheme and the justification for it. The information should disclose, among others, the following details:
    - Information about product lines and operations of the companies;
    - A list of major competitors in the market and industry, and market Share of each company;
    - The organization structure of the companies;
    - Turnover/Revenue information of the companies;
    - An analysis of the effect of the transaction on the industry including the post-merger Market position or market share of the resultant or surviving company
iii) Memorandum and Articles of Association of the merging companies;
iv) Proposed amendment to the original Memorandum and Articles of Association of the companies (where applicable);
v) Certificate of Incorporation of the merging companies;
vi) Audited Accounts of the merging companies, for the preceding five (5) years or a shorter period if the companies have not been in operation for up to five (5) years;
vii) Payment of a pre-merger notice fee of N50,000. This amount is subject to review as deemed necessary.

After reviewing the foregoing documentation and the Commission is satisfied that the merger will not violate section 99 (3) of the ISA, or the provision of its Rules and Regulations, the Commission would grant the merging companies APPROVAL – IN – PRINCIPLE, which qualifies the applicants to move to the next processing stage of the merger scheme – which is

2. Review of Scheme Document and Court – Ordered Meeting

This stage involves:

- Review and Clearance of Scheme Document by the Commission
- Holding of Court-Ordered Meetings (separate meeting for each of the merging companies).

i. Review and Clearance of Scheme Document:

The approval –in- principle granted in the first stage gives the merging companies the mandate to apply to the court to hold separate court ordered meetings in accordance with S.100 (I) of the ISA.

In preparing for the meeting, the financial advisers of the merging companies would submit to the commission, two copies of draft scheme documents, which would be used at the court-ordered meetings, after it must have been cleared by the Commission.

A scheme document is a disclosure document with detailed information on the merging companies. The purpose of the document is to give shareholders sufficient information about the merger to enable them vote in support or against the scheme. If the commission is satisfied that the required information has been disclosed for the benefit of shareholders, the scheme document would be cleared to enable the companies proceed to hold their separate court-ordered meetings.

Documents to be filed are as follows:

Draft scheme document for review or vetting. The document should contain the following, among others:

i) Separate letters from the chairmen of the merging companies addressed to their respective shareholders

ii) Explanatory statement to the shareholders addressing the following:
   a) Consideration
   b) Conditions Precedent

iii) Reasons for the Proposal

iv) Elements of the scheme:
   a) Rationale of the scheme
   b) Benefits of the scheme
   c) Plans for employees
   d) Capital gains tax
   e) Meetings to approve the scheme and voting rights
   f) Submission of proxy forms
   g) Execution of the scheme

v) Financial effects of the scheme

vi) Further information under appendices

vii) Recommendation of financial advisers to the scheme

For further information required of the merging companies see as listed under appendix A.

ii) The Court-ordered meetings:
At the court-ordered meeting, companies are given the opportunity to vote in support or against the merger using the information provided in the scheme document. Section 100 (2) of ISA states that "if a majority representing not less than three-quarter in value of the share of members being present and voting either in person or by proxy at each of the separate meetings, agree to the scheme, the scheme shall be referred to the commission for approval". Therefore, if the majority shareholders present and voting in accordance with section 100 (2) at the separate meetings support the merger, the scheme is then referred to the Commission for formal approval. The Commission must be notified of the accurate date and time of the meeting because it must witness the resolutions, the court order process and the final order.

3. Formal Approval Stage
At this stage, the merging companies must have held their respective Court-ordered meetings and the statutory majority must have given their consent to the scheme. The directors and all the parties to the scheme must have signed the relevant documents. These documents would then be stamped at the Corporate Affairs Commission (where necessary) before filing with the Commission. The documents include:
a) Two copies of scheme documents duly signed by the parties to the Scheme
b) Evidence of increase in share capital of the emergent company to accommodate any increase in paid-up capital following the share exchange (where applicable)
c) Evidence of payment of registration fees based on the share increase
d) Evidence of shareholders approval of the scheme at their separate court-ordered meeting i.e. the approved resolutions at the shareholders meetings.
e) Stamped powers of attorney of directors who were not present at the meeting (where applicable).
f) Executed financial services agreement between the merging companies and their financial advisers.
g) Filing of allotment proposal (where applicable).
h) Evidence of clearance letter from the Federal Board of Inland Revenue regarding any tax liability (where applicable). Upon the satisfactory submission and review of all these requirements, a FORMAL APPROVAL will be given by the Commission.

4. Post Approval Documentation Stage
At the final stage after the companies have obtained formal approval, the merging companies will apply to the court to sanction the scheme, to make it binding on all the parties. This is in compliance with section 100 (3) of the ISA.

The following documents shall be filed with the Commission:
1 a) A copy of the court order sanctioning the scheme within seven (7) days for registration under section 100 (6) of ISA.
b) A copy of the publication in a National newspaper

c) A copy of the gazetted order in accordance with section 100 (6) of the ISA.
2. A statement of the actual cost of the scheme
3. Notification of the completion of the exercise within three (3) months.

5. Post-Merger Inspection

This is the regulatory duty of the Commission and it is a means of measuring, and ensuring compliance with the terms of the merger as Contained in the scheme document which the Commission had approved. It is generally the duty of financial advisers at this stage to guide their clients adequately in order to ensure implementation of the terms of the merger.

Post-Merger Inspection is carried out three (3) months after consummation of the merger transaction. The objective of the inspection is to check the following:

1. The content of the scheme documents to ensure it was not altered in the course of implementation.
2. All the assets and undertakings of the acquired company have been paid and duly transferred to the acquiring company.
3. That all the liabilities have been treated as earlier provided.
4. That terminal benefits of employees are settled where necessary.
5. That employees that need to be absorbed by the new company have been absorbed.
6. That the minority shareholders have been settled.
7. Where monies were to be injected into the company, the Commission will check for evidence that such monies have been brought in and ascertain how management utilized them.
8. Where creditors were involved, the commission will verify whether they have been settled in accordance with the terms of the scheme documents.
9. Any other matter that needs to be verified during the inspection.

2.6 Averting Rancour in Mergers and Acquisitions

Joan Harrison notes that increasingly, the original price hammered out by an acquirer and target may not be the actual amount that the buyer will pay at deal closing. Extended due diligence, prolonged negotiations, and regulatory hurdles lengthen the time between the signing of the deal agreement and closing, leaving more time for the seller's financial situation to change in mid-deal and increasing the probability that a price adjustment will be needed.

The target's financials may change – positively or negatively – for a variety of reasons, including introduction of new products, gaining or losing of major customers, technological advances, or enactment of new legislation. Thus the price may have to be adjusted up or down to reflect the target's current financial situation. The difference in price often can be significant.

Joan further notes that there are several key points to consider when revising a price. If the target's performance deteriorates, the buyer has to determine whether the change will:

- Be recurring, or is an isolated incident;
- Have a ripple effect on other aspects of the business;
- Impact the target's margins; and
- Affect the company's profitability and/or market reputation.

Conversely, if the target's performance changes for the better, the buyer must determine whether the spike is a one – time blip, or indicative of long – term improvement for the company's bottom line, and whether the target's current growth and profitability can be supported in the future. Of course, the buyer first has to determine whether the change alters the basic fundamentals of the deal, and whether the deal is still worth pursuing (Joan Harrison, 2004).

If the buyer decides to pursue a deal, despite a back slide at the target, the purchase price modification must be delicately handled so as not to become a deal-breaker.

Price adjustments are used to capture the target's true value as of the deal closing date. Experts assert that agreement by both sides on a price adjustment formula early on in negotiations can prevent squabbling later in the deal process should the price needs to be fine-tuned before closing.

The most recognized price adjustments formulas are based on changes in the target's net worth, changes in net working capital, and reconciliation of intercompany accounts at the target. Of them, the most commonly used pre-closing formula, is a net working capital adjustment, which is based on the difference between the target's net working capital as of closing and an agreed-upon net working capital. If the closing net working capital is greater or less than the agreed-on net working capital, there usually will be a naira-for-naira (or dollar-for-dollar) adjustment to the original price.

2.7 Mergers and Acquisitions (M & As) In Nigeria Prior To 2005

Amedu (2004) is of the opinion that despite the disagreement among Nigerian financial scholars as to the precise date when M & A was consummated in Nigeria, there is a general consensus that only a few M & As was recorded between 1960 and 1990. This, he attributes to the fact that being a new concept and specialized field of study in Finance in Nigeria within the period (1960-1990) and owing to the fact that the economy was experiencing some boom and coupled with the introduction by the Federal Government of Nigeria of Indigenization decree in 1975, several financial experts and directors gave little or consideration to the issue of mergers and acquisitions.

In agreeing with the low level of M & A activity in Nigeria, Ewubare (2003) posits that two critical factors, namely cultural and absence of credible legal system are responsible for the phenomenon. He sees the relatively new phenomenon of organized commercial enterprise hinged on the foundation of the joint stock company as the *raison d'etre* behind the first factor. For the second factor, he opines that a judicial environment like what obtains in Nigeria where one cannot file a lawsuit and obtain judgment expeditiously gives one little faith in the ability of such a system to protect one's justified expectations which is the bedrock of law of contract and by extension mergers and acquisitions.

On his part, Olajide (2004), reports that the governor of Central Bank of Nigeria in advocating mergers and acquisitions as a vehicle for ensuring strong banking industry believes that the concept is not entirely new in the industry since some cases had been recorded in the past involving some banks like the Magnum Trust Bank that was once acquired by Guaranty Trust Bank, Equity Nigerian Bank by Intercontinental Bank and African Continental Bank by Citizens International Bank, Diamond Bank and Hallmark Bank respectively. However, he notes that Nigeria is yet to fully exploit the opportunity presented by the option as there still exists a large number of small players in the industry often resulting in crisis and unfair competition. While noting the merits of mergers and acquisitions in the industry which include the creation of a very large and complex financial institutions that increase the demand for information, improved transparency and market discipline and later lower individual firm's risk and financial stability, the governor nevertheless cautions that it could substantially reduce competition, quality as well as cost of financial services.

Equally, Peterside (2003), notes that since the 1990s some M & As have been recorded in several sectors of the Nigerian economy. The major ones are listed below:

Table 2.2.6. Major M & As In Nigeria Prior to 2005

Industry	Year	Transaction
Conglomerates	1993	Merger of A.G. Leventis & co (Nig) Plc with Leventis Technical Plc and Leventis Motors Plc.
	1995	Merger of Unilever (Nig) Ltd with Lever Brothers Nig Plc. Restructuring of UAC of Nigeria Plc ("UAC") resulting in the creation of Unilever Nig Ltd and Tractor & Equipment Nig Ltd.
	1996	Merger of Thermocool Engineering co. Plc with Paterson Zochonis Industries Plc.
	1998	De-merger of UAC which resulted in the transfer of all the investment properties previously managed and maintained by UAC's Property Division to UACN Property Development Co Plc
	2001	Merger of Paterson Zochonis Industries Plc with Paterson Zochonis Nig Plc, Ekopak Nig Plc and Grove Properties Ltd.
Insurance	1994	Merger of United Nigeria Insurance Co Plc with United Nigeria Life & General Insurance Plc
Banking	1995	Acquisition of 75% of Citi Trust Merchant Bank Ltd (later Union Merchant Bank Ltd) by Union Bank of Nigeria Plc.
	1996	Acquisition of 70% of Meridien Equity Bank of Nig. Ltd (later Equity Bank of Nig. Ltd) by Nigerian Intercontinental Merchant Bank Ltd (later Intercontinental Bank Plc). Acquisition of 100% of Magnum Trust Bank Ltd by Guaranty Trust Bank Ltd
	1997	Acquisition of 100% of Nigeria- Arab Bank Plc (later Assurance

		Bank Plc) by National Insurance Corporation of Nigeria
	1998	Acquisition of 48.9% of Stanbic Merchant Bank Nig. Ltd by SBIC Africa Holdings Ltd.
	2003	Acquisition of 51% of Continental Trust Bank by Standard Trust Bank Plc.
Packaging	1997	Merger of Carnaud Metal Box Nig Plc with Canmakers Nig Ltd and The Crown Cork and Seal Co (Nig) Ltd.
Healthcare	1996	Merger of Smithkline Beecham Nig Plc with Sterling Products (Nig) Plc
Textiles	2001	Merger of United Nigerian Textiles Plc with Nichemtex Industries Plc
Food & Beverages	1996	Merger of Nigerian Bottling Co Plc with Sapanda Industries Ltd. Merger of Nestle Foods Nig Plc with Nestle Nig. Ltd.
Oil & Gas	2000	Acquisition of 30% of Unipetrol Nig. Plc by Ocean & Oil Services Ltd. Acquisition of 60% of National Oil and Chemical Marketing Plc by Conpetro Ltd. Acquisition of 30% of African Petroleum Plc by Sadiq Petroleum Ltd.
	2001	Merger of Total Nig. Plc with Elf Oil Nig. Ltd
	2003	Merger of Unipetrol Nig Plc with Agip Nig. Plc.

M & As in Nigeria within the era were typically undertaken under the following scenarios:

1. Where a major shareholder of a company seeks to acquire a controlling equity stake in the company e.g. SBIC Africa Holdings Limited's acquisition of a 48.9% equity stake in Stanbic Merchant Bank Nigeria Limited in addition to the 40% already held.

2. Acquisition of the shareholding of Federal and State governments in Companies via Privatisation Programmes. Examples include:
   - Acquisition by Scancem International ANS of 40% shareholding in cement company of Northern Nigeria Plc
   - Acquisition by Blue Circle Industries of 49.6% shareholding in West African Portland Cement Plc
   - Acquisition by Ocean & Oil Services Limited of 30% shareholding in Unipetrol Nigeria Plc

3. Merger of Companies in which one of the companies is a shareholder in the other e.g.
   - Merger of Agip Nigeria Plc (“Agip”) and Unipetrol Nigeria Plc (“Unipetrol”)
   - Merger of Sapanda Industries Limited (“SIL”) with Nigerian Bottling Co Plc (“NBC”) in which NBC held 40% equity in SIL.

4. Merger of companies that have common principal shareholders e.g.
   - Merger of Nichemtex Industries Plc with United Nigerian Textiles Plc (“UNT”)
   - Merger of Thermocool Engineering Co Plc (“TEC”) with Paterson Zochonis Industries (“PZI”) in which Paterson Zochonis Plc, Manchester held 60% and 40% in the respective companies.
   - Merger of Sterling Products (Nig) Plc (“SPN”) with Smithkline Beecham Nigeria Plc (“Smithkline Beecham”). Both companies had a common overseas shareholder in Smithkline Beecham Plc, U.k.
   - Merger of Elf Oil Nig. Ltd. (“Elf Oil”) with Total Nig. Plc (“Total”) in which TotalFinaElf Group held 60% and 67% of the Share Capital of Total and Elf Oil respectively.
   - Merger of Leventis Technical Plc and Leventis Motors Plc with AG Leventis (Nigeria) Plc in 1993 (Adetona, 2003).

5. Merger of Companies in the same line of business and in direct competition i.e. horizontal mergers e.g.
   - Merger of Agip with Unipetrol
   - Merger of SPN with Smithkline Beecham
   - Merger of Continental Breweries Ltd. with Eastern Breweries Plc

6. Merger of Companies in different lines of business e.g. the merger of TEC with PZI.

7. Multiple Mergers
   - Merger of PZI, Paterson Zochonis Nigeria Plc (“PZN”), Ekopak Nigeria Plc (“Ekopak”) and Grove Properties Ltd (“Grove Properties”). PZN, Ekopak and Grove Properties were virtually 100% owned subsidiaries of PZI.
   - Merger of Canmakers Nigeria Limited (“CNL”) and The Crown Cork & Seal Company (Nig) Ltd (“CCSL”) with Carnaud Metal box Nigeria Plc (“CMB”).

8. Acquiring majority shareholding as a way of bailing out an ailing company in the same line of business e.g.
   - Acquisition of 70% of Meridien Equity Bank of Nigeria Limited (later Equity Bank of Nigeria Limited) by Nigerian Intercontinental Merchant Bank Limited (later Intercontinental Bank Plc).
   - Acquisition of 100% of Magnum Trust Bank Limited by Guaranty Trust Bank Limited.

- Acquisition of 51% of Continental Trust Bank by Standard Trust Bank Plc.

9. Acquiring of majority shareholding as a way of bailing out an ailing company in similar line of business by leveraging on something e.g.
    - Acquisition of 75% of Citi Trust Merchant Bank Limited (later Union Merchant Bank Ltd) by Union Bank of Nigeria Plc as a way of getting into merchant banking via the licence of the former.

10. Where merger is induced as a means of restructuring and reorganizing some institutions e.g.
    - Federal Government of Nigeria's induce merger of Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) to form the Bank of Industry (BOI).
    - The induced merger of Nigeria Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP) to form Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB).
    - Nigerian National Mortgage Bank (NinamBank) formed from the merger of Federal Mortgage Bank of Nigeria (FMBN) and the Federal Mortgage Finance Ltd (FMFL).

11. Fallout of overseas mergers, resulting in the combination of local operations of the companies involved e.g. the merger of Elf Oil Nigeria Limited with Total Nigeria Plc to form TotalFinaElf Nigeria

12. Spin offs
    - UAC of Nigeria Plc ("UACN") "sold" one of its divisions, A.J.Seward to Unilever Plc. The assets were taken over by Unilever Nigeria Limited ("UNL"), a wholly owned subsidiary of Unilever Plc.
    - Tractor & Equipment Nigeria Limited ("T & E") took over the assets and liabilities of the Tractor & Equipment division of UACN.

13. Management Buy Outs
    - Nigeria Reinsurance Corporation ("Nigeria Re") was acquired by the Reinsurance Acquisition Group, a special purpose vehicle by the existing management of Nigeria Re, under the privatization programme of the Federal Government of Nigeria.
    - The management Buy-out of Pfizer in 1999 resulted in the creation of Neimeth International Pharmaceuticals Plc.

14. Mergers/Acquisitions as a result of policy directive e.g. CBN's recent directive on Banks' recapitalization:

A total of 25 banks emerged as at December 31, 2005; having met the minimum capital base of N25 billion (The Guardian, 2006). Of this number, however, 19 emerged as products of M & As. These are:

- Access Bank Group comprising Access Bank, Marina International Bank and Capital Bank International
- Afribank Group comprising of Afribank Plc and Afribank International (Merchant Bankers)
- Diamond Bank Plc comprising of Diamond Bank Plc, Lion Bank Plc and African International Bank
- ETB Group comprising of ETB and Devcom Bank
- FCMB Group comprising of FCMB Plc, Co-operative Development Bank and Nigerian American Bank
- Fidelity Bank Plc comprising of Fidelity Bank, FSB Bank and Manny Bank
- First Bank Plc comprising of First Bank Plc, FBN (Merchant Bankers) and MBC International Bank
- First Inland Bank Plc comprising of First Atlantic Bank, Inland Bank, NUB, New African Bank and IMB
- IBTC Chartered Bank comprising IBTC Plc, Chartered Bank and Regent Bank
- Intercontinental Bank Plc comprising Intercontinental Bank Plc, Equity Bank, Global Bank and Gateway Bank
- Oceanic Bank International Plc comprising Oceanic Bank and International Trust Bank
- PHB Plc comprising of Platinum Bank and Habib Bank
- Skye Bank Plc comprising of Prudent Bank, EIB International Bank, Bond Bank and Reliance Bank
- Spring Bank Plc comprising of Omega Bank, Trans-International Bank, Fountain Trust Bank, Citizens International Bank, Guardian Express and ACB International Bank
- Sterling Bank Plc comprising NBM Bank, NAL Bank Plc, Magnum Trust Bank, Indo-Nigeria Bank and Trust Bank
- UBA Plc comprising of UBA Bank Plc, Standard Bank Plc and Continental Trust Bank
- Union Bank Plc comprising of Union Bank Plc, Union Merchant Bankers, UTB Plc and Broad Bank
- Unity Bank made up of Centre-Point Bank, Cooperative Bank Plc, First Interstate Bank, Intercity Bank, Midas Bank, NNB Bank, Pacific Bank, Societe Bancaire Bank and Tropical Commercial Bank
- Wema Bank Plc comprising of Wema Bank Plc and National Bank

2.8 Mergers and Acquisitions (M & As) in other Climes Within The Era

The recently concluded M & As in the Banking industry in Nigeria has opened up the economic landscape of Nigeria to the possibilities inherent in M & As. A subject hitherto alien to many

Nigerians has suddenly assumed a topical issue among them. So far the subject has been limited to Nigerian companies.

In other economies however, the subject is almost a daily affair. Companies in a particular economy carry out M & As amongst themselves, acquire others abroad and have others acquire them internally. Some recent examples in the U.S.A. will suffice for this purpose (Thomson media, 2004).

a) M & As in U.S.A.

i. Computer & Data Processing Services (Prepackaged Software)

- Acquirer: Agilysys Inc., Mayfield Heights, Ohio (an electronics & computers company)
  Target: Inter-America Data Inc., Lawrenceville, Georgia (a software company)
  Terms: Agilysys Inc., acquired Inter-America Data Inc., for $36.5 million in cash.
  Deal was completed 17th February, 2004.

- Acquirer: Bank of America Corp. Charlotte, North Carolina (is into banking & other financial services)
  Target: Direct Access Financial Corp., Frisco, Texas (is a direct-access trading technology software company)
  Terms: Bank of America Corp., acquired Direct Access Financial Corp., for undisclosed terms.
  Deal was concluded 24th February, 2004.

- Acquirer: BMC Software Inc., Houston, Texas (is an application services provider)
  Target: Network Associates Inc., (magic solutions Inc.), Paramas, New Jersey (is a Help-desk software company)
  Terms: BMC Software Inc., acquired Magic Solutions from Network Associates for an estimated $47 million in cash.
  Deal was sealed 2nd February, 2004

- Acquirer: CDW Corp., Vernon Hills, Illinois (is into computer products)
  Target: T3 Corp. (Scientific Information Technology) Virginia (is an IT services company)
  Terms: CDW Govt Inc., a unit of CDW Corp acquired the scientific infor tech products division of T3. Terms not disclosed.
  Deal completed 5th February, 2004.

- Acquirer: Melita Inter. Inc., Norcross, Georgia (is a customer management services company)

Target: Concerto Software Inc., Westford, Massachusetts (is into customer interaction management software business)
Terms: Melita Inter. Inc., merged into Concerto Software Inc., for $12 per share, or a total value of $140.9 million.
Deal was completed 18th February, 2004.

- Acquirer: Network Appliance Inc., Sunnyvale, California (is into Network data storage services)
  Target: Spinnaker Networks Inc., Pittsburgh, Pennsylvania (is into software business)
  Terms: Network Appliance Inc., acquired Spinnaker Networks Inc., for an estimated $300 million in stock.
  Deal was completed 18th February, 2004.

ii. Hotels & Motels

- Acquirer: Investor Group (is an investment outfit)
  Target: Telluride Ski & Golf Co (75%), Telluride, Colorado (is a ski & golf resort)
  Terms: An investor group composed of Chuck and Chad Horning acquired a 75% interest in Telluride Ski & Golf.
  Terms: not disclosed.
  Deal was completed 19th February, 2004.

- Acquirer: New Frontier Resorts Inc., Scottsdale, Arizona (is into resorts business)
  Target: Discover Resorts International Inc., Scottsdale, Arizona (is into resorts business)
  Terms: New Frontier Resorts acquired Discover Resorts International.
  Terms: not discovered.
  Deal was completed 2nd February, 2004.

iii. Depository Institutions

- Acquirer: Albama National Bancorp Birmingham, Alabama (is a bank holding company)
  Target: Indian River Banking Co. Vero Beach, Florida (is a bank holding company)
  Terms: Albama National Bancorp acquired Indian River Banking Co. in a stock swap valued at $112 million. Albama National issued 0.9408 share per Indian River share held.
  Deal was completed 27th February, 2004.

- Acquirer: Southwest Bancorp of Texas Inc., Houston, Texas (is a bank holding company)
  Target: Reunion Banc shares Inc., Dallas, Texas (is a bank holding company)

Terms: Southwest Bancorp merged with Reunion Banc Shares, holding company for lone star Bank in a $50 million transaction
Deal was completed 2nd February, 2004.

- Acquirer: Boston Private Financial Holdings Inc., Boston, Massachusetts (is a bank holding company)
  Target: First State Bancorp Albuquerque, New Mexico (is a bank holding company)
  Terms: Boston Private Financial Holdings Inc., acquired First State Bancorp for $32.5 million. Boston paid 0.755 share and $2.76 in cash per First State Share.
  Deal completed 17th February, 2004.

b. Foreign Acquisitions in the U.S:
Chemical & Allied Products and Pharmaceutical Preparations

- Acquirer: Rhone Capital LLC, France (is an open-ended investment fund company)
  Target: Alcoa Inc., (Alcoa Specially Chemicals Inc), Vidalia, Louisiana (is an Alumina & other chemicals company)
  Terms: Rhone Capital LLC acquired Alcoa Specially Chemicals from Alcoa's 6096 owned unit, Alcoa World Alumina & Chemicals, for an estimated $342 million, including the assumption of liabilities.
  Deal was concluded 27th February, 2004.

- Acquirer: Roche Holding AG Basel, Switzerland (is into pharmaceuticals business)
  Target: IGEN Int. Inc., Gaithersburg, MD (is a biological systems company)
  Terms: Roche acquired IGEN for $47.25 in cash per share, or a total value of $1.23 billion. Concurrently, IGEN spun off of its BioVeris Corp subsidiary to shareholders.
  Deal was completed 13th February, 2004.

c. U.S. Acquisitions Abroad

- Acquirer: Dow Chemical Co. Midland, MI (is into chemical products business)
  Target: Celanese AG (Acrylates Business) Kronberg, Germany
  Terms: Dow acquired acrylates business of Celanese for an estimated $168.3 million.
  Deal was completed Ist February, 2004.

- Acquirer: H.J. Heinz Co. Pittsburgh, PA (is into canned and frozen foods business)
  Target: Unifine Richardson BV (Canadian assets), St. Marys, Canada (is into sugar beets)
  Terms: Heinz, a unit of H.J. Heinz acquired the Canadian assets of Unifine Richardson, a unit of cooperatie consum UH of the Netherlands. Details not disclosed.
  Deal was completed 4th February, 2004.

- Acquirer: Global Payments Inc., Atlanta, GA (is into payment processing business)
  Target: Societe Generale SA (Muzo: 52.6%) Prague, Czech Republic (is into card payment services)
  Terms: Global Payments Inc. acquired a 52.6% interest in Muzo from the Komercni Banka AS of Societe Generale for $37.7 million.
  Deal was completed 20th February, 2004.

- Acquirer: Intrado Inc. Boulder, CO (is a systems engineering services company)
  Target: bmd Wireless Ag, Zug, Switzerland (is into software for wireless operators)
  Terms: Intrado Inc. acquired bmd wireless for an estimated $26.7 million - $4.2 million in cash, $5 million in profit related payments, and 725,000 shares valued at $17.5 million.
  Deal was completed 26th February, 2004.

- Acquirer: Amdocs Ltd. Chesterfield, MT (is an information system services company)
  Target: Xacct Technologies Ltd. Ramat Gan, Israel (is into software business)
  Terms: Amdocs acquired Xacct for an estimated $26.1 million - $13.5 million in cash and 561,000 shares valued at $12.6 million.
  Deal was completed 19th February, 2004.

2.9 Latest Global Trends In M & A

Being a highly dynamic and fluid subject, Mergers and Acquisitions (M & A) has continued to expand both in content and lexicology as the following will depict:

1. "Acqui-hire": This is a new terminology in M & A and is used to refer to acquisitions where the acquiring company seeks to obtain the target company's talent, rather than their products (which are often discontinued as part of the acquisition so the team can focus on projects for their new employer). In recent years, these types of acquisitions have become common in the technology industry, where major web companies such as Facebook, Twitter, and Yahoo! have frequently used talent acquisition to add expertise in particular areas to their workforces (Hof, 2014 & Wall Street Journal, 2014).

The thrust of the concept is that buyers aren't necessarily hungry for the target companies' hard assets. Some are more interested in acquiring thoughts, methodologies, people and relationships. Paul Graham (2005) is probably the first to recognize this in his 2005 essay "Hiring is obsolete", in which he theorizes that the free market is better at identifying talent, and that traditional hiring practices do not follow the principles of free market because they depend a lot upon credentials and university degrees. He can be credited to be the first to identify the trend in which large companies such as Google, Yahoo! or Microsoft were choosing to acquire startups instead of hiring new recruits.

Many companies are being bought for their patents, licenses, market share, name brand, research staff, methods, customer base and culture. Soft capital, like this, is very perishable, fragile, and fluid. Integrating it usually takes more finesse and expertise than integrating machines, real estate, inventory and other tangibles.

2. "New Era of Global Economic Discovery": Ayisi-Cromwell (2012) is reputed to be at the forefront of those that coined the phrase to underline the surge in global cross border M & As due to rise of globalization.

It has been estimated that in 1997 alone, there were over 2,333 cross-border transactions, worth a total of approximately $298 billion. Though the vast literature on empirical studies over value creation in cross-border M & A is not conclusive, it points to higher returns in cross-border M & As compared to domestic ones when the acquirer firm has the capability to exploit resources and knowledge of the target's firm and of handling challenges (Wikipedia).

Notwithstanding, the complexities inherent in sometimes securing regulatory approvals in some countries, the surge in global cross-border M & A has continued unabated. For example, in little more than a decade, M & A deals in China increased by a factor of 20, from 69 in 2000 to more than 1,300 in 2013 (Luedi, T., et al).

In 2014, Europe registered its highest levels of M & A deal activity since the financial crisis that erupted in 2007/2008. Driven by U.S.A and Asian acquirers, inbound M & A, at $320.6 billion, reached record highs by both deal value and deal count since 2001(Corte, L. et.al). Approximately, 23 per cent of the 416 deals announced in the U.S. M & A market in 2014 involved non-U.S. acquirers (Gerstein, M., et al.)

In Nigeria, the most recent cross-border M & A recorded was the one that involved Dangote Flour Mills Plc and a South African firm –Tiger Branded Consumer Goods – in 2012, in which the latter acquired the former to the tune of nearly $200 million (West Africa Business News, 2016). The deal had since ran into troubled waters and Dangote Flour Mills Plc has in a dramatic fashion re-acquired Tiger Branded Consumer Goods in the second quarter of 2016 to the Tune of about N10 billion; having acquired 80% stake in the company.

If Nigeria, reputed to be the largest economy in Africa, until July 2016 (having yielded the top spot to South Africa) has recorded only one known cross-border M & A in recent times and with a company in an economy of equal size, it is obvious what is happening in other emerging economies. Juxtaposing what has been highlighted above in the more mature economies and what is going on in the emerging ones of which Nigeria and South Africa are good representatives, the difference is hugely clear; while the former have imbibed M & A as a way of corporate life both within and cross-border, the latter at best regard it as last resort strategy for corporate survival, sometimes under compulsion.

In various studies conducted, some scholars and researchers have narrowed down differences between more mature and emerging economies in a M & A perspective to a less developed system of property rights in the latter (Alchian, Armen & Harold Demsetz); less reliable financial information (Feng Chen et. al); cultural differences in negotiations (Laurence J. Brahm); and a higher degree of competition for the best targets.

3. Biggest M & As of the year: though many market watchers have predicted that 2016 will be a robust year for M & As, largely boosted by a series of smaller deals, it is however, not expected to equal or surpass 2015's figures, when deal volume skyrocketed above $5 trillion, buoyed by several mega-deals – some of which have since fallen through. So far, numbers suggest the predictions are on track. In 2016, U.S. Mergers and Acquisitions value total about $642 billion in first half of the year, 18% lower from the same period in 2015 - $786 billion (Lucinda, S. 2016, quoting Dealogic).
Lucinda, S (2016) further lists 12 Biggest M & As so far in 2016 as Follows:

i. Sherwin-Williams takeover of Valspar for $11.3 billion in March in the Basic Materials Sector.

ii. Merger between Northstar Asset Management Group, its former parent Northstar Realty Finance, and Colony Capital for $11.3 billion in early June in the Finance Sector. The combined company is to be named Colony Northstar.

iii. The $11.4 billion acquisition of Fortis by ITC Holdings announced in February in the Electric Utility Sector

iv. Great Plains Energy's bid for Westar Energy worth $12.2 billion, also in the Electrical Utilities Sector in late May

v. The $12.4 billion acquisition of ADT by Protection 1 in the Security Sector in February

vi. A $12.8 billion merger between IMS Health Holdings and Quintiles Transnational Holdings in the Biotech Sector

vii. The $13.2 billion acquisition in March of Columbia Pipeline Group by TransCanada in the Oil and Gas Sector.

viii. The $13.6 billion bid in March to buy Starwood by Marriott International in the Service Sector

ix. The $16.6 billion deal in January for Tyco International by Johnson Controls in the Auto Parts Sector

x. The $28.1 billion acquisition of Linkedln by Microsoft In the Tech Sector on Monday, the 15th day of August, 2016

xi. The $30.6 billion bid in April for St. Jude Medical by Abbott Laboratories in the Medical Appliances and Equipment Industry.

xii. The $32 billion deal between Shire and Baxalta in the Pharmaceuticals Industry.

4. The Situation in Nigeria - Post 2005: since the induced M & A in the banking industry by the Central Bank of Nigeria (CBN) in 2005 that shook the lethargy of corporates to the subject, not much has happened thereafter to the economic landscape of the country in respect of M & A.

So far, the number of deals consummated has been abysmally far and in-between. This contrasts sharply with the situation in an economy like the U.S. where a single company like Google has as at June 2016, acquired over 190 companies with its largest acquisition being the purchase of Motorola mobility, a mobile device manufacturing company, for $12.5 billion (Wikipedia). Apart from the deal between Dangote Flourmills Plc and Tiger Branded Consumer Goods that has been highlighted, the number of worthy M & A executed after the 'implosion' of 2005 can be counted on the proverbial finger-tips.

In the Banking Industry, for example, where one expects to see a flurry of activities in that respect on the back of the 2005 episode, not much has been witnessed. Save for Skye Bank Plc acquisition of Main Street Bank in 2014 (Skye Bank Website) under offer by Assets Management Corporation of Nigeria (AMCON), most have been outright sales to new investors as directed by AMCON & CBN.

Other recent notable M & A in Nigeria include the acquisition by Suntory Beverage and Food Nigeria Limited of GlaxoSmithKlineConsumer Nigeria Plc's drinks business in May 2016 to the tune of about N15.767 billion ($79.2 million) (Festus Odume, 2016); theconclusion of the scheme of merger in May 2016 between two quoted companies on the Nigerian Stock Exchange (NSE); Vitafoam Plc and Vono Products Nig. Plc, in which the former acquired the latter's entire 563,651,183 ordinary shares listed on the NSE (NSE, 2016); and the on-going acquisition arrangement between Lafarge Africa Plc (formerly West Africa Portland Cement Company Plc - WAPCO Plc) and Ashaka Cement Company Plc, where the former will have majority equity stake in the latter at the conclusion of the deal.

2.10 Summary

In this Chapter, both the theoretical and practical framework of the subject have been established.

It was observed that though the concept of mergers and acquisitions (M & As) has been given varied treatments by different individuals and/or institutions but the substance essentially remains the same.

The popular three types of mergers and acquisitions, namely the Horizontal, Vertical and Conglomerate were identified and treated with some examples drawn from Nigerian experience.

The reasons and invariably the benefits for engaging in mergers and acquisitions were explored. These as noted can be categorized into economic and non-economic with the former ranging from Income enhancement to Diversification and the latter with factors ranging from Personal to Novelty.

Considering the tendency of many a merger and acquisition to degenerate into monopolies if not controlled, the whys and wherefores for regulating same were given more than cursory treatment. Anti-trust legislations as they exist in other economies were noted with those of Nigeria given adequate and prominent consideration. These include sections of the Investment and Securities Act (ISA) No. 45, 1999 dealing with the subject; the relevant section (section 7) of Bank and Other Financial Institutions Act, 1991 dealing with the subject as it pertains especially to Banks; the relevant sections of Companies and Allied Matters Act (CAMA), 1990; relevant sections of the Insurance Act, 1997 and relevant portions of SEC Rules and Regulations pursuant to the ISA. Post-merger regulations were also given adequate attention.

The Procedure and Processes involved in Packaging M & As in Nigeria was given in-depth treatment. Each of the five identified Stages, namely Pre-Merger notice; Review of Scheme documents and Court-ordered meeting; Formal Approval Stage; Post-Approval documentation and filing; and Post Merger Inspection involved in the processing of mergers and applications in Nigeria was discussed in detail.

Steps to be taken in order to avoid unnecessary squabbles that may arise from M & As were highlighted, especially when there is prolonged due diligence before the deal is consummated.

The Chapter also looked at the major mergers and acquisitions that have taken place in Nigeria spanning several sectors of the economy, prior to 2005 – the cut-off date for this study. The scenarios under which they were undertaken were painstakingly and lucidly highlighted.

M & As in other climes and involving trans-national deals within the era under study were presented.

Notwithstanding that the study has a cut-off date, the chapter concluded by examining the latest global trends in M & A, without relegating the Nigerian situation and indeed other emerging economies to the background.

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CHAPTER 3

METHODOLOGY

3.1 Introduction

Research methods are those procedures and operations to be used in the process of collecting and analyzing facts. In this chapter, this statement is put into operation by focusing attention on the study's Research Design, Sampling Procedure, Questionnaire Design, and Data Collection and Analysis.

3.2 Research Design

A research design of an empirical investigation is equated to the structure of a house. In effect, the research design is seen as the structural framework underlying the factual answer for a proposed research question. Of necessity, this structure has two basic components: 1) test conditions and 2) implications (Jacobson, 1976)

As an example, let us take one of our research questions: the one dealing with fear of dilution in ownership structure inherent in mergers and acquisitions amongst banks in Nigeria – research question 2. It is being assumed that the fear of ownership dilution is more pronounced amongst banks that did not merge with others than those that did. Thus, the framing of the research question: "Is it true that fear of dilution in ownership structure inherent in mergers and acquisitions is more pronounced amongst banks that did not merge with others than those that did?" is aimed at forming the basis for determining the accuracy of this assumption. The specific nature of these two categories of banks would qualify as the test conditions, whereas the implications of this assumption with respect to this particular question are that banks under these two categories would, *ceteris paribus*, indicate strong aversion to ownership dilution along the lines of very strongly, quite strongly, strongly, not strongly, or not at all, without the answers from a particular category skewing in just one direction.

In sourcing empirical answers to the research questions, reliance was placed on primary mode of data collection. The main advantage of this is that the exact information wanted would be obtained (Osuala, 1987). In this connection, questionnaire method was extensively used. Furthermore, in so far as the study would use qualitative data for analysis, the adoption of case study approach is justified (Goode and Hatt, 1952).

3.3 Sampling Procedure

Naturally, the first task will be to identify the eligible subjects for the study. This however, will not prove a difficult task as the number of banks in operation prior to December 31, 2005 was well known. 89 (eighty nine) banks, albeit in varying financial health and conditions were known to be in operation in Nigeria as at the period (NDIC, 2004).

Selecting the Sample : A sample is a collection of objects constituting only a portion of the entire assemblage of objects called population or universe (Jacobson, 1976).

In our own situation, however, we consider the scope not too great and therefore the survey of the entire population not unreasonable (Osuala, 1987). Consequently, instead of carrying out sampling of the population, the study covered the entire 25 banks (majority of which were products of mergers and acquisitions – 19 in all) that met the Central Bank of Nigeria's (CBN's) minimum capital base of N25 billion and the 14 banks that were not able to do so as at December 31, 2005 and were later liquidated (please see Appendices C and D respectively). The only sampling undertaken was to stratify the population into banks that merged with others on one side and banks that did not on the other (please see Appendices E and F respectively). This is in response to two of the research questions (questions 2 and 3 respectively) and the testing of the corresponding hypotheses (hypotheses 2 and 3 respectively). It is instructive to note that the two categories taken individually would sum up to the total population of 89 banks, though the sampling and the attendant stratification reduced the number to a total of 39 banks broken into 19 and 20 banks respectively (i.e. those that merged with others and those that did not).

The decision on entire coverage was informed by the fact that not all the questionnaires that would be sent out might be responded to as requested.

3.4 Questionnaire Design

The questionnaire was of both closed and open form in design, as shown in appendix H.

The former (i.e. closed) embodied structured items and was designed to help this researcher arrive at some findings which are central to the study. It was also designed from the perspective of helping to carry out efficiently, the quantification and analysis of results (Borg and Gall, 1979).

The latter form being unstructured was designed to allow respondents freedom in supplying answers without being 'strait – jacketed' to the researcher's prejudices and predilections.

As a veritable way of securing optimum co – operation of the respondents, strict confidentiality (please see appendix G) was pledged to their answers and as such they were not required, for instance, to state the names of their organizations.

3.5 Data Collection and Techniques For Analysis

The data collection instrument applied was the questionnaire. Personally administered (but not scheduled) method was employed. Reliance was not placed at all on mailed mode. This was to avoid the unsatisfactory nature inherent therein, which arises mainly when securing returns (Harper, 1971).

Though respondents had the option of returning their completed questionnaires through post, deliberate efforts were made to vitiate this. Attempts were made to collect them back and where respondents indicated otherwise, they were encouraged to return them through their mail messengers ('mail despatchers').

In selecting the techniques for the analyses of data, attention was paid to the characteristics of the chosen statistical tools and the framing of the questions requiring the tools. Four research questions which would be used in testing the hypotheses had already been formulated. These questions formed the bases for some of the questions posed in the questionnaire. It is the answers from these questions that would be analysed using the following statistical tools: Wilcoxon One – Sample Signed – Ranks Test; The Chi – Square Distribution; and Analysis of Variance.

To analyze responses from questions 2 and 13 of the questionnaire which formed the bases for resolving research questions 1 and 4 (please see section 1.4 of chapter 1), Wilcoxon One – Sample Signed – Ranks Test was found suitable. This suitability is because we are dealing with large sample of a population, where $n > 20$, and the data to be obtained were of a higher level than an ordinal scale. Furthermore, The Wilcoxon One – Sample Signed – Ranks deals with both direction and magnitude, that is, the test statistic does not just consider whether an observed value is larger or smaller but also by how much larger or smaller (Berenson and Levine, 1979).

To perform the test, Berenson and Levine posit that ranks *Ri* from 1 to *n* be assigned to observations in data generated, such that the smallest score gets rank 1 and the largest gets rank *n*. However, if two or more values are tied, we assign each the average of the ranks that would otherwise have been assigned. The Wilcoxon test statistic *W* is then obtained as the sum of the ranks denoted as:

$$W = \sum_{i=1}^{n} Ri(+)$$

For large observations such as the ones involving our study where n > 20, the test statistic *W* is deemed approximately normally distributed, and the following large sample approximation formula may be used for testing the null hypothesis:

$$Z \cong \frac{w - \mu w}{\sigma w}$$

where w = sum of the ranks (i.e. positive) ; $W = \sum_{i=1}^{n} Ri\,(+ 1)$

μ w = mean value of w; $\mu w = \frac{n(n + 1)}{4}$

σ w = standard deviation of w; $\sigma w = \sqrt{\frac{n(n + 1)(2n + 1)}{24}}$

n = number of non-zero absolute difference scores in sample

that is, $w - \underline{n(n + 1)}$

$$Z \cong \frac{4}{\sqrt{\frac{n(n+1)(2n+1)}{24}}}$$

and, based on the level of significance selected, which for the entire work is based on 5% (i.e. α = 0.05%), the null hypothesis may be rejected if the computed Z value falls in the appropriate region of rejection depending on whether a two – tailed or one – tailed test is used.

As a result of the independent nature of the answer required in question 8 of the questionnaire (which forms the basis for resolving research question 3), which must perforce be in either the affirmative or negative form, a measure based uponthe concept of statistical independence was sought for. In this regard, the Chi –Square ($\chi 2$) statistical tool was found most appropriate (Mills, 1977). This is a well-known statistical measure utilizing the principle of the observed frequencies deviating from the expected. Since the sum of the deviation always equal 0, this becomes the starting point for Chi – Square. This is usually represented as:

$$\sum (fo - ft)$$

where fo = observed frequency
ft = theoretical or expected frequency

The next step is squaring each deviation followed by dividing each product by its respective expected frequency. The last step is summing the quotients.

Symbolically, this is given by Mills (1977) as:

$$\chi 2 = \sum \frac{(fo - ft)2}{ft}$$

where $\chi 2$ = Chi – Square value
fo = observed frequency
ft = theoretical or expected frequency

In computing the theoretical or expected frequency, we employ the formula:

$$\frac{(\text{row total})\ (\text{column total})}{\text{Grand total}}$$

Finally, question 16 of the questionnaire which seeks to resolve research question 2, is aimed at finding whether fear of dilution in ownership structure inherent in mergers and acquisitions is more pronounced amongst banks that did not merge with others than those that did. Already the research question has stratified banks into two groups and since we are interested in analyzing the amount of variation between the groups relative to the variation within each group, one way Analysis of Variance (ANOVA) appears very persuading.

The basic idea of ANOVA, according to Berenson and Levine (1979), is to express a measure of the total variability of a set of data as a sum of terms each of which can be attributed to a specific source or cause of variation. This measure of the total variation to be used is the total sum of squares which we are going to represent by SST and is given by Mills (1979) as:

SST = SSB + SSW
Where SSB is the sum of squares between
and SSW represents the sum of squares within

Symbolically,

$$SSB = \sum_{j=1}^{m} [nj (\bar{x}j - \bar{\bar{x}})2]$$

where nj = number of items in group j
$\bar{x}j$ = mean of group j

$\bar{\bar{x}}$ = grand mean for the measurements

$$\text{and SSW} = \sum_{j=1}^{m} [\sum_{i=1}^{nj} (xij - \bar{x}j)2]$$

where xij = any measurement in j.

The actual procedure for ANOVA involves analyzing the variation both within and between the groups in the first instance as given by the above formulae; computing their means; and using the results thereof to obtain F value ratio.

The F value ratio is computed as:

$$F = \frac{MSSB}{MSSW} = \frac{SSB/(m-1)}{SSW/n-m}$$

Where MSSB = mean of the sum of squared deviation between
MSSW = mean of the sum of squared deviation within
m = total groups
n = number of all items in the groups.

3.6 Summary

The chapter has dwelt on the *modus operandi* to be employed in eliciting vital information for the study, the techniques to be used in analyzing the responses, and the underlying ideas behind those techniques.

Since the research is an empirical one, it is only natural that accent be placed on primary mode of data collection. In that regard, questionnaire method naturally came handy.

No prior sampling of the objects for study was carried out. Rather, the study relied on what remained of the former 89 banks after December 31, 2005 in which 39 banks emerged; 25 banks that met the CBN minimum capital base of N25 billion and the 14 that failed to do so. Questionnaires were accordingly sent out to them. This position is informed by the fact that the study did not envisage a 100% response level. It therefore makes sense to have those that would respond represent the 'sampled population'.

The questionnaire design was in both close and open format and the questionnaires were personally administered instead of through mailing. Efforts were also made to collect the responses via the same mode.

The techniques for data analyses consist of three statistical tools. These are the Wilcoxon One – Sample Signed – Ranks Test; the Chi – Square distribution; and One Way Analysis of Variance. Their selection was informed by their characteristics and the nature of the responses they are meant to analyze. 5% level of significance (i.e. $\alpha = 0.05\%$) was chosen for the entire work irrespective of the statistical tool employed.

3.7 References

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CHAPTER 4

DATA ANALYSIS AND RESULTS

4.1 Introduction

The task here is to carry out the examination of the collected facts with those procedures and tools designed for organizing and interpreting them. The analysis will be based on questionnaire responses through which we hope to resolve the research questions posed in chapter 1(4), which themselves reflect the research hypotheses in chapter 1(5).

4.2 Data Analysis

Data were collected from a total of 31(thirty one) banks, representing 79% of the 39 (thirty nine) banks slated for the study. These were the banks that responded to questionnaires sent to them. Of the 31banks that responded, 16 belong to the category of the 19 banks that merged with others (merged banks) as at December 31, 2005 (see appendix E for the list). The figure thus represents 84% of the total merged banks within the period under consideration. The remaining 15 out of the 31banks belong to the category of the 20 banks that did not merge with others as at December 31, 2005 (see appendix F). This, thus represents 75% of the total non-merged banks as at the date in question.

Feed-backs from the questionnaires were of qualitative nature and so the first step taken was to “decode” and express them quantitatively. In accomplishing that, figures were assigned to the responses depending on their intensities. The answers were scored in such a way that the least in intensity would be assigned the value of 5, the next 10, whereas the value of 25 assigned to the highest; intervals of 5 for the five point answer scales in which respondents were required to indicate their degree of preference. This operation was exercised in questions 2, 13 and 16 of the questionnaire which form the bases for research questions 1, 4 and 2 respectively.

For instance, question 2 of the questionnaire dealing with how banks rate the adequacy of their capital bases prior to July 6, 2004, “very adequate” attracts 25; “quite adequate” 20; “fairly adequate” 15; “just adequate” 10; and “not adequate” 5.

However, for question 8 which formed the basis for research question 3 and required a “Yes” or “No” answer, simple coding was adopted; “Yes” was coded 1 and “No” coded 2.

The final coding which completed the instrument validation (see appendix I) was carried on the categorization of banks along merged and non-merged banks. The merged banks were coded “a” and non-merged ones “b”.

Data Presentation: The full responses from all the returned 31questionnaires with the necessary scores and coding are thus presented below:

Table 4.2 (1)

Full Responses from the 31Questionnaires as entered in the Instrument Validation

Bank	Adequacy of Capital Prior to July 6, 2004	Fear of Ownership Dilution	Attitude to CBN directive to merge Yes= 1 No= 2	Costs, Procedure and Processes Rating	Merging Categorization a= merged banks b= non-merged banks
1	15	5	1	10	a
2	15	10	1	5	a
3	15	15	1	5	a
4	20	10	2	5	b
5	10	20	2	5	b
6	10	10	1	5	a
7	10	10	2	5	a
8	25	5	1	10	a
9	10	10	1	5	a
10	20	10	1	5	b
11	20	20	2	10	a
12	15	5	1	15	a
13	20	20	2	5	b
14	15	15	2	10	a
15	10	10	2	5	a
16	10	10	2	10	a
17	20	15	2	5	b
18	10	5	1	10	a
19	15	5	1	15	a
20	25	5	2	10	a
21	15	5	1	5	a
22	20	15	2	5	b
23	10	10	2	5	b
24	10	15	2	5	b
25	5	20	2	5	b
26	5	20	2	5	b
27	10	5	1	5	b
28	10	10	2	5	b
29	15	5	1	5	b
30	15	5	1	5	b
31	5	10	2	5	b

From the above, we can now extract the data for each research question for the purpose of analysis.

<u>Questionnaire Analysis</u>
<u>Question 2</u>

This is the pertinent question in the questionnaire which is predicated on research question1as presented in chapter 1(4). It goes thus: "Do you consider that capital base adequate enough to face the challenges of modern Banking business"? The aim is to ascertain whether lack of enthusiasm among banks in Nigeria to merge prior to July 6, 2004 can be attributed to their perceived capital adequacy. Five answer options were provided (please see appendix H).

As noted in chapter 3(5), the Wilcoxon one – sample signed – ranks (Berenson and Levine, 1979) has been selected as the suitable statistical tool for the analysis. Its suitability is because we are dealing with large sample of a population, where $n > 20$ and the data obtained of a higher level than an ordinal scale.

Before carrying out the ranking of the data pertaining to capital adequacy scores, it is necessary to arrange the raw data by constructing frequency distribution along the lines of establishing a suitable class interval or "width" for each class grouping, the limits and the boundaries to avoid overlapping.

The first step is to determine the width of Interval denoted by:

$$\text{Width of Interval} = \frac{\text{Range}}{\text{Number of desired Class Groupings}}$$

Where Range = Largest Observation – Smallest Observation (Berenson and Levine, 1979).
From scores on capital adequacy, 25 is the largest observation while 5 is the smallest.
$\therefore$ Range = 25 – 5 = 20

For class groupings, seven groupings are desired for this purpose.

$$\text{Width of Interval} = \frac{20}{7} = 2.86$$

Since the width of each class interval has been set at 2.86, the "limits and boundaries" of the various class groupings must be established so as to include the entire range of observations. Thus, we can set our first class interval from 5 to under 7.86, the second from 7.86 to under 10.72, et cetera as shown below:

Class Interval	Number of Banks	Cumulated Totals
5.00 but less than 7.86	3	3
7.86 but less than 10.72	11	14
10.72 but less than 13.58	0	14
13.58 but less than 16.44	9	23
16.44 but less than 19.30	0	23
19.30 but less than 22.16	6	29
22.16 but less than 25.02	2	31
	31	

To carry out the Wilcoxon One-Sample Signed –Ranks Test, we need to determine the median by applying the formula:

$$\text{Median} \cong B_M + \left(\frac{n/2 - f_{BM}}{f_M} \right) C$$

Where B_M = lower boundary of the class interval containing the median
F_M = number of observations in the class interval containing the median
F_{BM} = total number of observations before the class interval containing the median
C = width of the class interval containing the median
$\frac{n}{2}$ = median observation

Computing the median based on the above data:
$\frac{n}{2} = \frac{31}{2} = 15.5$ is one of 9 observations contained in the class interval whose lower boundary is 13.58 and in addition, the total number of observations prior to this class interval is 14.

Applying the median formula, we have

$$13.58 + \left(\frac{15.5 - 14}{9} \right) (2.86)$$

$= 14.057$

We now set up the wilcoxon one – sample signed – ranks test

Table 4.2 (2)

SETTING UP THE WILCOXON ONE – SAMPLE SIGNED – RANKS TEST

X_i – 14.057 = D	$\|D_i\|$	R_i	Sign of D_i
15 – 14.057 = 0.943	0.943	5.0	+
15 – 14.057 = 0.943	0.943	5.0	+
15 – 14.057 = 0.943	0.943	5.0	+
20 – 14.057 = 5.943	5.943	23.5	+
10 – 14.057 = -4.057	4.057	15.0	-
10 – 14.057 = -4.057	4.057	15.0	-
10 – 14.057 = -4.057	4.057	15.0	-
25 – 14.057 = 10.943	10.943	30.5	+
10 – 14.057 = -4.057	4.057	15.0	-
20 – 14.057 = 5.943	5.943	23.5	+
20 – 14.057 = 5.943	5.943	23.5	+
15 – 14.057 = 0.943	0.943	5.0	+
20 – 14.057 = 5.943	5.943	23.5	+
15 – 14.057 = 0.943	0.943	5.0	+
10 – 14.057 = -4.057	4.057	15.0	-
10 – 14.057 = -4.057	4.057	15.0	-
20 – 14.057 = 5.943	5.943	23.5	+
10 – 14.057 = -4.057	4.057	15.0	-
15 – 14.057 = 0.943	0.943	5.0	+
25 – 14.057 =10.943	10.943	30.5	+
15 – 14.057 = 0.943	0.943	5.0	+
20 – 14.057 = 5.943	5.943	23.5	+
10 – 14.057 = -4.057	4.057	15.0	-
10 – 14.057 = -4.057	4.057	15.0	-
5 – 14.057 = -9.057	9.057	28.0	-
5 – 14.057 = -9.057	9.057	28.0	-
10 – 14.057 = -4.057	4.057	15.0	-
10 – 14.057 = -4.057	4.057	15.0	-
15 – 14.057 = 0.943	0.943	5.0	+
15 – 14.057 = 0.943	0.943	5.0	+
5 – 14.057 = -9.057	9.057	28.0	-

As already noted in chapter 3 (5), the Wilcoxon test statistic W is obtained as the sum of the ranks denoted as:

$$W = \sum_{i=1}^{n} R_{i(+)} \qquad \text{where n = 31}$$

From the ranking carried above, W = 247 and is the sum of the positive ranks.
As a prelude to hypotheses testing in the next section (4.3) and considering that n > 20, we apply the equation as noted in chapter 3 (5) for calculating Z:

$$Z \cong \frac{W - \mu_W}{\sigma_w}$$

Where *W,* as already noted = sum of the ranks (i.e. positive); w = $\sum_{i=1}^{n} R_i \ (+1)$

μw = mean value of w; $\mu w = \dfrac{n\,(n+1)}{4}$

σw = standard deviation of w; $\sigma w = \sqrt{\dfrac{n\,(n+1)\,(2n+1)}{24}}$

n = number of non-zero absolute difference scores in sample

that is, $$Z \cong \frac{W - \dfrac{n(n+1)}{4}}{\sqrt{\dfrac{n\,(n+1)\,(2n+1)}{24}}}$$

$$= \frac{\dfrac{247 - 31(31+1)}{4}}{\sqrt{\dfrac{31(31+1)\,(63)}{24}}}$$

$$= \frac{-1}{51.03} = -.0019$$

Question 16

This is the question that deals with whether fear of dilution in ownership structure inherent in mergers and acquisitions can be responsible for the non-reception of the idea more amongst banks that did not merge than those that did. It thus poses: “If your shareholders were not receptive initially or up till now to the idea of merger(s) and acquisition(s), do you feel it could be attributed to fear of ownership dilution?” Five answer options were provided. This question was predicated on Research question 2 of chapter 1(4).

As explained in chapter 3(5), the one way analysis of variance has been chosen as the statistical tool for the purpose of analyzing the responses from this question. This is borne out of the fact that the research question has stratified banks into two groups, namely those that did not merge and those that did and what is more, we are interested in analyzing the amount of variation between the groups relative to the variation within each group.

The data generated from the responses along the lines already adopted can thus be presented as shown below:

Table 4.2 (3)

Scores Generated in Response to the Question as to whether Fear of Dilution in Ownership Structure inherent in Mergers and Acquisitions is more pronounced amongst Banks that did not merge than those that did

Group A	Group B
5	10
10	20
15	10
10	20
10	15
5	15
10	10
20	15
5	20
15	20
10	5
10	10
5	5
5	5
5	10
5	190
145	

Note: Group A = Banks that merged with others
Group B = Banks that did not merge with others

As a necessary step to calculating the total variation which is the sum of Squares Between (SSB) plus sum of Squares Within (SSW), computation of the means of the groups and the grand mean must first be carried out as follows:

Means:

$\bar{X}A = \frac{145}{16} = 9.06$; $\bar{X}B = \frac{190}{15} = 12.67$

Grand mean:

$$\bar{\bar{X}} = \frac{145 + 190}{16 + 15} = \frac{335}{31} = 10.81$$

The next step is to calculate each of the sum of squares as a way of deriving the total given as:

SST = SSB + SSW

$$SSB = \sum_{j=1}^{m}\left[n_j(\bar{x}_j - \bar{x})^2\right] \text{ or } \sum_{i=1}^{k} \frac{T_i^2}{n_i} - \frac{(GT)^2}{N}$$

where the notations are as defined in chapter 3(5).

$$\frac{T_i^2}{n_i} = \frac{(145)^2}{16} + \frac{(190)^2}{15} = 1314.06 + 2406.67$$
$$= 3720.73$$

$$\frac{(GT)^2}{N} = \frac{(145 + 190)^2}{31} = \frac{112,225}{31} = 3620.16$$

Subtracting $\frac{(GT)^2}{N}$ from $\frac{T_i^2}{n_i}$, we derive

SSB = 3720.73 – 3620.16 = 100.57

$$SSW = \sum_{j=1}^{m}\left[\sum_{i=1}^{n_i}(x_{ij} - \bar{x}_j)^2\right] \text{ or } \sum_{I=1}^{k} \sum_{j=1}^{n_i} x_{ij}^2 - \sum_{i=1}^{k} \frac{T_i^2}{n_i}$$

$$\sum_{i=1}^{k} \sum_{j=1}^{n_i} x_{ij}^2 = 5^2 + 10^2 + 15^2 + 10^2 + 10^2 + 5^2 + 10^2 + 20^2 + 5^2 + 15^2 + 10^2 + 10^2$$
$$+ 5^2 + 5^2 + 5^2 + 5^2 + 10^2 + 20^2 + 10^2 + 20^2 + 15^2 + 15^2 + 10^2 + 15^2$$
$$+ 20^2 + 20^2 + 5^2 + 10^2 + 5^2 + 5^2 + 10^2 = 4475$$

SSW = 4475 – 3720.73 = 754.27

$\therefore$ SST = 100.57 + 754.27
= 854.84

Next, the computation of the means of the sum of squares as a prelude to computing the F value ratio which will aid the hypothesis testing in the next section is carried out.

Mean of Sum of Squares Between (MSSB) is given as:

$$MSSB = \frac{SSB}{m-1}$$

where m is as defined in chapter 3 (5), the total groups

$$= \frac{100.57}{2-1} = 100.57$$

Mean of Sum of Squares Within is given as:

$$MSSW = \frac{SSW}{n\text{-}m}$$

where n is as defined in chapter 3 (5), the number of all items in the groups

$$= \frac{754.27}{31\text{-}2} = 26.01$$

The F value ratio is computed as:

$$F = \frac{MSSB}{MSSW}$$

$$= \frac{100.57}{26.01} = 3.87$$

The summary of the computations can thus be presented as follows:

Summary of Computations:

Source of Variation	Sum of Squares	Degrees of Freedom	Mean Square	F
Between	100.57	1	100.57	$\frac{100.57}{26.01} = 3.87$
Within	754.27	29	26.01	
Total	854.84	30		

Question 8

This question in the questionnaire is the one that seeks to find out whether banks in Nigeria agreed unhesitatingly with the CBN's directive to merge as a way of raising their minimum capital bases to N25 billion on or before 31st December, 2005. The question runs thus: "Did your bank agree unhesitatingly with the CBN directive that banks in Nigeria should increase their shareholders' funds to a minimum of N25 billion each by December 31, 2005 as a way of getting them to embrace mergers and acquisitions?" This question was predicated on Research question 3 of chapter 1(4).

Since the respondents were required to give either a straight yes or no answers, it was thought appropriate to apply the Chi – Square statistical tool as already highlighted in chapter 3 (5).

To carry out the necessary computations, the data generated in respect of the question {see table 4.2 (1)} are arranged in a contingency table along the lines of banks that merged with others (Group A) and those that did not (Group B)

Table 4.2 (4)

Contingency Table depicting the attitude of the 31Respondent Banks towards CBN Directive to Merge

CBN Directive to Merge	Group A	Group B	
Agree (Yes)	10	4	14
Disagree (Yes)	6	11	17
Total	16	15	31

Next, the computations for the expected frequencies for each group are carried out by applying the formula:

$$\frac{\text{(row total) (column total)}}{\text{Grand total}}$$

The expected frequencies for the groups that agree with the CBN directive to banks to merge will therefore be as follows:

Group A = $\frac{(14)\ (16)}{31}$ = 7.23; Group B = $\frac{(14)\ (15)}{31}$ = 6.77

For those that disagree with the directive of the CBN to merge, the expected frequencies are as follows:

Group A = $\frac{(17)\ (16)}{31}$ = 8.77; Group B = $\frac{(17)\ (15)}{31}$ = 8.23

Computing the χ^2 using the formula as already given in chapter 3 (5):

$$\chi^2 = \sum \frac{(fo - ft)^2}{ft}$$

where *fo* = observed frequency

ft = theoretical or expected frequency

we derive:

$$\frac{(10 - 7.23)^2}{7.23} + \frac{(4 - 6.77)^2}{6.77} + \frac{(6 - 8.77)^2}{8.77} + \frac{(11 - 8.23)^2}{8.23}$$

$= 1.06 \quad + \quad 1.13 \quad + \quad 0.87 \quad + \quad 0.93 = 3.99$

$\therefore \chi^2 = 3.99$

<u>Question 13</u>

This seeks to find out whether respondents consider the costs, procedure and processes associated with mergers and acquisitions in the industry friendly enough to embolden Banks to merge. The question goes thus: "Do you consider the costs, procedure and processes associated with mergers and acquisitions in the industry friendly enough to encourage banks to merge?" Five answer options were provided for the respondents to indicate their preferences. The question was predicated on Research Question 4.

As was the case with research question 1, the Wilcoxon One – Sample Signed – Rank has been selected as the suitable statistical tool for the analysis.

Thus, the first step as carried out in research question 1is to determine the width of interval denoted as:

$$\text{Width of Interval} = \frac{\text{Range}}{\text{Number of desired Class Groupings}}$$

Where Range as already noted = Largest observation – Smallest observation
From scores obtained in respect of the costs, procedure and processes rating {see table 4.2 (1)}, the largest observation is 25 while 5 is the smallest.

$\therefore$ Range = 15 – 5 = 10

For class groupings, four groupings are desired

$$\text{Width of Interval} = \frac{10}{4} = 2.5$$

For convenience and ease of reading, the selected interval or width of each class grouping is rounded to 3.0.

Since the width of each class interval has been set at 3.0, the "limits and boundaries" of the various class groupings must be established so as to include the entire range of observations. Thus, we can set our first class interval from 5 to under 8, the second from 8 to under 11, et cetera as shown below:

Class Interval	Number of Banks	Cumulated Totals
5 but less than 8	22	22
8 but less than 11	7	29
11 but less than 14	0	29
14 but less than 17	2	31

To carry out the Wilcoxon One – Sample Signed – Ranks Test, we need to determine the Median by applying our known formula:

$$\text{Median} \cong Bm + \left(\frac{n/2 - f_{BM}}{f_M}\right)C$$

where, as noted earlier B_M = lower boundary of the class interval containing the median

f_M = number of observations in the class interval containing the median

f_{BM} = total number of observations before the class interval containing the median

C = width of the class interval containing the median

$\frac{n}{2}$ = median observation

computing the median based on the above data:

$\frac{n}{2} = \frac{31}{2} = 15.5$ is one of the 22 observations contained in the class interval whose lower boundary is 5 and in addition, the total number of observations prior to this class interval is 0

Putting the necessary figures in the median equation already given, we derive:

$$5 + \left(\frac{15.5 - 0}{22}\right)3$$

= 7.114

The next step is to set up the Wilcoxon One – Sample Signed – Ranks Test

Table 4.2 (5)

SETTING UP THE WILCOXON ONE – SAMPLE SIGNED – RANKS TEST

X_i − 7.114 =	D_i	$\lvert D_i \rvert$	R_i	Sign of D_i
10 – 7.114 =	2.886	2.886	26.0	+
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
10 – 7.114 =	2.886	2.886	26.0	+

5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
10 – 7.114 =	2.886	2.886	26.0	+
15 – 7.114 =	7.886	7.886	30.5	+
5 – 7.114 =	-2.114	2.114	11.5	-
10 – 7.114 =	2.886	2.886	26.0	+
5 – 7.114 =	-2.114	2.114	11.5	-
10 – 7.114 =	2.886	2.886	26.0	+
5 – 7.114 =	-2.114	2.114	11.5	-
10 – 7.114 =	2.886	2.886	26.0	+
15 – 7.114 =	7.886	7.886	30.5	+
10 – 7.114 =	2.886	2.886	26.0	+
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-
5 – 7.114 =	-2.114	2.114	11.5	-

As already noted in chapter 3 (5), the Wilcoxon test statistic *W* is obtained as the sum of the ranks denoted as:

$$W = \sum_{I=1}^{n} R_i(+)$$

Where n =31

From the ranking carried above, *W* = 243 and is the sum of the positive ranks.
As a prelude to hypotheses testing in the next section (4.3) and considering that *n* >20, we apply the equation as noted in chapter 3 (5) for calculating Z:

$$Z \cong \frac{w - \mu w}{\sigma w}$$

where w is as already given = sum of the ranks (i.e. positive)

μw = mean value of w; $\mu w = \frac{n(n + 1)}{4}$

σw = standard deviation of w; $\sigma w = \sqrt{\frac{n(n+1)(2n+1)}{24}}$

n = number of non-zero absolute difference scores in sample that is, $$Z \cong \frac{w - \frac{n(n+1)}{4}}{\sqrt{\frac{n(n+1)(2n+1)}{24}}} = \frac{243 - \frac{31(32)}{4}}{\sqrt{\frac{31(31+1)(63)}{24}}}$$

$$= \frac{-5}{51.03}$$

$$= -.0098$$

4.3 Hypotheses Testing

The tests for the four stated hypotheses in section 5 of chapter 1 which are reflections of the research questions in section 4 of the same chapter will now be conducted using the criteria for evaluating the workings based on the statistical tools already chosen.

In each case, the null and alternate hypotheses would be stated and based on the workings already done with the statistical tool chosen, take a decision on whether to accept the null hypothesis (denoted as Ho) or its alternate counterpart (denoted as H_1) using the criterion for such testing. For each test, a level of significance, $\alpha = 0.05$ is assumed.

Hypothesis 1

The null and alternate hypotheses are stated as follows:

Ho: Lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is not because they considered their capital bases adequate.

H_1: Lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is because they considered their capital bases adequate.

Having carried out the necessary computations on the data generated in respect of research question 1 on which was based hypothesis1using the Wilcoxon One – Sample Signed – Ranks Test, the next stage is to find the critical values (lower and upper values) on which the testing would be based. For this, resort will be taken to The Standardized Normal Distribution Z Table as provided by Berenson and Levine (see appendix J).

From the table, for a two – tailed test with an α level of 0.05 the critical Z values are $\pm$ 1.96.

decision rule: For the test, if the computed Z value equals or exceeds the upper critical value of 1.96, reject the null hypothesis, otherwise accept it. Or what amounts to the same thing, if the computed Z value is equal to or lower than the lower critical value of –1.96, the null hypothesis is rejected, otherwise accept.

decision on hypothesis 1: Since the computed Z value of -.0019 (see section 2 of this chapter) exceeds the lower critical Z value of –1.96, the null hypothesis (Ho) cannot be rejected. We therefore accept Ho which posits that lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is not because they considered their capital bases adequate and reject the alternate hypothesis which states that lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is because they considered their capital bases adequate.

Hypothesis 2:

The null and alternate hypotheses are as stated below:

Ho: Fear of dilution in ownership structure inherent in mergers and acquisitions is not more pronounced amongst banks that did not merge with others than those that did.

H_1: Fear of dilution in ownership structure inherent in mergers and acquisitions is more pronounced amongst banks that did not merge with others than those that did.

The One Way Analysis of Variance (ANOVA) was employed in analyzing question 16 of the questionnaire on which this hypothesis (and its concomitant research question 2) was based.

decision rule: The guiding rule is to reject the null hypothesis and accept its alternate counterpart if the calculated F value ratio equals or exceeds F table value (the critical value), otherwise accept.

In the computation already carried out in the preceding section, the F value ratio was found to be 3.87.

For the table value of F, the table as provided by Berenson and Levine (see Appendix K) will be used. Given that the degrees of freedom for both the between and within sum of squares are already known to be 1 and 29 respectively (representing the numerator and denominator values of the table respectively), the critical value is thus derived as:

$$F = \begin{pmatrix} \alpha, & df, & dfw \\ 0.05, & 1, & 29 \end{pmatrix}$$

$$= 4.18$$

decision on hypothesis 2: Since the computed F value ratio of 3.87 is less than the critical value of 4.18, there is thus no basis for rejecting the null hypothesis in preference to the alternate one. We therefore accept the null hypothesis which states that fear of dilution in ownership structure inherent in mergers and acquisitions is not more pronounced amongst banks that did not merge with others than those that did.

Hypothesis 3:
The null and alternate hypotheses are stated as follows:

Ho: The apparent resistance to mergers and acquisitions is not because banks do not want to be dictated to or "coerced" into embracing same and the feeling is not more with those that did not merge with others than those that did.

H_1: The apparent resistance to mergers and acquisitions is because banks do not want to be dictated to or "coerced" into embracing same and the feeling is more with those that did not merge with others than those that did.

The necessary computations involving the Chi – Square (χ^2) statistical method, which was the tool used in analyzing question 8 of the questionnaire on which this hypothesis and its concomitant research question 3 were based, have already been carried out in the preceding section of this chapter.

<u>decision rule</u>: The rule is to accept the null hypothesis (Ho) in preference to the alternate hypothesis (H_1) if and only if the computed χ^2 is less than (<) the critical value, otherwise reject.

The critical value is derived from the Chi – Square table after finding the degree of freedom (df). The degree of freedom is given as:

$$(r - 1)\ (k - 1)$$

where *r* is the number of rows in the Chi – Square contingency table and k the number of columns in that table.

In our own case: df = (2 – 1) (2 – 1) {see table 4.2 (4)}
= 1

The critical value of χ^2 under df = 1 with $\alpha = .05$, using the Chi – Square table as provided by Berenson and Levine (1979) is 3.841 (see Appendix L).

<u>decision on hypothesis 3</u>: Considering the fact that the already computed F value ratio of 3.99 (see the preceding section on this) exceeds the critical value of 3.841, the null hypothesis (Ho) will be rejected in preference to the alternate hypothesis (H_1) which holds the position that the apparent resistance to mergers and acquisitions is because banks do not want to be dictated to or "coerced" into embracing same and the feeling is more with those that did not merge with others than those that did.

<u>Hypothesis 4</u>

The null and alternate hypotheses are as follows:

Ho: The costs, procedure and processes associated with mergers and acquisitions can not be a deterrent to banks willing to merge.

H_1: The costs, procedure and processes associated with mergers and acquisitions can be a deterrent to banks willing to merge.

Having carried out the necessary computations using the suitable statistical tool – the Wilcoxon One Sample Signed Ranks - on the data generated in response to question 13 of the questionnaire on which research question 4 and its concomitant hypothesis 4 were anchored, the next level is to determine the critical values (lower and upper values) on which the testing would be based. As in hypothesis 1, the Standardized Normal Distribution Z table as provided by Berenson and Levine (see Appendix J) would be used.

From the table, for a two – tailed test with a α level of 0.05 the critical Z values are $\pm$ 1.96.

decision rule: As already noted, if the computed Z value equals or exceeds the upper critical value of 1.96, the null hypothesis would be rejected, otherwise it would be accepted. Or what amounts to the same thing: if the computed Z value is equal to or lower than the lower critical value of –1.96, the null hypothesis is rejected, otherwise it is accepted.

decision on hypothesis 1: Since the computed Z value of -.0098 (see section 2 of this chapter) exceeds the lower critical value of –1.96, the null hypothesis cannot be rejected. We therefore accept the null hypothesis which asserts that the costs, procedure and processes associated with mergers and acquisitions cannot be a deterrent to banks willing to merge and reject the alternate one which holds a contrary view that the costs, procedure and processes associated with mergers and acquisitions can be a deterrent to banks wiling to merge.

4.4 Summary

The feedbacks garnered from the questionnaire responses were analyzed in this chapter. Certain devices were employed in the collection of the responses.

Since the responses were of qualitative nature, the first significant step taken was to "decode" and express them quantitatively. This involved assigning figure depending on the intensity of the response. The least item in a question was assigned 5, the next least 10, whereas the value of 25 was assigned to the highest in intensity; implying intervals of 5 for the five point answer scales in which respondents were required to indicate their satisfaction or dissatisfaction. This operation was carried out in questions 2, 13 and 16 of the questionnaire which formed the bases for research questions 1, 4 and 2 and their concomitant hypotheses 1, 4 and 2 respectively.

Coding system was the device employed in analyzing question 8 of the questionnaire on which research question 3 and the corresponding hypothesis were based. It was also used in categorizing respondents into merged and non-merged banks.

To record all the required data generated, an instrument validation was constructed. However, the data for each of the question analyzed were extracted from this "master list" and presented singularly in tabular form in the course of the analysis.

The analysis proper involved three statistical tools, namely the Wilcoxon One – Sample Signed – Ranks Test, The Analysis of Variance and The Chi – Square Distribution; their properties and characteristics that made them very appealing having been earlier noted.

The hypotheses testing were all conducted at the level of significance, $\alpha = 0.05$, using the specified criterion applicable in each of the statistical tool for the rejection or acceptance of the null hypothesis or its positive counterpart, the alternate hypothesis. The testing resulted in the validation of the stated null hypotheses 1, 2 and 4 and the stated alternate hypothesis 3.

4.5 References

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CHAPTER 5

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Having carried out the data analysis, it is worthwhile to make some salient observations on the findings. As already indicated, the testing of the four hypotheses of the study resulted in the validation of all but one of the null hypotheses. Only one alternate hypothesis was validated.

In the first hypothesis, our testing validated the assertion that lack of enthusiasm amongst banks in Nigeria to merge prior to July 6, 2004 is not because they considered their capital bases adequate. Ordinarily, one would have expected adequacy of capital base to be a strong reason for a bank to shun merging with others. That they recognized the inadequacy of their capital bases and yet were unwilling to enter into mergers and acquisitions prior to Central Bank of Nigeria's (CBN's) "coercion" is an indication that there may be other fundamental issues behind this scenario.

The above leads us to another possibility on which the second hypothesis was anchored. Our finding validated the stated null hypothesis that fear of dilution in ownership structure inherent in mergers and acquisitions is not more pronounced amongst banks that did not merge with others than those that did. With the completion of mergers and acquisitions by some banks ahead of the December 31, 2005 deadline by the Central Bank of Nigeria (CBN), the feeling was rife that those that did not merge with others did so out of fear of dilution in ownership structure. However, this notion has been rendered a nullity by the finding; the fear cuts across both sides of the divide. But can one confidently hold on to this as a possible reason for reluctance of Nigerian banks to embrace the culture of mergers and acquisitions before CBN's directive of July 6, 2004? Admittedly, it may be a reason but certainly not a strong one. This position is strengthened by the fact that some, albeit two, of the banks that did not merge with others and yet were able to meet the stipulated minimum of N25 billion by December 31, 2005 were already publicly quoted companies while some that did not merge with others actually tried to get some merging partners but were not able to, due to their perceived financial health by those approached. In this category are the 14 banks that were liquidated due to their inability to meet the stipulated minimum of N25 billion by December 31, 2005 in order to remain in business.

From the reaction of majority of banks to CBN's consolidation programme (of which mergers and acquisitions was a major integral part) when it was first unveiled July 6, 2004, it would have been a surprise if the alternate in hypothesis 3 was not validated. The alternate posited that the apparent resistance to mergers and acquisitions is because banks do not want to be dictated to or "coerced" into embracing same and the feeling is not more with those that did not merge with others than those that did. The validation of the alternate hypothesis, thus goes to reinforce the notion that the banks that actually merged did so not because they were so willing but out of exigency, that is, to avoid being shut out after December 31, 2005.

The above position is buttressed by the responses of the banks to question 12 of the questionnaire. Only 2 banks replied that their shareholders are contemplating further mergers/acquisitions. Of very instructive in this regard was the action of one of the 25 banks that met the minimum capital base of

N25 billion. No sooner had the CBN announced the list of banks that met the N25 billion benchmark than Zenith Bank Plc (one of the banks that did not merge with any bank) went afresh to the capital market to raise additional funds that would enable it participate in managing the country's foreign reserves. This was at a time the CBN was requesting the 25 banks to consider acquiring any of the 14 distressed banks that failed to scale the N25 billion minimum capital base hurdle.

Quite akin to our finding in hypothesis 1 is that of hypothesis 4, which validated the null hypothesis that the costs, procedure and processes associated with mergers and acquisitions cannot be a deterrent to banks willing to merge. The finding is intriguing in that at the onset of the merger exercises in the banking industry, not a few bankers expressed concern at the enormity of the costs and even processes usually associated with the exercise.

One or both of the following reasons might be responsible for the above scenario. First, CBN's intervention via engaging some consultants at its own expense and making their services available to banks that might need them coupled with its reaching of some understanding with the Securities and Exchange Commission (SEC) in the area of granting fast approvals for merging banks might have contributed in making the pains of the exercises less excruciating than hitherto thought. Second, it might be that the banks' initial outcry was not grounded on facts. Just a way of calling attention in order to discredit the programme and continue in the euphoria of 'business as usual'! A case of crying wolf where none existed or merely expressing a fear of the unknown.

Besides the findings from the tested hypotheses, some issues raised in response to some questions in the questionnaire need some closer attention.

The answers supplied in response to why banks did not agree with CBN directive to them to merge as a way of raising their shareholders' funds to a minimum of N25 billion (question 9 of the questionnaire) are particularly instructive. Some hold the belief that mergers/acquisitions globally are not executed by fiat or regulatory body induced. To this group, it has to be voluntary. It is the contention of others that different standards exist amongst banks and as such they are not ready to sacrifice those standards set over the years on the altar of mere mergers/acquisitions. Yet, some see the time frame and the somewhat compulsory nature of the exercise, which in some cases promoted cover ups and desperation among some merging partners, as not permissible enough for them to have meaningful due diligence on their proposed partners. While to some, the figure N25 billion smacks of irrationality and unscientific on the part of CBN.

Another area worth commenting on is the attitude of staff at the initial stage to CBN's directive to banks to embrace mergers/acquisitions. From responses given in question 19 of the questionnaire, some of the fears expressed by staff, especially on security of employment have not been groundless, after all. Some merged banks immediately on completion of the exercise embarked on massive layoffs based on some questionable and controversial criteria. For example, a dominant bank in a merger arrangement is known to have sacked some staff from its partners on the grounds that they were graduates of polytechnics and state universities. Yet this is contrary to some promises made by some of these banks at the inception of the exercises.

Also, the fact that more than six months after the consummation of mergers and acquisitions in the banking industry, some of the banks that emerged from the process were bogged down with integration processes and even with minute details such as appropriate logos, reinforces the findings that notwithstanding inadequacy of capital already identified by these banks before CBN's almighty directive of July 6, 2004, coupled with the issue of costs, processes and procedure not being a hindrance to mergers/acquisitions, most Nigerian banks still view the subject of mergers/acquisitions as something esoteric and novel and not a potent business growth strategy to be imbibed as a culture.

5.2 Conclusion

The importance of banking industry in any economy places it in a very pre-eminent position and for it to continue discharging the responsibilities it is entrusted with, it must be dynamic and move with the times. It will therefore be trite to say that the Nigerian banking industry should not be an exception.

The point was made earlier in chapter 1 that even with the government induced mergers and acquisitions in the industry prior to the Central Bank of Nigeria's own version, no Nigerian bank ranked among the top banks in Africa and yet the top ones in the continent then were products of mergers and acquisitions. The implication of this for meaningful global competition is better imagined especially, in financing high capital based ventures like Telecommunication and Oil & Gas industries.

However, the fact that many banks in Nigeria today are already strategizing and confidently taking initiatives and taking plunges in these highly sensitive areas bears eloquently testimony to the power of pooling resources together which they have been able to achieve via mergers and acquisitions.

To all intents and purposes, especially from the findings of this study and in particular the answers supplied by respondents in items 14 and 15 of the questionnaire, there should be no equivocation in replying in the affirmative to the poser in the title of this study. One can therefore safely assert that mergers and acquisitions within the Nigerian context is a *desideratum*.

However, much that there is no doubt as to the imperativeness of mergers and acquisitions for the Nigerian Banking Industry, the consummation of it at any point in time must be in line with the recommendations tendered in the next section of this chapter. This is to avoid unnecessary squabbles and disagreements that trailed the recently concluded ones ordered by the Central Bank of Nigeria, resulting in many fits and starts and pullouts. If the fundamentals of a bank are beginning to get challenged, it will be better a discussion is held with another bank and it is acquired. This will avoid regulatory risk that usually accompanies fiat or coercive action by the regulator where panic in the industry is usually the outcome. Any regulatory plodding should be subtle, devoid of any sensationalism. The Banking industry thrives on confidence and trust!

5.3 Recommendations

In line with the findings and conclusion, the following recommendations seem apposite:

It is evident from the study that many banks loathe the idea of mergers/acquisitions being imposed on them, its overall benefits notwithstanding. It can thus be reasonably inferred that the initial resistance, though muffled, by some of these banks when the programme was foisted on them by the Central Bank of Nigeria (CBN) by fiat might have contributed to the tardiness with which many banks approached the exercise. That in turn might have arguably contributed to the success level of the exercise. It is plausible to argue that some banks in the category of the 14 that did not meet up with the deadline might have had a different story to tell today. This therefore stresses the importance of openness and dialogue in a major policy issue, however well intentioned.

That the policy pertaining to mergers/acquisitions in the banking industry as enunciated by the CBN on July 6, 2004 is laudable cannot be denied. However, the manner with which the policy was unveiled could have been better handled. Adequate consultation with major stakeholders in such a major policy issue is a *sine qua non* for assured success and effective implementation. The CBN needs to borrow a leaf from the Federal Ministry of Finance (the supervisory body for insurance companies in Nigeria) in its handling of recapitalization directive to insurance companies operating in Nigeria. Their input were sought and received before the announcement of figures to be attained by different categories of insurance companies and even the deadline for the exercise. That no resentments or subdued protests were witnessed from insurance companies at the announcement of the policy is a testimony to the efficacy of consultation and dialogue. It is therefore arguably that the recapitalization exercise in the insurance industry, which also involved mergers and/or acquisitions, did not turn out more successful than witnessed in the banking industry.

Arising from the above and in order for CBN to avoid forced mergers and/or acquisitions in the future, there is the need now to open up the banking industry to new entrants from abroad. This will no doubt ginger the existing banks to see mergers and acquisitions as a way of business life and survival in the competitive global business environment of today. By the same token, the CBN should encourage and be supportive of Nigerian banks venturing outside the shores of the country.

As a corollary to encouraging voluntary mergers and acquisitions in the banking industry, the CBN must insist on adequate regulation that is risk focused and clearly pre-announced to all operators; that reduces arbitrariness to the barest minimum; that shuns political solution to purely economic matters; that adopts zero tolerance in the regulatory framework; that enthrones and ensures integrity, accountability, transparency (without seen to be favouring any bank or group) and probity in the system. In this connection, one must not fail to note the misgivings expressed by many analysts and stakeholders to CBN’s apparent double standard exhibited during the consolidation exercise in the banking industry. While CBN, for example, literally arm twisted Union Bank of Nigeria Plc to acquire some smaller banks, the same treatment was not extended to two equally big banks, namely Zenith Bank Plc and GT Bank Plc. In the case of Zenith Bank, it was granted approval to proceed to the capital market to raise fresh funds barely one month after the consolidation exercise!

Another veritable means of making mergers and acquisitions a part and parcel of business culture in the banking industry, nay the entire Nigerian economy is to make the subject less arcane. People should be made not to see an acquisition for example, as signal of a failing institution and therefore cause for panic but as a means of survival, growth, enhancement of market share and earning power. This involves a lot of education and enlightenment and the CBN and the banks are in a vintage position to champion that cause. For example, just as the Nigerian Stock Exchange (NSE) has partnered and is still partnering with a lot of tertiary institutions in Nigeria to make the operations of stock market a course on its own (not as an integral part of corporate finance or investment analysis) and even organize yearly essays on the subject for students of these institutions, the CBN in collaboration with some banks can follow the same path and go a step further by endowing professorial chairs on mergers and acquisitions in some Nigerian tertiary institutions.

Furthermore, CBN should be consistent in its policies in order to guide banks in their business decisions, especially in areas of organic growth. With the consolidation exercise, for example, all banks in Nigeria engaged in Universal banking; there was no stratification along commercial or merchant banking lines. No regional banks were even allowed. Later, following change in leadership at the apex bank, some of these policies were jettisoned. It shouldn't be so. Merchant banking, for example, is back in the banking landscape of the country! Leadership change should not be synonymous with policy inconsistencies and somersaults. Policies should be well thought out and consultations with relevant stakeholders always sought after before announcing and implementing such policies. This is the surest way to avoid spotting lacunae later in such policies.

APPENDIX A

Further information required of the merging companies

A. Background Information
   - Beneficial ownership
   - Indebtedness
   - Shareholders
   - Extract from Memorandum and Articles of Association

B. Memorandum on Profit Forecast
   - Letters from Reporting Accountants together with their Reports
   - Profit forecast for at least two (2) years
   - Basic assumptions for the profit forecasts

C. Letters from financial advisers

D. List of documents available for inspection and scheme documents, resolutions, board members etc.

E. Statutory and General Information
   - Responsibility statement
   - Disclosure of interest by the Directors of the companies
   - Material contracts to the scheme
   - Claims and litigations against the merging companies
   - Consents of parties to the scheme
   - General information

F. Basis of Valuation and Allotment of New Shares Stating
   - Background of scheme
   - Basis of assumptions
   - Valuation method
   - Allotment of new shares
   - Post scheme shareholding

G. Scheme for the Proposed Merger or Scheme of Arrangement between the two (2) Companies
   - Preliminary (expression and meanings)
   - Statement of the authorized share capital of the merging companies
   - The various resolutions for the proposed scheme.

   The Scheme
   1) The scheme (state proposals of the scheme)
   2) Effects of the scheme or allotment
   3) Consequences of the scheme regarding the status of the merged companies e.g. certificate of incorporation reflecting the name of the resultant company.

4) Creditors
5) Employees
6) Directors
7) Conditions Precedent
8) Effective date of scheme
9) Modification/Arrangements
10) Effective date of the transaction

H. Notices of court ordered meetings to the shareholders of the merging companies

I. Draft Financial Arrangements Services
This agreement regulates the responsibilities between the merging companies and their financial advisers. The agreement should contain the following information among others:
- Name and address of parties
- The responsibilities of merging companies to furnish the financial advisers with all the necessary information; to bear all cost; fees and expenses incidental to the transaction; to indemnify the financial advisers against any interested party who alleges that the scheme documents did not contain all material information about the affairs of the companies.
- Payment of fees, i.e. the percentage or proportion of fees payable at each stage of the process and the fees payable where a transaction is stalled or aborted.
- Conditions for terminating the agreement and how expenses already incurred would be recovered.
- Arbitration charge

J. Two copies of draft trust deed (if necessary)

K. Any amendment or changes in the certificate of incorporation or articles of association of the surviving company as a result of the transaction (if any).

L. A statement that the certificate of incorporation of one of the constituted companies shall be the certificate of the surviving or resultant company (where applicable).

M. A certified copy of the court order directing the holding of the shareholders meeting.

N. Two copies of draft proxy forms for each of the merging companies.

O. Such other details or provisions as are deemed necessary and material.

APPENDIX B

List of Licensed Banks in Nigeria Just Before December 31, 2005

1. ACB International Bank Plc
2. Access Bank Nig. Ltd.
3. Afribank International Limited (Merchant Bankers)
4. Afribank Nigeria Plc
5. African Express Bank Plc
6. African International Bank Ltd.
7. Allstates Trust Bank Plc
8. Assurance Bank Nigeria Ltd.
9. Bank of the North Ltd.
10. Bond Bank Ltd.
11. Broad Bank Nig. Ltd.
12. Capital Bank International Ltd.
13. Centre-Point Bank Plc.
14. Chartered Bank Plc
15. Citibank Nigeria Ltd.
16. Citizens International Bank Ltd.
17. City Express Bank Plc
18. Continental Trust Bank Ltd.
19. Cooperative Bank Plc
20. Cooperative Development Bank Plc
21. Devcom Bank Ltd.
22. Diamond Bank Nig. Ltd.
23. Eagle Bank Ltd.
24. Ecobank Nig. Plc
25. Eko International Bank Plc
26. Equitorial Trust Bank Ltd.
27. Equity Bank of Nigeria Ltd.
28. FBN (Merchant Bankers) Ltd.
29. Fidelity Bank Plc
30. First Atlantic Bank Plc
31. First Bank of Nigeria Plc
32. First City Monument Bank Ltd.
33. First Interstate Bank Plc
34. Fortune International Bank Plc
35. Fountain Trust Bank Plc
36. FSB International Bank Plc
37. Gateway Bank Plc
38. Global Bank Plc
39. Guaranty Trust Bank Plc
40. Guardian Express Bank Plc
41. Gulf Bank of Nigeria Plc
42. Habib Nigeria Bank Ltd.
43. Hallmark Bank Plc

44. INMB Bank Ltd.
45. Inland Bank Nigeria Plc
46. Intercity Bank Plc
47. Intercontinental Bank Ltd
48. IMB International Bank Plc
49. International Trust Bank Plc
50. Investment Banking & Trust Company Ltd.
51. Leadbank Plc
52. Liberty Bank Plc
53. Lion Bank of Nigeria Plc
54. Magnum Trust Bank Plc
55. Manny Bank Nigeria Plc
56. Marina International Bank Ltd.
57. MBC International Bank Plc
58. Metropolitan Bank Ltd.
59. Midas Merchant Bank Ltd.
60. NAL Bank Plc
61. National Bank of Nigeria Ltd.
62. NBM Bank Ltd.
63. New Africa Merchant Bank Plc
64. NNB Bank Plc
65. Nigerian-American Bank Ltd.
66. NUB International Bank Plc
67. Oceanic Bank International Plc
68. Omega Bank Plc
69. Pacific Bank Ltd.
70. Platinum Bank Ltd.
71. Prudent Bank Plc
72. Regent Bank Ltd.
73. Reliance Bank Ltd.
74. Societe Bancaire Nig. Ltd.
75. Societe Generale Bank Ltd.
76. Stanbic Bank Ltd.
77. Standard Chartered Bank Nigeria Ltd.
78. Standard Trust Bank Ltd.
79. Trade Bank Plc
80. Trans International Bank Plc
81. Tropical Commercial Bank Plc
82. Triumph Bank Plc
83. Trust Bank of Africa Ltd. (Merchant Bankers)
84. Union Bank of Nigeria Plc
85. Union Merchant Bank Ltd.
86. United Bank for Africa Plc
87. Universal Trust Bank Plc
88. Wema Bank Pc
89. Zenith International Bank Ltd.

APPENDIX C

25 BANKS THAT MET THE CBN MINIMUM CAPITAL BASE OF N25 billion AS AT DECEMBER 31, 2005

1. Access Bank Plc
2. Afribank Plc
3. Diamond Bank Plc
4. Ecobank Plc
5. ETB
6. FCMB Plc
7. Fidelity Bank Plc
8. First Bank Plc
9. First Inland Bank Plc
10. GT Bank Plc
11. IBTC Chartered Bank
12. Intercontinental Bank Plc
13. Citi Bank
14. Oceanic Bank International Plc
15. PHB Bank Plc
16. Skye Bank Plc
17. Spring Bank Plc
18. Stanbic Bank
19. Standard Chartered
20. Sterling Bank
21. UBA Plc
22. Union Bank Plc
23. Unity Bank Plc
24. Wema Bank Plc
25. Zenith Bank Plc

APPENDIX D

14 BANKS THAT DID NOT MEET THE CBN MINIMUM CAPITAL BASE OF N25 BILLION AS AT DECEMBER 31, 2005

1. African Express Bank Plc
2. All States Trust Bank
3. Assurance Bank
4. City Express Bank
5. Eagle Bank
6. Fortune Bank
7. Gulf Bank Plc
8. Hallmark Bank Plc
9. Lead Bank
10. Liberty Bank
11. Metropolitan Bank
12. Societe Generale Bank
13. Trade Bank Plc
14. Triumph Bank

APPENDIX E

MERGED BANKS AS AT DECEMBER 31, 2005

1. Access Bank Plc comprising Access Bank, Marina International and Capital International Bank
2. Afribank Plc made up of Afribank and Afribank International (Merchant Bankers)
3. Diamond Bank Plc comprising of Diamond Bank Plc, Lion Bank Plc and African International Bank
4. ETB made up of Equitorial Trust Bank and Devcom Bank
5. FCMB Plc comprising of FCMB Plc, Co-operative Development Bank and Nigerian-American Bank
6. Fidelity Bank Plc comprising of Fidelity Bank Plc, Manny Bank and FSB Plc
7. First Bank Plc comprising First Bank Plc, FBN (Merchant Bankers) and MBC International Bank
8. First Inland Bank Plc made up of First Atlantic Bank Plc, Inland Bank Plc, New African Bank, IMB and NUB Bank
9. IBTC Chartered Bank comprising of IBTC, Chartered Bank and Regent Bank
10. Intercontinental Bank Plc comprising Intercontinental Bank Plc, Equity Bank, Global Bank and Gateway Bank
11. Oceanic Bank International Plc made up of Oceanic Bank and International Trust Bank
12. PHB Bank Plc made up of Platinum Bank and Habib Bank
13. Skye Bank Plc comprising of Prudent Bank, EIB International Bank, Bond Bank and Reliance Bank
14. Spring Bank Plc comprising Omega Bank, Trans-International Bank, Fountain Trust Bank, Citizens Bank, Guardian Express and ACB International
15. Sterling Bank comprising NBM Bank, NAL Bank Plc, Magnum Trust Bank, Indo-Nigeria Bank and Trust Bank
16. UBA Plc comprising UBA Plc, Standard Trust Bank Plc and Continental Trust Bank
17. Union Bank Plc comprising Union Bank Plc, Union Merchant Bankers, UTB Plc and Broad Bank
18. Unity Bank Plc comprising Centre-Point, Cooperative Bank Plc, First Interstate Bank, Intercity Bank, Midas Bank, NNB, Pacific Bank, Societe Bancaire and Tropical Commercial Bank
19. Wema Bank Plc made up of Wema Bank Plc and National Bank

APPENDIX F

BANKS THAT DID NOT MERGE WITH OTHERS AS AT DECEMBER 31, 2005

In addition to the **14 banks** already identified in Appendix D that could not meet the N25 billion minimum capital base as at December 31, 2005, the following **6 banks** (though were able to cross the hurdle) did not merge with any bank(s) within the period under consideration.

1. Ecobank Plc
2. GT Bank Plc
3. Citi Bank
4. Stanbic Bank
5. Standard Chartered Bank
6. Zenith Bank Plc

The above together with the already identified 14, bring the total banks that did not merge to **20 banks**.

APPENDIX G

10, Fola Jinadu Crescent
Gbagada Phase 1
P. O. Box 70188, V. I.
Lagos.
28th March, 2006.

The Head,
Investment Banking / Corporate Finance
____
____
____

Dear Sir/Madam

Questionnaire on Mergers and Acquisitions in the Nigerian Banking Industry

Attached is a questionnaire dealing with the issue of mergers and acquisitions as it pertains to Nigerian Banks. It is a purely academic work which the undersigned is carrying out for his doctoral degree.

Your bank is one of those specially selected for the study. You are, please, requested to answer the questions in the said questionnaire faithfully and accurately. Steps have been taken to ensure strict confidentiality of information supplied. For example, you are not required to supply the name of your organization.

Completed questionnaire will be collected back or if you choose, you can return or post same to the above address.

Thanking you in advance for your kind cooperation.

Yours truly,

Okolo P.C. (Mr.)

P.S. This letter should be detached when returning the questionnaire.

APPENDIX H

QUESTIONNAIRE

Instruction:

Please circle the option you prefer where choices are given, otherwise, feel free to comment where required. For example, where is the head office of your bank located?

a. Abuja b. Enugu c. Ibadan d. Kaduna e. Lagos f. Port Harcourt

In the above example, e is chosen and accordingly circled.

Now, please answer the following:

1. What was the total shareholders' fund of your bank prior to July 6, 2004?
   a. over N10 bn. b. N6 – 10 bn. c. N3 – 5.9 bn. d. N2.9 – 2 bn. e. less than N2bn.

2. Do you consider that capital base adequate enough to face the challenges of modern banking business?
   a. very adequate b. quite adequate c. fairly adequate d. just adequate e. not adequate

3. Is your bank a publicly quoted one as at December 31, 2005?
   a. yes b. no

4. If yes, through what means did it come to the capital market?
   a. offer for subscription b. offer for sale c. introduction d. others (please specify)

5. If privately owned, what percentage of the paid – up share capital was the highest shareholder controlling prior to December 31, 2005?
   a. over 90% b. 80 – 90% c. 70 – 79% d. 60 – 69% e. 50 – 59% f. less than 50%

6. What was the Board composition of your bank within the period?
   a. over 20 b. 15 – 20 c. 10 – 14 d. 5 – 9 e. less than 5

7. And what is the composition now? Please state as in 6 above

   ____

8. Did your bank agree unhesitatingly with the CBN directive that banks in Nigeria should increase their shareholders' funds to a minimum of N25 billion each by

   December 31, 2005 as a way of getting them to embrace mergers and acquisitions ?
   a. yes b. no

9. If your bank did not agree, briefly state why

____

____

____
____

10. Has your bank met the CBN's minimum capital base of N25 billion?
    a. yes b. no

11. If yes, through what means was it able to achieve that?
    a. merger/acquisition b. capital market c. combination of a and b d. private placement e. injection of fresh funds by shareholders only f. others (please specify)
    ____

12. Are the shareholders of your bank contemplating further merger/acquisition with any bank(s)?
    a. yes b. no

13. Do you consider the costs, procedure and processes associated with mergers and acquisitions in the industry friendly enough to encourage banks to merge?
    a. very friendly b. quite friendly c. just friendly d. not too friendly e. not friendly

14. Do you feel mergers and acquisitions hold any benefits for the banking industry in Nigeria ?
    a. strong benefits b. good benefits c. fairly good benefits d. no good benefits
    e. don't know

15. If there are any benefit(s), briefly state it (them)
____
____
____
____

16. If your shareholders were not receptive initially or up till now to the idea of merger (s)/acquisition(s), do you feel it could be attributed to fear of ownership dilution?
    a. very strongly so b. quite strongly so c. strongly so d. not strongly so
    e. not at all

17. Briefly state other means (apart from mergers and acquisitions) they are exploring towards surpassing the minimum capital base of N25 billion
____
____
____
____
____
____

18. Do you strongly feel your staff readily embraced mergers and acquisitions when CBN directed banks to embrace same?
    a. very strongly b. quite strongly c. strongly d. not strongly e. not at all

19. If no, why? Briefly state the reason(s) ____

20. What other means other than mergers and acquisitions do you recommend to make banking industry in Nigeria strong and virile ? Briefly state

____

21. Please state your designation in the bank

____

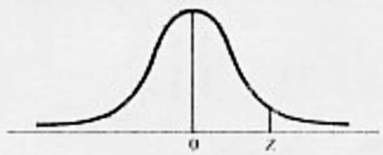
APPENDIX I

THE VALIDATION INSTRUMENT FOR RECORDING GENERATED DATA

Bank	Adequacy of Capital Prior to July 6, 2004	Fear of Ownership Dilution	Attitude to CBN directive to merge Yes = 1 **No = 2**	Costs, Procedure and Processes Rating	Merging Categorization a= merged banks b= non-merged banks

APPENDIX J

Table E.2
THE STANDARDIZED NORMAL DISTRIBUTION



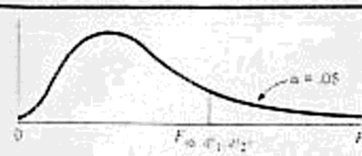
Entry represents area under the standardized normal distribution from the mean to Z

Z	.00	.01	.02	.03	.04	.05	.06	.07	.08	.09
0.0	.0000	.0040	.0080	.0120	.0160	.0199	.0239	.0279	.0319	.0359
0.1	.0398	.0438	.0478	.0517	.0557	.0596	.0636	.0675	.0714	.0753
0.2	.0793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517
0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2518	.2549
0.7	.2580	.2612	.2642	.2673	.2704	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4082	.4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4429	.4441
1.6	.4452	.4463	.4474	.4484	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4756	.4761	.4767
2.0	.4772	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4864	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	.4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	.4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4979	.4980	.4981
2.9	.4981	.4982	.4982	.4983	.4984	.4984	.4985	.4985	.4986	.4986
3.0	.49865	.49869	.49874	.49878	.49882	.49886	.49889	.49893	.49897	.49900
3.1	.49903	.49906	.49910	.49913	.49916	.49918	.49921	.49924	.49926	.49929
3.2	.49931	.49934	.49936	.49938	.49940	.49942	.49944	.49946	.49948	.49950
3.3	.49952	.49953	.49955	.49957	.49958	.49960	.49961	.49962	.49964	.49965
3.4	.49966	.49968	.49969	.49970	.49971	.49972	.49973	.49974	.49975	.49976
3.5	.49977	.49978	.49978	.49979	.49980	.49981	.49981	.49982	.49983	.49983
3.6	.49984	.49985	.49985	.49986	.49986	.49987	.49987	.49988	.49988	.49989
3.7	.49989	.49990	.49990	.49990	.49991	.49991	.49992	.49992	.49992	.49992
3.8	.49993	.49993	.49993	.49994	.49994	.49994	.49994	.49995	.49995	.49995
3.9	.49995	.49995	.49996	.49996	.49996	.49996	.49996	.49996	.49997	.49997

APPENDIX K

Table E.5
CRITICAL VALUES OF F

For a particular combination of numerator and denominator degrees of freedom, entry represents the critical values of F corresponding to a specified upper tail area (α).



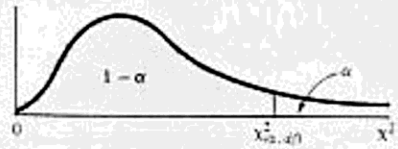
Numerator df_1

Denominator df_2	1	2	3	4	5	6	7	8	9	10	12	15	20	24	30	40	60	120	∞
1	161.4	199.5	215.7	224.6	230.2	234.0	236.8	238.9	240.5	241.9	243.9	245.9	248.0	249.1	250.1	251.1	252.2	253.3	254.3
2	18.51	19.00	19.16	19.25	19.30	19.33	19.35	19.37	19.38	19.40	19.41	19.43	19.45	19.45	19.46	19.47	19.48	19.49	19.50
3	10.13	9.55	9.28	9.12	9.01	8.94	8.89	8.85	8.81	8.79	8.74	8.70	8.66	8.64	8.62	8.59	8.57	8.55	8.53
4	7.71	6.94	6.59	6.39	6.26	6.16	6.09	6.04	6.00	5.96	5.91	5.86	5.80	5.77	5.75	5.72	5.69	5.66	5.63
5	6.61	5.79	5.41	5.19	5.05	4.95	4.88	4.82	4.77	4.74	4.68	4.62	4.56	4.53	4.50	4.46	4.43	4.40	4.36
6	5.99	5.14	4.76	4.53	4.39	4.28	4.21	4.15	4.10	4.06	4.00	3.94	3.87	3.84	3.81	3.77	3.74	3.70	3.67
7	5.59	4.74	4.35	4.12	3.97	3.87	3.79	3.73	3.68	3.64	3.57	3.51	3.44	3.41	3.38	3.34	3.30	3.27	3.23
8	5.32	4.46	4.07	3.84	3.69	3.58	3.50	3.44	3.39	3.35	3.28	3.22	3.15	3.12	3.08	3.04	3.01	2.97	2.93
9	5.12	4.26	3.86	3.63	3.48	3.37	3.29	3.23	3.18	3.14	3.07	3.01	2.94	2.90	2.86	2.83	2.79	2.75	2.71
10	4.96	4.10	3.71	3.48	3.33	3.22	3.14	3.07	3.02	2.98	2.91	2.85	2.77	2.74	2.70	2.66	2.62	2.58	2.54
11	4.84	3.98	3.59	3.36	3.20	3.09	3.01	2.95	2.90	2.85	2.79	2.72	2.65	2.61	2.57	2.53	2.49	2.45	2.40
12	4.75	3.89	3.49	3.26	3.11	3.00	2.91	2.85	2.80	2.75	2.69	2.62	2.54	2.51	2.47	2.43	2.38	2.34	2.30
13	4.67	3.81	3.41	3.18	3.03	2.92	2.83	2.77	2.71	2.67	2.60	2.53	2.46	2.42	2.38	2.34	2.30	2.25	2.21
14	4.60	3.74	3.34	3.11	2.96	2.85	2.76	2.70	2.65	2.60	2.53	2.46	2.39	2.35	2.31	2.27	2.22	2.18	2.13
15	4.54	3.68	3.29	3.06	2.90	2.79	2.71	2.64	2.59	2.54	2.48	2.40	2.33	2.29	2.25	2.20	2.16	2.11	2.07
16	4.49	3.63	3.24	3.01	2.85	2.74	2.66	2.59	2.54	2.49	2.42	2.35	2.28	2.24	2.19	2.15	2.11	2.06	2.01
17	4.45	3.59	3.20	2.96	2.81	2.70	2.61	2.55	2.49	2.45	2.38	2.31	2.23	2.19	2.15	2.10	2.06	2.01	1.96
18	4.41	3.55	3.16	2.93	2.77	2.66	2.58	2.51	2.46	2.41	2.34	2.27	2.19	2.15	2.11	2.06	2.02	1.97	1.92
19	4.38	3.52	3.13	2.90	2.74	2.63	2.54	2.48	2.42	2.38	2.31	2.23	2.16	2.11	2.07	2.03	1.98	1.93	1.88
20	4.35	3.49	3.10	2.87	2.71	2.60	2.51	2.45	2.39	2.35	2.28	2.20	2.12	2.08	2.04	1.99	1.95	1.90	1.84
21	4.32	3.47	3.07	2.84	2.68	2.57	2.49	2.42	2.37	2.32	2.25	2.18	2.10	2.05	2.01	1.96	1.92	1.87	1.81
22	4.30	3.44	3.05	2.82	2.66	2.55	2.46	2.40	2.34	2.30	2.23	2.15	2.07	2.03	1.98	1.94	1.89	1.84	1.78
23	4.28	3.42	3.03	2.80	2.64	2.53	2.44	2.37	2.32	2.27	2.20	2.13	2.05	2.01	1.96	1.91	1.86	1.81	1.76
24	4.26	3.40	3.01	2.78	2.62	2.51	2.42	2.36	2.30	2.25	2.18	2.11	2.03	1.98	1.94	1.89	1.84	1.79	1.73
25	4.24	3.39	2.99	2.76	2.60	2.49	2.40	2.34	2.28	2.24	2.16	2.09	2.01	1.96	1.92	1.87	1.82	1.77	1.71
26	4.23	3.37	2.98	2.74	2.59	2.47	2.39	2.32	2.27	2.22	2.15	2.07	1.99	1.95	1.90	1.85	1.80	1.75	1.69
27	4.21	3.35	2.96	2.73	2.57	2.46	2.37	2.31	2.25	2.20	2.13	2.06	1.97	1.93	1.88	1.84	1.79	1.73	1.67
28	4.20	3.34	2.95	2.71	2.56	2.45	2.36	2.29	2.24	2.19	2.12	2.04	1.96	1.91	1.87	1.82	1.77	1.71	1.65
29	4.18	3.33	2.93	2.70	2.55	2.43	2.35	2.28	2.22	2.18	2.10	2.03	1.94	1.90	1.85	1.81	1.75	1.70	1.64
30	4.17	3.32	2.92	2.69	2.53	2.42	2.33	2.27	2.21	2.16	2.09	2.01	1.93	1.89	1.84	1.79	1.74	1.68	1.62
40	4.08	3.23	2.84	2.61	2.45	2.34	2.25	2.18	2.12	2.08	2.00	1.92	1.84	1.79	1.74	1.69	1.64	1.58	1.51
60	4.00	3.15	2.76	2.53	2.37	2.25	2.17	2.10	2.04	1.99	1.92	1.84	1.75	1.70	1.65	1.59	1.53	1.47	1.39
120	3.92	3.07	2.68	2.45	2.29	2.17	2.09	2.02	1.96	1.91	1.83	1.75	1.66	1.61	1.55	1.50	1.43	1.35	1.25
∞	3.84	3.00	2.60	2.37	2.21	2.10	2.01	1.94	1.88	1.83	1.75	1.67	1.57	1.52	1.46	1.39	1.32	1.22	1.00

APPENDIX L

Table E.4
CRITICAL VALUES OF χ^2

For α particular number of degrees of freedom, entry represents the critical value of χ^2 corresponding to a specified percentile or lower tail area $(1 - \alpha)$



Degrees of Freedom	Lower Tail Areas (Percentiles)											
	.005	.01	.025	.05	.10	.25	.75	.90	.95	.975	.99	.995
1	-	-	0.001	0.004	0.016	0.102	1.323	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	0.575	2.773	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	1.213	4.108	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	1.923	5.385	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	2.675	6.626	9.236	11.071	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	3.455	7.841	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	4.255	9.037	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	5.071	10.219	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	5.899	11.389	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	6.737	12.549	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	7.584	13.701	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	8.438	14.845	18.549	21.026	23.337	26.217	28.299
13	3.565	4.107	5.009	5.892	7.042	9.299	15.984	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	10.165	17.117	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	11.037	18.245	22.307	24.996	27.488	30.578	32.801
16	5.142	5.812	6.908	7.962	9.312	11.912	19.369	23.542	26.296	28.845	32.000	34.267
17	5.697	6.408	7.564	8.672	10.085	12.792	20.489	24.769	27.587	30.191	33.409	35.718
18	6.265	7.015	8.231	9.390	10.865	13.675	21.605	25.989	28.869	31.526	34.805	37.156
19	6.844	7.633	8.907	10.117	11.651	14.562	22.718	27.204	30.144	32.852	36.191	38.582
20	7.434	8.260	9.591	10.851	12.443	15.452	23.828	28.412	31.410	34.170	37.566	39.997
21	8.034	8.897	10.283	11.591	13.240	16.344	24.935	29.615	32.671	35.479	38.932	41.401
22	8.643	9.542	10.982	12.338	14.042	17.240	26.039	30.813	33.924	36.781	40.289	42.796
23	9.260	10.196	11.689	13.091	14.848	18.137	27.141	32.007	35.172	38.076	41.638	44.181
24	9.886	10.856	12.401	13.848	15.659	19.037	28.241	33.196	36.415	39.364	42.980	45.559
25	10.520	11.524	13.120	14.611	16.473	19.939	29.339	34.382	37.652	40.646	44.314	46.928
26	11.160	12.198	13.844	15.379	17.292	20.843	30.435	35.563	38.885	41.923	45.642	48.290
27	11.808	12.879	14.573	16.151	18.114	21.749	31.528	36.741	40.113	43.194	46.963	49.645
28	12.461	13.565	15.308	16.928	18.939	22.657	32.620	37.916	41.337	44.461	48.278	50.993
29	13.121	14.257	16.047	17.708	19.768	23.567	33.711	39.087	42.557	45.722	49.588	52.336
30	13.787	14.954	16.791	18.493	20.599	24.478	34.800	40.256	43.773	46.979	50.892	53.672
31	14.458	15.655	17.539	19.281	21.434	25.390	35.887	41.422	44.985	48.232	52.191	55.003
32	15.134	16.362	18.291	20.072	22.271	26.304	36.973	42.585	46.194	49.480	53.486	56.328
33	15.815	17.074	19.047	20.867	23.110	27.219	38.058	43.745	47.400	50.725	54.776	57.648
34	16.501	17.789	19.806	21.664	23.952	28.136	39.141	44.903	48.602	51.966	56.061	58.964
35	17.192	18.509	20.569	22.465	24.797	29.054	40.223	46.059	49.802	53.203	57.342	60.275

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