

UNIPORT JOURNAL OF BUSINESS, ACCOUNTING & FINANCE MANAGEMENT
DEPARTMENT OF ACCOUNTING
UNIVERSITY OF PORT HARCOURT, CHOBA
PORT HARCOURT, RIVERS STATE
NIGERIA
VOL. 12 NO. 1 MARCH 2021

**ACCESS – DIAMOND BANK DONE – DEAL IN NIGERIA: POLICY AND STRATEGIC FINANCIAL
MANAGEMENT FOCAL INSTITUTIONAL INSTINCTS**

PRINCE UMOR C. AGUNDU PhD.
Faculty of Humanities,
Management & Social Sciences,
Federal University Wukari,
Taraba State, Nigeria

And

SHINTIMA D. ANTO
Financial Analyst in Wukari,
Taraba State,
Nigeria

Abstract

In the annals of Nigerian financial institutions, Access Bank and Diamond Bank once prevailed as two distinct banking constituents. They, later in their institutional life, came together as one, adopting Access Bank as amalgam identity. This marks the done-deal context of the study. The study examines their pre-amalgam features with emphasis on policy and strategic financial management focal institutional instincts. Herein, institutional wealth profile serves dependent variable while Return on Assets (ROA) serves as proxy for profitability. Secondary data are sourced from Central Bank of Nigeria Statistical Bulletin, spanning 2008-2018, and analysed using descriptive/inferential statistics, with the aid of Statistical Package for Social Sciences (SPSS), at the 0.05 significance level. The analytical outcomes indicate that pre-amalgam institutional wealth profiles of the banks are not significantly different. The study, therefore, concludes that there is no significant difference between pre-amalgam features of the banks. The amalgamation was, thus, inspired by other policy and strategic financial management instincts, particularly associated with corporate restructuring, sustainable robustness, and innovativeness/competitiveness. Executive drivers of the project should keenly accentuate the ideals of corporate governance and efficient service delivery towards strategically consummating anticipated pleasantries with utmost professional precision.
Keywords: Corporate amalgamation, Nigerian Banks, Policy and strategic instincts

Introduction

Sound banking institutions are quite crucial to a vibrant economy; hence, banks constitute strategic constituents of the financial system of a nation. They are veritable agents that galvanize financial intermediation between surplus economic units and deficit economic units. As they mainstream the efficient allocation of savings, an economy records auspicious increase in the quantum of aggregate investment and output (Olagunju & Obademi, 2012). Corporate amalgamation find expression in Merger and Acquisition

(M&A), which prevail as mechanisms for maximizing of market share, enhancing profitability, and ultimately increasing market value.

In addition, M&A attracts monetary and fiscal value-added, anchored on economies of scale, risk diversification, improved equity base, higher earnings per share, access to rare management talent and vast employment opportunities. Recent banking system reforms in Nigeria, driven by strategic concerns, highly underscored institutional restructuring/reconstruction towards evolving a more vibrant financial services sector. Proactively, banks were expected to expeditiously increase their capital base and instil corporate governance in line with global best practices.

While *capital beef-up* policy relates to point-in-time strategic instincts, *consolidation* policy remains on-going, with utmost strategic intensity, made more visible since the wake of the globalization contagion. This study, therefore, examines the pre-amalgam features of *Access Bank* and *Diamond Bank* in Nigeria, with a view to underscoring the policy and strategic financial management focal institutional instincts. The research hypothesis elicited is:

Ho: *The pre-amalgam institutional wealth profiles of Access Bank and Diamond Bank in Nigeria do not differ significantly.*

Literature Review

The dividing line between *merger* and *acquisition* is relatively thin. However, merger apparently stands out as the combination of two or more firms leading to the emergence of a new holding entity (Anderibom & Obute, 2015). Acquisition, on the other hand, refers to the purchase of shares (assets) of another firm in order to wield greater managerial influence (Ikpefan, 2013). From the fore-going, it is not uncommon for the terms *merger* and *acquisition* to be used interchangeably in business circles (Pandey, 2010). In profiling the dual concept, it is noteworthy that the policy and strategic financial management institutional instincts tilt towards attraction of economic/financial pleasantries and maximization of corporate growth. In this regard, production and marketing operations are enhanced by:

- accelerating growth, particularly amidst constrained resources;
- cutting cost through economies of scale, operating efficiency and synergy;
- eliminating risk, with the acquisition of favourably correlating businesses;
- beating tax liability, through setting off accumulated losses and unabsorbed depreciation; and
- Limiting the severity of competition by increasing market power.

Ultimately, these amalgam features foster corporate growth (profitability), thereby ensuring the avoidance of liquidation. Given that *profitability* is relative, *profit* (being absolute) is derived as the difference between revenues and expenses over a period of time. It is, thus, strategic for financial managers to continuously evaluate corporate efficiency to accentuate survival and growth. To this end, *profitability ratios*, especially return indicators, illuminate what a firm earns on sales, assets or equity (Usman, 2006; Agundu & Musa, 2019). They (accounting ratios or financial indicators) are also designated as Return on Sales (ROS), which is the profit margin; ROA; and Return on Equity (ROE). Pandey (2010) identifies ROA and ROE as prime measures of profitability. ROA comprehensively measures overall performance, which exemplify the capability of management to convert a firm's assets into net earnings.

ROE measures profitability, mainly from the shareholder's perspective, exemplifying the flow of net benefits that shareholders have received from their (capital) investments (Uremadu, 2007). Studies have been conducted to determine how corporate M&A help to fix the survival and growth challenges of banks. The findings are rather divergent. Adegbaaju and Olokoyo (2008) adopted descriptive tools (mean and standard deviation) as well as t-test to analyse the effect of recapitalization on bank performance in Nigeria. The findings established that the mean of *profitability ratios* such as Yield on Earning Asset (YEA), ROE, and ROA, after recapitalization were significantly different. This affirms a statistical difference between the mean of the pre- and post-2004 bank recapitalization fortunes in the economy.

Furthermore, some investigations on the performance of government-induced bank consolidation and macro-economic performance in Nigeria in the post-consolidation period, establish that bank consolidation is necessary but not sufficient to instill financial services sector stability and sustainable development. By this disposition, the bank consolidation programme did not improve overall performance of the banking industry significantly, but nonetheless, contributed little to corporate growth, lending a boost to real sector sustainable development in Nigeria (Ambrose, Saratu, Jim & Geoffrey, 2018; Anto, 2019).

Njogo, Ayanwale and Nwankwo (2016), in their investigation on impact of M&A episodes of the 2000s, used a sample of 10 Deposit Money Banks (DMBs), with secondary data drawn from their annual reports and statement of accounts covering the period, 2001-2010. Nine variables, namely, ROA, ROE, Net Profit Margin (NPM), Asset Utilization (AU), and Equity Multiplier (EM), Earnings per Share (EPS), Debt-Equity Ratio (DER), Debt-Asset Ratio (DAR) and Leverage Ratio (LR) were adopted. The t-test results indicate a significant difference between the performance of DMBs in the pre- and post-merger periods. This is fundamentally pronounced with ROA, ROE and LR. This fundamental dominance underscores the adoption of ROA as independent variable in relation to the amalgam features of the focal banks (Access Bank and Diamond Bank).

Methodology

The design of this research, being *ex-post facto*, hinges on historic accounting data (implying, they have already taken place). With this design, descriptive and inferential statistics are used to calibrate the variables and ascertain their relationships, if apparent association or causal interaction exists between them (Onaolapo & Ajayi, 2013; Ikpefan, 2013; Anto, 2019). The time-series (secondary) data for the study comprise financial statement information of the focal banks, namely, *Access Bank (AB)* and *Diamond Bank (DB)*, as contained in the *CBN Statistical Bulletin* for the period, 2008-2018. To further justify the research design, the independent variable is catalysed with two other financial fundamentals, namely, current ratio and debt-equity ratio; such that, thereafter, only the coefficient of the focal independent variable (ROA) and the related statistical manifests are underscored. For this course, the concentric models are:

$$y_{AB} = \beta_0 + \beta_1 x + u \quad \dots \quad (i)$$

$$y_{DB} = \beta_0 + \beta_1 x + u \quad \dots \quad (2)$$

Where

y_{AB} = Institutional wealth of AB

y_{DB} = Institutional wealth of DB

x = Return on Asset (ROA)

β =Beta

β_0 = Intercept term

β_1 = Coefficient of x

U = Stochastic error term

The strength of the above model is affirmed in the course of data analysis, to establish if it is significant in explaining the extent to which the pre-amalgam features of the banks differ. In the light of the outcome, the decision rule to reject the null hypothesis (or refrain) is applied at the 0.05 level of significance. This is computationally aided by Statistical Package for Social Sciences (SPSS). Specifically, where the calculated probability (p) value is less than 0.05, the null hypothesis is rejected and the alternate hypothesis accepted; but where it exceeds 0.05, the null hypothesis is not rejected. Furthermore, in terms of Coefficient of Determination (R^2), the closer the result is to 1 (that is 100%), the stronger the capacity of the independent variable to explain the variations (dynamics) of the dependent variable.

Results

The statistical presentation begins with the secondary (time-series) data specified for the study, as sourced from *Central Bank of Nigeria (CBN) Statistical Bulletin* for the years, 2008-2018. They relate to the pre-amalgam fundamentals of the focal banks, particularly, the institutional wealth profile of Access Bank (y_{AB}), institutional wealth profile of Diamond Bank (y_{DB}), and ROA financial fundamental (x). These analytical details are highlighted in Tables 1 to 9:

Table 1: Baseline Financial Time-Series of the Focal Banks

Year	y_{AB}	y_{DB}	x
2008	1313589.0	13788620.0	765837583.0
2009	17185800.0	17461240.0	887583739.0
2010	17344310.0	17456240.0	53324222223.0
2011	17851460.0	18310160.0	9583829294.0
2012	17232420.0	18326960.0	85948392929.0
2013	21101980.0	18326160.0	6848594839.0
2014	20117350.0	21134990.0	6443332295.0
2015	18850755.0	182080680.0	86949485693.0
2016	18365732.0	18666324.0	8566484638.0
2017	17136732.0	35467234.0	573563562.0
2018	7589568434	654738386	85757474764.0

Source: CBN Statistical Bulletin (various years)

Table 2: Descriptive Statistics of the Focal Banks

Designation	Mean	Std. Deviation	N
y_{AB}	705097142.000	2.2 (prop.)	11
y_{DB}	92341544.909	0.19 (prop.)	11

Source: Research Data, 2019 (facilitated by SPSS).

Table 3: Inferential t-Test Results for y_{AB}

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	0.05 Confidence Interval for		Correlations	
	y	Std. Error				Beta	Lower Bound	Upper Bound	Zero-order
1 (Constant)	982024947.819	1122731763.972		-.875	.411	-3636863704.940	1672813809.302		
X	.024	.017	.406	1.411	.201	-.016	.065	.473	.471

Dependent Variable: y_{AB}

Source: Research Data, 2019 (facilitated by SPSS).

Table 4: Inferential t-Test Results for y_{DB}

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	0.05 Confidence Interval for B		Correlations		
	Y	Std. Error				Beta	Lower Bound	Upper Bound	Zero-order	Partial
1 (Constant)	48862617.678	91474195.547		-.534	.610	-265164718.864	167439483.508			
X	.003	.001	.544	1.959	.091	-.001	.006	.588	.595	.513

Dependent Variable: y_{DB}

Source: Research Data, 2019 (facilitated by SPSS).

Table 5: Summary of Access Bank y_{AB} Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.695	.483	.262	1962136172.3171	.483	2.181	3	7	.178	1.913

Predictors: (Constant), ROA; Dependent Variable: y_{AB}

Source: Research Data, 2019 (facilitated by SPSS).

Table 6: Summary of y_{DB} Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.720	.519	.313	159864389.4086	.519	2.517	3	7	.142	1.899

Predictors: (Constant), ROA; Dependent Variable: y_{DB}

Source: Research Data, 2019 (facilitated by SPSS).

Table 7: Analysis of Variance Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25185968580381426000.000	3	8395322860127141900.000	2.181	.178
	Residual	26949848511006350000.000	7	3849978358715192800.000		
	Total	52135817091387780000.000	10			

Source: Research Data, 2019 (facilitated by SPSS).

Table 8: Collinearity Diagnostics

Model Dimensions	Eigenvalue	Condition Index	Constant	ROA
1	3.141	1.000	.02	.03
2	.424	2.721	.04	.92
3	.245	3.579	.17	.05
4	.190	4.063	.77	.00

Source: Research Data, 2019 (facilitated by SPSS).

Table 9: Hypothesis Test Highlights

Variable	t-stat	Significant	Decision
y_{AB} ; ROA	1.411	0.211	Do not Reject
y_{DB} ; ROA	1.959	0.091	

Source: Research Data, 2019 (facilitated by SPSS).

The statistics in Table 1 are historical financial data, specifically detailing the institutional wealth profile of Access Bank (y_{AB}), institutional wealth profile of Diamond Bank (y_{DB}), and ROA financial fundamental (x) for the 11-year study-period (2008-2018). In

Table 2, the mean for y_{AB} is 705097142.00 with standard deviation of 2.2 (proportionate); and for y_{DB} the mean is 92341544909 with standard deviation of 0.19 (proportionate). In Tables 3 and 4, the results of regression analysis reveal that one unit increase in x causes 0.024 increase in y_{AB} ; while one unit increase in x leads to 0.003 increase in y_{DB} . The statistical summaries of y_{AB} and y_{DB} models are in Tables 6 and 7; the Analysis of Variance (ANOVA) results and collinearity diagnostics are in Tables 7 and 8; while the Hypothesis test details are contained in Table 9. The results of test of hypothesis particularly reveal that p -value of y_{AB} is 0.211 ($p > 0.05$); while for y_{DB} , the p -value is 0.091 ($p > 0.05$). The t -statistic is 1.411 for y_{AB} and 1.959 for y_{DB} . Given that these statistical inferences are mild, the null hypothesis is not rejected. It is rather upheld, to wit: *there is no significant difference between the pre-amalgam institutional wealth profile of Access and Diamond Bank in Nigeria*. Essentially, the pre-amalgam features of the focal banks do not differ significantly.

Discussion of Findings

This study focused on policy and strategic financial management instincts identified with pre-amalgam features of *Access Bank* and *Diamond Bank* in Nigeria. Besides the M&A epitome of the focal banks, several related experiences had anchored on reforms of the financial services sector. The critical elements elicited, being country-specific, are derivative of historical, economical and institutional imperatives. For the Nigerian financial services sector, the dynamics are predicated on the banking crisis precipitated by acute undercapitalization of DMBs, weak regulatory/supervisory framework, inept managerial practices, and deficient corporate governance structures (Soludo, 2004; 2007; Agundu, 2019). As DMBs play their role in shoving the economy, it is crucial to reposition them for more efficient and effective financial performance on a sustainable basis. In this vein, reform of the financial services sector remains an integral part government strategic thrust to reengineer and reintegrate the institutions into the mainstream African and global financial systems. Remarkable positive changes over the years had been recorded in terms of number of institutions, structure of ownership as well as depth and breadth of financial services sector operations. These are mainly dictated by challenges posed by financial sector deregulation, and strategically driven by technological innovations, operations globalization and implementation of supervisory/prudential specifications which conform to international/global best practices.

In this regard, Ambrose *et al.* (2018) investigated the effects of recapitalization on profitability of quoted DMBs in Nigeria. In specific terms, they sought to assess the effects of bank recapitalization on the profitability of DMBs in Nigeria, from 2005 to 2016, using 15 banks quoted on the Nigerian stock Exchange (NSE). Secondary data drawn from their annual reports and financial statements were employed using causal research design. Their findings establish that bank recapitalization had significant effect on ROA (profitability). This executively validates that the bank management had efficiently and effectively utilized the assets to generate appreciable profit. Spurred by similar concerns, this study investigated the pre-amalgam features of *Access Bank* and *Diamond Bank* in Nigeria in order to underscore the policy and strategic financial management focal institutional instincts.

Conclusion and Recommendation

Over the years, corporate amalgamation (especially M&A) had been adopted as reform strategy towards repositioning the financial services sector in Nigeria. It had particularly been directed at rescuing ailing banks and allied financial institutions, although, after their merger/acquisition, fresh financial crisis erupted, owing to inadequate indulgence with the critical policy and strategic financial management imperatives. This

concern mainly motivated the conduct of this research, which involved examining the pre-amalgam features of *Access Bank* and *Diamond Bank* in Nigeria using institutional wealth profile and ROA as analytical variables. Secondary data were sourced from *CBN Statistical Bulletin* for the specified time frame (2008- 2018); featuring time-series from the annual reports and statement of accounts of the focal banks. The analytical results of this study reveal that the pre-amalgam features of the banks do not significantly differ.

Scholars with this research interest, including Njogo, Ayanmwale and Nwankwo (2016), contend that corporate amalgamation (M&A in context) could achieve growth for the target firms, in terms of size and value, as well as revenue and profit. This finds policy and strategic financial management expression through:

- reduction of cost,
- amplification of market power,
- minimization of earnings volatility, and
- consolidation of economies of scale/scope.

In view of the revelations of this study, the amalgamation of *Access Bank* and *Diamond Bank* in Nigeria was inspired by other critical policy and strategic financial management instincts associated with corporate restructuring (Shanmugam, 2014; Access Bank Nigeria PLC, 2018). This stance is justified by fundamental imperatives geared towards::

- affording robust recapitalization,
- mustering greater innovativeness/competitiveness, and
- boosting overall institutional sustainability.

For meaningful concretization of the above critical targets, *Core Management* and other critical stakeholders of banks should comprehensively embrace the quintessential ideals of corporate governance and drive efficient banking service delivery more innovatively and holistically. With a more pragmatic policy and strategic financial management disposition, greater due diligence should be exercised in identifying and selecting corporate amalgam partners in order to actualize institutional synergy. They cannot afford to give any room to chance, as that would spell severe corporate allergy.

References

- Access Bank PLC (2018). Access Bank-Diamond Bank Merger Update (2018). Creating Nigeria and Africa's Largest Retail Bank. www.accessbankplc.com
- Adegbaju, A. A. & Olokoyo, F. O. (2008). Recapitalization and Banks' Performance: A Case Study of Nigerian Banks. *African Economics and Business Review*, 6(1), 1 – 17.
- Agundu, P. U. C. (2019). *Finance: Public and Private Sector Fundamentals*. Wukari: MEO.
- Agundu, P. U. C. & Musa, U. M. (2019). Dividends and evidence of value relevance from quoted industrial good firms in Nigeria. *Journal of Research in National Development*, 17(1), 141-148.
- Ambrose, A., Saratu L., Jim L. & Godfrey, D. (2018). Effects of Recapitalization on Profitability of Quoted Deposit Money Banks in Nigeria. *Journal of Accounting and Financial Management*, 4(4), University of Jos.

- Anderibom, A. & Obute, C. (2015). The Effects of Merger and Acquisition on the Performance of Commercial Banks in Nigeria: Evidence from United Bank For Africa (Uba) Plc. *International Journal of Education Research*, 3(4), 93-112.
- Anto, S. D. (2019). Merger & Acquisition and Bank Restructuring in Nigeria (Unpublished Research Report). Federal University Wukari, TRS, Nigeria.
- Ikpefan, O. A. (2013). The Impact of Bank Recapitalization on the Performance of Nigerian Banking Industry (1986 – 2006). *The Journal of Commerce* 4(1), 24 – 39.
- Njogo, B. O., Ayanmwale, S. & Nwankwo, E. (2016). Impact of Mergers and Acquisitions on the Performance of Deposit Money Banks in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 4 (4), 2054-6327.
- Olagunju, A. & Obademi, O. (2012). An Analysis of the Impact of Mergers and Acquisitions on Commercial Banks Performance in Nigeria. *Research Journal of Finance and Accounting*, 3 (7), 2222-2837.
- Onaolapo, A. A. & Ajala, O. A. (2013). Post-Merger Performance of Selected Nigerian Deposit Money Banks-And-Econometric Perspective. *International Journal of Management Sciences and Business Research*, 2(8), 2226-8235.
- Pandey, I. M. (2010). *Financial Management*. New Delhi: Vikas.
- Shanmugam, (2003). Pre-merger and Post Merger of Banks. *Journal of Business Finance and Accounting*, 19 (4-7), 633-675.
- Soludo, C. C. (2004). Consolidating the Nigerian Banking Industry to meet the Development Challenges of the 21st Century. An Address delivered to the Special Meeting of the Bankers' Committee, held on July 6, 2004 at the CBN Headquarters, Abuja.
- Soludo, C. C. (2007). The Safety and Soundness of the Banking System. *A Press Statement by the Governor of the Central Bank of Nigeria on June 12, 2007*.
- Uremadu, S. O. (2007). A Review of Financial Indicators of Banks Recapitalization and Performance. *Lagos Journal of Banking, Finance & Economic Issues*, 1(1), 74-93.
- Usman, S. (2006). Post-Merger Integration: Matters Arising. *The Guardian*, March 22.