Is There Any Difference of Financial Features between Bidder and Target Banks in Nigeria Mergers and Acquisitions?

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Abstract

The Nigerian Banking sector has suffered problematic times since 1999, when the sector was facing problems of corporate governance as identified by the Central Bank of Nigeria. However, CBN started embarking on a comprehensive reform agenda since that time and many measures have been taken to bring the sector on the right track by imposing an IMF Code of Good Practices on Transparency in Monetary and Financial policies. Mergers and Acquisitions (M & A) is a process “where two or more companies are combined to achieve certain strategic and business objectives”. Therefore, Merger and Acquisition seems as a means of achieving business and strategy objectives. The study examined the differences of financial features among bidder and target banks in the Nigerian commercial banking sector. The findings of paired t-test on financial features among bidder and target banks show that bidders and targets’ mean of each variable and financial features between bidder and target banks for 3 years (2002-2004) average indicates that bidders and targets’ mean of each variable are statistically different at 5%. Similarly, the findings for bidder banks’ performance of 5 years (2000-2004) before and 5 years (2006-2010) after mergers and bidder banks’ performance of 3 years (2002-2004) before and 3 years after mergers (2006-2008) are also statistically different at 5%. The study recommends that managers of large and efficient banks seeking to go for merger and acquisition should halt from targeting small and less efficient banks because it will lead to operational inefficiency.

Subject Areas

Economics

Keywords

Merger, Acquisition, Financial Features, Bidder Bank, Target Banks, Nigeria
1. Introduction

Mergers and Acquisitions (M & A) remains a subject of concern to business, industry and scholars [1]. “Mergers and acquisitions is not new; the tool has been used since 1890s. Mergers and Acquisitions is the instrument used by companies to increase their global reach and competitiveness” [2]. “The financial crisis has affected the landscape of the banking sector around the world” [3]. The impact of global financial crisis in the 1990s was one of the escalating forces that brought about M & As as a tool for consolidation [4] [5] [6]. Of what significance do mergers and acquisitions have on individual shareholders and corporate firms?

An array of studies showed that mergers and acquisitions has a significant impact on corporate businesses, however, few studies were conducted on the impact it has on individuals acquiring shareholders particularly in terms of financial gain. Indeed, although the transformation of M & As is not a straight forward process, and as a remediation tool has been transformed in recent years [7] [8] [9] [10]. Furthermore, the efficacy of M & A in consolidating business is still contested. On the one hand, it has been pointed out that Mergers and Acquisitions is a popular means of growth of a business [11]. While Sevenius [12] found that M & As increases additional market shares, from a contrary view, M & A serves as a synergy in a business [13] [14]. In 2007 alone, the number of M & As’ deals announced worldwide was 35,982 which accounts for an aggregate deal value of approximately £802.60 GPB billion in the USA and £1821.82 GPB billion in Europe [11]. Harford [15] believes that mergers waves in the aggregate rise when several industries undergo concurrent shocks that make mergers more profitable.

On the other hand, certain studies found that the average mergers and acquisitions waves have yielded unprofitable outcomes because they were unable to achieve their desire objectives [16] [17] [18] [19]. Sudarsanam [20] argues that “mergers and acquisitions more often destroys rather than enhances value for the acquirer shareholders”. However, do M & As really create value? Teply and Starova [21] are of opinion that Mergers and Acquisitions can create value to the targets rather than the bidders. Against this back drop, despite its shortcomings, it is apparent that M & As plays an inevitable role in shaping and boosting businesses. Therefore, it is a tactical alternative to achieve business strategy. Given the pros and cons surrounding M & As in business, this study examines the differences of financial features among bidder and target banks in the Nigerian commercial banking sector. The hypotheses of the study were: mergers and acquisitions improved acquiring shareholders values; and mergers and acquisitions do not improved acquiring shareholders values.

2. Overviews of Mergers and Acquisitions in the Nigerian Banking Sector

The Nigerian Banking sub-sector has suffered problematic times since 1999,
when the sector was facing problems of corporate governance as identified by
the Central Bank of Nigeria. However, CBN started embarking on a comprehe-
sive reform agenda since that time and many measures have been taken to bring
the sector on the right track by imposing an IMF Code of Good Practices on
Transparency in Monetary and Financial policies, the need to concentrate on
developing the human resources capacity and adaptation of modern technology
such as computerising the banking system in order to enhance efficiency and ef-
effectiveness in fulfilling the modern and international requirement, embarked on
continuing supervising and regulating a role to ensure effective corporate go-
vernance by ascertaining that proper and qualified individuals are appointed in-
to both the top management and boards of the respective financial institutions
and also ensuring any unethical or profession misconduct would serve sanctions
accordingly [22].

However, in spite of all the above measures, financial institutions were still
caracterised by their inability to pay workers’ salaries and benefits, very low
profit margins or even losses, inability to carry out debts services, retrenchment,
low productivity, etc. [23] [24]. The decadence persisted up to the year 2004,
when the regime at that time came up with a new approach of addressing the
problems. Previously, from 1985 to 1991, the number of Nigerian commercial
banks grew from 40 up to 120 and unfortunately after four years, some of them
encountered problems and as a result their licenses were revoked by the Central
Bank of Nigeria. This event inevitably had serious consequences on the economy
of the country [23]. The banks’ failure was caused by several factors, such as ins-
sufficient working capital, poor management, poor regulation, government poli-
tics and others [23]. In 2004, the CBN came up with new banking reform policy,
which was to be implemented in two main phases:

2.1. The First Phase

Consolidating and strengthening the Nigerian banking system: This was to
create a strong, reliable and diversified banking sphere which would ascertain
the safety of deposits, influencing economic development and equally making
the sector competent and capable of competing regionally and globally in the fi-
nancial world. These would influence high returns to the investors and serve as
an effective source of finance to businesses in the country. An effective banking
system would normally attract foreign capital investments which would eventu-
ally influence general development in Nigeria. However, a position would
place the country as a good competitive player in the 21st century. As witnessed
in recent past, there has been financial globalisation of the banking system
through mergers and acquisitions [5] [6]. The consolidation of corporations can
be achieved through mergers and acquisitions with the help of recapitalisation
and proactive regulation [4].

CBN [25] stated that “mergers and acquisitions especially in the banking in-
dustry is now a global phenomenon. Looking at the United State of America,
there had been over 7000 cases of bank mergers since 1980, while the same trend occurred in the United Kingdom and other European countries. Especially, in the period 1997 to 1998, 203 banks mergers and acquisitions took place in the Euro area. Cross-country mergers are also taking hold. In 1998 a merger in France resulted in a new bank with a capital base of US $688 billion (£535.66 billion GBP), while the merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US $541 billion (£421.21 billion GBP). In many emerging markets including Argentina, Brazil and Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as the repositioning of their operations to cope with the challenges of the increasingly globalised banking systems. In South Korea, for example, the system was left with only 8 commercial banks with about 4500 branches after consolidation”. In Nigeria, there were 89 banks and the majority of them with a capital base of less than US$ 10 million (£7.79 million GBP), and having about 3300 branches. In comparing this to South Korea banks, 8 banks had about 4500 branches and in South Africa, one bank with a larger asset base of more than entire 89 Nigerian banks worth [25].

However, the adoption of Mergers and Acquisitions might be necessary for the consolidation and strengthening of Nigerian banks. The reform agenda includes—the stability of exchange rate and price and financial sector diversification [26]. The recent CBN assessment in 2004, carried out on commercial banks showed that out of 89 banks, 62 were rated as satisfactorily sound, 14 were at marginal level while 11 were rated unsound and 2 rated as totally weak because they did not deliver any return for that period. A further investigation of the banks in both their returns and efficiency reveals that the banking system has 19.2 per cent of total assets, total deposit liabilities of 17.2 per cent while 19.5 per cent of the non-performing assets. The situation was put under supervision.

The Central Bank of Nigeria issued an ultimatum, with a time limit 18 months, to all the commercial banks in Nigeria to have a minimum capital requirement of N25 billion (Nigerian Naira) (£53.8 million GBP) that is, before the end of 2005. In view of this, the CBN collaborated with certain institutions such as NDIC, SEC, NSE, the financial authorities and legal/regulation frameworks in order to facilitate the consolidation process. Eventually, the recapitalisation exercise rendered mergers and acquisitions as necessary instruments of consolidation for most of the banks, because at the end of 2005, only 25 banks survived out of 89 and the majority made it through regulatory mergers and acquisitions but their number later fell to 24 via market-induced merger and acquisition. Of the 2900 branches of the 89 Nigerian banks, only 24 branches succeeded, and these have 5500 branches [27] [28].

2.2. The Second Phase

The CBN’s last phase of the Nigerian banking reform attempts to address issues of diversification, including programmes to encourage the emergence of regional
and unit or specialised banks [25]. The financial crisis, which started as the bursting of the housing bubble in the United States in 2007 later escalated into a global economic crisis as a contagion and affected many countries and sectors extensively, including Nigeria [28]-[35].

However, the distress in the Nigerian banking system was amplified by the contagion as a liquidity crisis and in view of such CBN improvised several measures to deal with the development. Therefore, Central Bank of Nigeria responded to the development by improvising the following measures:

- 10.25 per cent to 9.75 per cent reduction in Monetary Policy Rate (MPR).
- 4.0 per cent to 2.0 per cent reduction in Cash Reserve Requirement (CRR).
- 40 per cent to 30 per cent reduction in the Liquidity Ratio (LR).
- Option issued to the interested banks to restructure their margin loans up till 2009.
- 360 days extension grace of lending facilities was issued to banks.
- Expanded discount window was introduced in order to allow additional instruments.
- Liquidity mopping-up was halted or suspended in 2008.
- A serious emphasis was stressed on the code of corporate Governance promulgated by the CBN in order to promote accountability and transparency in all the banks in the country.
- The CBN reviewed a contingency plan for taxonomic distress in banks.

Despite the reform efforts, however, the Nigerian banking sector system remained fragile, as the measures failed to address their challenges. Problems in nine of the 86 Nigerian banks, for example, could not be solved through liquidation thus as argued by Sanusi [28], “if drastic action is not taken, the financial system could collapse”. After a comprehensive analysis of the situation, the CBN in collaboration with the Federal Ministry of Finance (MOF) and NDIC interposed N620 billion (£2.24 GBP) into the nine affected banks.

In addition, the executive directors of those banks were withdrawn and replaced with technical expertise. All of these are with the goal of curtailing corruption and improving the efficiency and performance in the banking sector. There has been a very close monitoring of the banks by the CBN. Later, other reform measures were adopted in order to create financial sector stability, enhancement of banks’ quality, enabling healthy financial sector and equally influencing the sector to be a strong in contributing to the real economy.

3. Concept of Mergers and Acquisitions

Mergers and acquisitions mean different things in different contexts [36]. The two terms are in many aspects treated as one or interchangeably. Sudarsanam [37] used merger, acquisition, takeover and buyout as synonyms (i.e. interchangeably) while the terms are sometimes treated as independently different [38].

This definition focuses not only on corporate growth, but also on alternatives to growth by internal or organic capital investment, although companies sometimes prefer external means of growth through acquisitions to internal growth. While Sudarsanam (20:1) suggests M&As as a process “where two companies are combined to achieve certain strategic and business objectives”. The objectives are not only significant to the companies alone but also to many other constituencies, such as workers, managers, competitors, communities and the economy in general.

Business strategic objectives are concerned with creating a sustainable competitive advantage for the firm. Therefore, their success or failure has great consequences for shareholders and lenders as well as the above constituencies. Madura and Fox [40] have a different definition as joint ventures and acquisitions as a strategy of foreign direct investment (FDI). While Lasserre [2] [41] concludes that it adds to the globalization of markets and a competitive advantage. That is, having a bigger size creates a marketing and competitive advantage in the global market. Conversely, Mitchell and Mulherin [42] perceive that M & A is related to the reconstruction and consolidation of industries. Lehto and Lehtoranta [43], Petitt and Ferris [44] relate M & As to the transfer of technology and knowledge to a target firm in order to have the opportunity to realize synergies. However, Motis [45] believes that the central tenet to M & As are twofold: to increase the value of merging firm so as to raise the future profits in the interest of the shareholders and to protect managers’ interest which may not necessarily reflect the interest of the merging firm.

Sevenius [12] defined M & A in relation to creating additional market shares, while Trautwein [46]; Altunbas [1] relates M & As with empire building in order to have certain control of market shares. In contrast, Erixon [47] argues that M & As is a legislative order to recapitalize a certain commercial banking industry for creating a promising economic capital base and competition, while Jensen [48] contrarily points out that M & As is related to managerial motives and governance in order to create growth that will yield more managerial power and better remuneration. Huyghebaert and Luypaert [11] suggest that M & s is simply a means of growth for firms.

In view of the above definitions, one may conclude that the definition offered by Sudarsanam [20] seems to integrate the components of definitions propounded by different commentators. Mergers and Acquisitions can take place nationally or internationally. At the national level, M & A processed locally between two or more firms while at international tier, it occurs between firms of different countries which is called “cross-border M & As” [1] [39]. If these companies are involved in mergers and acquisitions; Air France and KLM, SmithKline and Beecham, Lenovo and IBM are clear and good examples of international M & As [2].

Mergers represent significant and vital corporate investments and therefore when mergers fail in achieving their objectives then the various stakeholders will
suffer greatly [2]. According to Altunbas [1] "The meltdown in the mergers and acquisitions market and the stock market crash in 2000-2001 as well as 2008, the buyers in many of the deals suffered great losses. Example, RBS, Loyds TSP, taxpayers, etc. But some losses were as a result of unwise acquisitions made by their firms" (Figure 1).

Given the above definitions, it is apparent that merger and acquisition do not have a single meaning but in the course of this study would also refer to combining two or more firms as one with the view of achieving both strategic and business objectives [20].

3.1. Types of Merger and Acquisition

Mergers and Acquisitions are mainly classified in various ways [49]. The following five classifications best summarise the different types of M & As.

1) **Horizontal M & As:** This refers to types of mergers and acquisitions that take place between two or more firms that are competing with one another because they engage in same line of business, offering the same or similar goods and services and in the same industry [38] [50] [51]. In other words, merger and acquisition of rival organizations, they may be services providers, products providers or both. For example, Aldi and Lidl Chain of stores or Wema Bank Plc. and National Bank of Nigeria Ltd.

2) **Vertical M & As:** This is an example of a merger and acquisition relationship that is established between firms producing different goods or services for a specific finished product and within the same industry, e.g. supplier and producer, customer and supplier (buyer and seller) relationships [38] [51] [52].

![Figure 1. Mergers and Acquisitions stakeholders. Source: Altunbas [1] and Bolori [36].](image)
3) **Market-extension M & As:** This type of mergers and acquisitions relationship takes place between firms that engage in the same line of business but operates entirely in different markets [51]. For example, British Air and Ryan Air.

4) **Product-extension M & As:** This occurs when two or more companies that sell different but related products, services or both in the same market are involved in merger and acquisition [51]. For example, a firm that produces toothbrushes and another one that produces toothpaste.

5) **Conglomeration M & As:** This includes a firm that wants to exploit economic of scale and diversifications by establishing mergers and acquisitions relationship with another firm or firms that operate in a number of unrelated businesses with the former [51], for instance, British Air and Morrison.

Given the above categorization, it could be suggested that the nature or type of business each firm does differs before establishing a new relationship or coming together. This categorization provides the basis for inquiry concerning the forms of M & As.

### 3.2. Pattern of Acquisitions

Studies showed that there are two main forms of mergers and acquisitions [1]. However, the typology depends largely on the nature of the approach taken by the acquirer of a firm to the target firm, and also depending on the management of the target firm. The two forms of M & A include:

1) **Friendly Mergers and Acquisitions:** M & As negotiated within a friendly environment. The process begins when the management of one firm contacting the management of the target firm, normally through the investment bankers of each firm. The management of both firms keep the board of their directors informed about all the developments on the negotiations because at the end they will need the approval of their boards before proceeding with the approval of the shareholders and the approval normally goes through voting depending on the article of incorporation [7]. When the M & As deal is made through the management of the concerned firm it is deemed friendly [20].

2) **Hostile Mergers and Acquisitions:** M & As negotiated within an aggressive environment [39]. The target management may resist takeover bids in order to secure their interests, such as jobs or empire and alternatively, they may resist in order maximize a favourable bargain paid by the bidder firm. Sudarsanam [39] argues that hostile M & As happen when “tender offers to buy shares made directly to the target company shareholders, often without the support of the target management, generate more wealth for the acquire shareholders than mergers made with management support. In the UK, hostile acquisitions generate larger wealth than friendly mergers” [20].

The waves of mergers and acquisitions are normally triggered by two or more factors and the causes of M & As’ waves are differently defined by commentators largely based on their perceptions.
3.3. Drivers of Mergers and Acquisitions Waves

Mergers and Acquisitions as a phenomenon used to occur in bursts interspersed with relative inactivity and a pattern known as the wave pattern of M & As [37]. There are several factors responsible for mergers and acquisitions depending on the situation that causes it [1]. The recent high level of financial crisis that leads to general economic crisis that triggers consolidation through mergers and acquisitions is described as a merger and acquisition wave, it is called a “wave” because it comes and goes in different magnitudes and degrees [53].

Between 1981 and 2000, Harford [15] identified 35 waves of M & As with an average of 35 mergers per wave. While vast research has been conducted on the causes and effects of mergers, surprisingly very little studies exist on the causes of merger waves [54]. Mitchell and Mulherin [42] relate the wave as a result of industrial shocks that trigger reconstruction and consolidation of industries. In a contrasting view, Sevenius [12] suggests that “wave is predominately motivated by needs of additional market shares”. In another perspective, it was argued that the M & As waves are caused by stock market overvaluation [55] [56]. Macro-level liquidity component can propagate industry merger wave to cluster even if industry shocks do not [15]. Mergers and Acquisitions’ wave can also be triggered by legislative initiatives through legislative policies [25].

Oberg and Holststrom [57] claim that the “most common initial driving force for parallel M & As is when customers merge or acquire. In other words, M & As among the customers precede those of suppliers”. It is believed that the target company industry is undergoing a merger wave but the acquiring company industry is not [58]. M & A waves are mostly fuelled by the globalization of markets and competition [2]. Contrarily, Weston, J.F. and Weaver, P.S. [59] propagate that the recent M & As wave which started in the mid-1990s was greatly influenced by global competition, change in technology and deregulation to cope up with the changing global economy. However, Lasserre (2:138) sees it as cross-border M & A “mostly fuelled by the globalization of markets and competition”. UNCTAD [60] is of same opinion with Lasserre [2]. Inferring from the above positions, it is clear that different commentators share different views concerning mergers and acquisitions, and waves are inevitable forces that can be caused by different factors.

4. Results and Discussion

The findings of paired t-test in Table 1 shows that bidders and targets’ mean of each variable are statistically different at 5%. This implies that there were statistically significant differences between the bidders and target in all aspects (variables) and therefore, the bidders were bigger and successful in performance than the targets.

The findings of paired t-test in Table 2 shows that bidders and targets’ mean of each variable are statistically different at 5%. The Table compared 3 years differences between the bidders and targets before mergers (2002 to 2004). This al-
so implies that there were some significant differences between the two banks and that seems to be one of the factors that made bidders more successful and bigger than the targets.

The findings of paired t-test in Table 3 shows that bidders’ pre-merger and post-merger performance’s mean of each variable are statistically different at 5%. Table 3 and Table 4, indicates the performance of bidders between different periods 5 and 3 years pre-merger (2000-2004) and 5 and 3 years post-merger (within 2006-2010) were compared. A number of significant differences were realised in all the variables between the two periods, and that may be the reason why bidder banks were successful in the pre-merger than during the post-merger. However, the findings differ from other studies’ findings that scope and scale economies in mergers will influence costs efficiency, profit efficiency and market power [61] [62]. The current study findings are inconsistent with one another study which claims that small and medium firms achieve greater efficiency in their post mergers rather the big firms [63].

The result of paired t-test in Table 5 shows that bidders and non-merged banks’ mean of each variable are statistically different at 5%. Table 5 and Table 6, indicates that a number of significant differences were statistically noted between bidder and non-merged banks between the last 5 and 3 years before (within 2000-2004) and immediate 5 and 3 years after the mergers (within 2006-2010). The previous results and the results in Table 4 and Table 5 have revealed the bidder was performing better than the non-merged banks during the pre-merger periods and they also found to be declining in the post-merger periods while the latter outperformed. The findings lent support to Sudarsanam [20] who found that “mergers and acquisitions more often destroy rather than enhance value for the acquirer shareholders”. However, Said and Bouri [64] found that no efficiency has been achieved because the banks were better up in terms of cost and scope to yield more profitable result than combined in M&As. Similarly, Kaur and Kaur [65] found that significant cost efficiencies are achieved after mergers but merging weak and strong banks do not yield success.

The findings of paired t-test in Table 6 shows that bidders and non-merged banks’ mean of each variable are statistically different at 5%.

5. Conclusions

The Nigerian Banking sub-sector has suffered problematic times since 1999, when the sector was facing problems of corporate governance as identified by the Central Bank of Nigeria. The study concludes that bidders were bigger and more successful in performance than the targets and that there were some significant differences between the two banks and that seems to be one of the factors that made bidders more successful and bigger than the targets. A number of significant differences were realised in all the variables between the two periods, and that may be the reason why bidder banks were successful in the pre-merger than during the post-merger. However, the findings differ from other studies’ findings
Table 1. Descriptive statistical differences of financial features among bidder and target banks.

<table>
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<tr>
<th>Variables</th>
<th>Bidder Banks</th>
<th>Target Banks</th>
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Table 2. Descriptive statistical differences of financial features between bidder and target banks for 3 years (2002-2004) average.

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<table>
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Table 5. Descriptive statistics on statistical differences of financial features of bidder and non-merged banks for 5 years (2000-2004) before and 5 years (2006-2010) after average.

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<th>Variables</th>
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that scope and scale economies in mergers will influence costs efficiency, profit efficiency and market power. Merger and Acquisition seems as a means of achieving business strategy.

The study recommends that the managers of large and efficient banks seeking to go for merger and acquisition should halt from targeting small and less efficient banks because it will lead to operational inefficiency. Therefore, decision-makers of corporations should be very cautious whether to go for merger and acquisition as a source of enhancing operational efficiency or to go for other alternative options because it may be misleading. Policy makers at national levels should be very vigilant in promulgating policies related to mergers and acquisitions, especially in enforcing mergers on firms (forced mergers) due to its sensitivity.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

References


