EFFECT OF CONSOLIDATION ON BUSINESS VALUATION OF BANKS IN NIGERIA

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ABSTRACT

Not enough capital and cash level in this period in the banking field has brought a way for financial crises affecting investors and brought down banks ability to finance business that need high level of business outlay especially irr multinational area. This study is investigating the consolidated effect on business valuation of banking in Nigeria. The population of the study comprises of twenty two banks with randomly selected staff strength of 220 who are in age and sex. Data were collected through structural questionnaire and analyzed by Levene's independent sample t-test was used to determine evidence of significant difference in banking sector performance between the pre- and post-consolidation periods. At 5 per cent level of significance, the study shows evidence of significant differences in return on asset, and percentage employed to validate the research questions and hypothesis of the study. The result shows that consolidation exercise increase capital of the bank. Consolidation has an effect on business valuation of the banks in Nigeria, and that consolidation has a good significant relationship with business valuation. Its strengthen business valuation in case of merger and acquisition.. In addition, the regression results showed that consolidation has a positive and significant influence on banks stability (as defined by ROA and liquidity)

INTRODUCTION

In this new development among the banking field, financial distress and corporate failures have prevailed, also globalization has brought about financial problems across the world which is shows by inability of some banks to finance multinational business that bring about big money due to not enough capital and cash.

According to Longman Dictionary of Contemporary English (2009) consolidation is defined as to strengthen the position of power or success that you" have so that you become more effective or continues for longer. Also to combined thing in order to make them more effective or easier to deal with.

Inoukhude (2003)financial globalization which procedures integration of a country's local financial system and international financial markets and institutions has brought about consolidation as a resection to the phenomenon. The complexity has forced many countries to restructure their monetary system to act as disadvantage of the problems of low level of funds.

Therefore the bank consolidations in Nigeria is responsible to the wave of consolidations cutting across the world (Nuradeleci 2011) Bank consolidation is one of the policies to resolve mainly the problem of capital shortage. In Nigeria, consolidation policy of Banks was introduced in 2004 which made it possible for banks to increase capital base of $42 billion to $425 billion. The banking industry is the direction of economy of a country, as no country will move forward without adequate funds.

Therefore, banks occipts a significant position in the economy of this country. It is clear that Bank supervised and regulated all business about consolidation and business valuation. Banks play an important role in Nigeria economy. It is therefore to make them for efficient financial performance through a new reform process geared towards bank distress.

There was problem and insolvency in the banking sector. The base capital of the bank was so low that they could not bear their losses indicated that many Nigeria banks could not do well due to hardship and bottlenecks as a result of high fixed and high cost.

According to Soludo (2004), the major goals of the CBN consolidation exercise were to:

(i) create a sound and more secure banking system that depositors could trust;

(ii) build domestic banks that investors could rely upon to finance investments in the Nigerian economy and

(iii) Improve bank's efficiency and encourage competition with goal lowering interest rates and providing affordable credits to the economy, among others.

During the consolidated exercise, eighty nine (89) banks were combined into twenty " five (25) out of which twenty one (21) banks were produce from merger and acquisition (Akpan, 2007).

The exercise has become an ongoing and bringing the total number of banks within the country to twenty two (22) as at June, 2013 (Okpala & Olagunju, 2013).

The consolidation of Nigeria banks as [he name suggest is a strategy that encourages concentration of individual small banks with inadequate capital and diverse managerial culture for efficiency, strengthen financially weak banks for effectiveness, check against bank distress and organizational failure (Okpala, 2013 forthcoming).

Statement of Problems of the Research

The effect of consolidation on the Business valuation of banks in Nigeria is the • research paper: these consolidation and Business valuation were adopted daring the exercise. The result of these methods will definitely produce a different outcome even when the same data were used. The choice of the method is supposed to be an implement by organization police and since no method too, was recommended by the regulatory authorities on consolidations and valuation. Most banks took advantage of the weakness and choose the higher methods that gave the business value. This single action brought about overvaluation of some banks. These banks involved in an unethical practice which created weaknesses. This is the gap which no study had been conducted, hence this research work.

Objective of the Study

The objective of the study is to identify the effect of consolidation on the business valuation of the bank in Nigeria. This is to examine the influence as follow:

1. What level of relationship exists between consolidation and business valuation in Nigeria banks.

2. To what extent that consolidation affects business valuation of the Nigeria banks

Research Questions

1. Does consolidation have much Impact on business valuation in the banks?

2. Does consolidation address all the issues that border on business valuation in the banks of Nigeria?

Research Hypothesis

H_{A1} Bank consolidation has direct significant relationship with business valuation in Nigeria banks.

H_{A2} Bank consolidation has much impact on the business valuation in Nigeria Banks.

Scope of Study

The scope of the study is the bank consolidation on the business valuation of banks in Nigeria

LITERATURE-REVIEW

Theoretical Framework

Bank capital holding arguments that the primary reason why banks hold capital is to absorb risk which includes the risk of liquidity crunches, protection against bank runs and credit risk which is motivated by their risk transformation role.

Extant theories advocates that bank capital may also affect banks' ability to create liquidity.

Financial Fragility-Crowding

This theory produced opposing predictions on the link between capital and liquidity creation (Berger & Bouwrnan, 2007). It predicted that higher capital reduces liquidity creation. They argue that deposits are more effective liquidity hedges for investors than investments in equity capital. Thus, higher capital ratios shift investors' funds from relatively liquid deposits to relatively illiquid bank capital, reducing overall liquidity for investments.

Risk Absorption Hypothesis:

This is directly connected to the risk-transformation role of banks which state' that higher capital enhances bank's ability to create liquidity.

Bank concentration theory: Concentration refers to the degree of control of economic activity by large firms (Sathye, 2002). Pro-concentration theory: According to the proponents of the deconcentration theory, concentration will intensify market power and political influence of financial conglomerates.

Eat or Be Eaten Theory of Mergers

The Eat or be eaten theory of mergers was propounded by Gorton. Kahl and Rosen (2005), as a response to the various merger waves experienced in the United State in the 1 960s up to the late 1990s.

Agency theory: Mergers and acquisitions can end up destroying value rather than creating synergies even though managers act fully rationally.

BANK CONSOLIDATION

Bank Consolidation is the process to strengthen the position of power, or success that you have, so that it becomes more effective or continues for longer. Also to combine things in order to make them more effective or easier to deal with. We .consolidate information from a range of sources.

They took out a loan consolidate their debts, The company is planning to consolidate its business activities at a new site in Lagos. With consolidation government of Nigeria due to the monetary policies modified the equity capital base
of banks with minimizing bank failure and to improve in capital, effectiveness.

In the year 1972 to 2002 Banks were made into commercial and merchant bankwith capitalbase of 14500m each. It was later put together and increased to £426 billion in July2004. Then the consolidation exercise upgraded the capital base to $425 billion. Consolidation or combination or concentration is a term given by Central Bank of Nigeria to explain the coming together of Banks within the country to becomes onebank and be able to meet CBN's requirement for capitalization (Okey 2006). Most of the banks that can not meet up the £425 billion capital base accept Nigeria andacquisition.

The information of consolidation is the merger and acquisition whichis the fact that twenty one (21) out of 25 banks that pass the promotion exercised that come from merger and acquisition (Ibru, 2006). Merger and acquisition is a business combination all companies involved legally goes out and new one emerged. In merger, new companies become ownership of the assets and inabilities of the mergedones.

BUSINESS VALUATION

Business valuation is a process of a professional judgment about how much something is worth, or judgment about how effective or useful a particular idea or plan will be. Valuation serves as good in something or qualifying something or involves selection between two things. It focus on how useful a material or quantity and how the total can be used or enough for the building of that homes. It works with full idea of person or a group of people.

Normally, idea of good or bad, or to make decisions or not per inheritance in the world. It is a procedure used for estimation of the owner's interest in a partnership. It is used by business people, companies, or the price they are willing to pay or receive for a particular commodity (Path, Racilly. and Schweihs, 2000).

To add up it estimating, the selling price of a good, it is also used by appraisers to estimate the level of partners' interest for business agreements and the loyal purposes like merger and acquisition. To put a business on the right side or effectively plan. The valuation document must specify the good and bad around business valuation. These are known as business valuation standard and premise of value (Path, et al, 2000) valuation estimates continuation for an indefinite period of time or termination, at the point of valuation.

Conceptual Review

Consolidation strengthened banking system and encouraged improving harden and reliable banking sector in Nigeria which brings about safety of cash and ownership of funds. It encourages banks in developmental roles in the economy system and global financial market (Soludo, 2004).

To make up the level of minimum equity capital base, new fund were looked for augment the existing capital employed and new method adopted to determine the value of the banks through business valuation. Anthony (2008) a merger supply means bringing two things together or adding two organizations together to become very big one.

Such actions always result in a new organization name or combining the names of the original into one organization. An acquisition, on the other hand is the buy's of one firm by other. Such behaviour can be bad or good, hostile or friendly and the acquirer took power over the acquired firm. To Umar (2009) a merger is a business that involving 2 or more companies which exchanged shares but only one company survives.

Empirical Review

Basically, Consolidation is also defined as merger and acquisition. The meaning of mergers and acquisition consolidation are confused. They are similar, mostly used together. They have different meaning. Mergers and acquisitions in one way while consolidation refers to the fusion or more existing companies into a new company which the former companies are losses their identities.

According to Okonkwo (2004) Consolidation is termed business combination where companies joint to regroup into a new company. All the combining companies are dissolved only the new one will operate.

To Ajayi (2005) Consolidation is looked as the reduction in the number of banks. The 2005 CBN bank consolidation policy aimed among others reducing the number of banks in Nigeria depending the financial sector and growth. Most of the bank decided to up out because of the consolidation exercise.

In the study by Adeyemi, Consolidation in Nigeria was earlier, Adeyemi said the programme can lead to the emerged needs and efficient financial system that could • encourage the growth and development needs of Nigeria economy and seek for continuation training of staff and handling proper the challenges that may appear after consolidation exercise.

Fadare (2010) verified the effect of banking reforms on our economic development in Nigeria from 1999 - 2009. Using the least squares regression technique. The result was that consolidation exercise has great influence on the Business Valuation. Many studies on bank consolidation used a single approach e.g. Okpariachi (201 1) only relate mergers and acquisitions to performance. This study on consolidation had yield mixed results as to improve the performance of banks.

Judging from the empirical review, the research work is carry out to show the effect of consolidation on the business valuation of the banks in Nigeria. It is agreed that consolidation has some significant effect on the business valuation in Nigeria banks by strengthened it towards the merger and acquisition and to improved in the capital base of Nigeria banks which is to fill the gap.

According to Okonkwo (2004), consolidation is a business combination where two or more companies join to form an entirely new company, all the combining companies are dissolved and only the new entity continues to operate.

The 2005 CBN bank consolidation policy was therefore aimed among others at reducing the number of banks in Nigeria, deepening the financial sector and repositioning it for growth. In order to achieve the objective of the policy, most Nigerian banks opted for the option of consolidation through mergers and acquisitions.

Investigating the effects of mergers and acquisitions on the efficiency of financial intermediation in the Nigerian banking industry. Emumilade (2010) found that mergers and acquisitions had improved the operations of banks, particularly, competitiveness and efficiency of the. Borrowing and lending operations of the Nigerian banking industry.

Alao (2010) carried out a study titled "Mergers and Acquisitions (M&A's) in the Nigerian Banking Industry: An Advocate of Three Mega Banks" investigated the performance of the twenty- five Nigerian banks which survived after the 2004/2005 consolidation exercise. Adopting a more analytical approach, the study revealed that mergers and acquisitions did not waste resources but rather generated substantial gains which represented gains to economic efficiency. Alao (2010) therefore recommended a further shrinking of the Nigerian banks system to only three (3) mega banks with a capital base of 300 billion each.

Bakari (201 1) conducted a study which examined the trend and growth implications of bank's recapitalization in Nigeria using secondary data which were analysed with the aid of static and test of equality of means period before and after recapitalization. The results showed that there was a significant difference between the two means and hence the two periods. The results indicated that the post recapitalization's mean was higher than that of the pre-recapitalization, implying that banks were more adequately capitalized and less risky after the programme. The result also indicated that recapitalization had low but significant influence on the growth of the Nigerian economy.

Similarly, Fadare (2010) investigated the effects of banking reforms on economic growth in Nigeria over the period 1999-2009. Using the ordinary least squares regression technique, the study established that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, inflation rate lagged by one year, size of banking sector capital and cash reserve ratios accounted for a very high proportion of the variation in economic growth in Nigeria.

The findings of the study showed that, although there was a strong and positive relationship between economic growth and the total banking sector capital, the relationship between economic growth and other exogenous variables of interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate and cash reserve ratio revealed the wrong signs.

In the study by Adeyemi (n.d.), of banking sector consolidation in Nigeria cited earlier, the author showed that the programme could lead to the emergence of a sound and efficient financial system that would support the growth and development needs and aspirations of the Nigerian economy and called for continuous training and retraining of staff as well as the proper handling of the challenges that might arise after consolidations.

Thus, studies on consolidation had yielded mixed results as to whether the policy improved the performance of banks. Judging from the empirical review, one could say that mergers and acquisitions do not always transform into good performance of the banks and it is not only capital that makes for good performance of banks. However, many studies indicate that mergers and acquisitions in the Nigerian economy made the banking industry more efficient and had improved the performance of the industry. .

This research work is carry out to show the effect of consolidation on the business valuation of the banks in Nigeria. It actually agree that consolidation has some Significant effects on the business valuation in Nigeria Banks by strengthen it towards the merger and acquisition and to improve in the capital base of Nigeria Banks.

Identified Gap of the Study

The gap is that the choice of the method supposed to be implemented by the organization policy and since no method was recommended by the regulatory authorities on consolidation and valuation, most banks took advantage-of the weaknesses and choose the higher method that gave business value. This single action brought about overvaluations of business and banks, this weakness led to unethical practices.

Filling of the Gaps Of This Study

1. The study is the effect of consolidation on business valuation of banks in Nigeria.
We review many available literatures on theoretical framework, conceptual. Review and empirical review. But this study differs in the following ways.

Our study adopted a broad-based approach of capturing the effects of Consolidation and valuation in banking system in Nigeria. In this study, we discovered that there is no available empirical evidence to our knowledge as regarding this topic.

1. We distributed and collected data from primary sources in this study. Existing studies that utilized survey research and research design are scanty. Therefore we discovered that consolidation strengthen business valuation in the bank for merger and acquisition.

METHODOLOGY

In this study, research design used is survey method to build up research questions Raised in the study and to verify a non-manipulated result of a complex relationship exists between variables (Baridam 2001). The total population of the study is (22) Banks in Nigeria as at 2013. The sample size is made up often (10) staff of each bank Given 220 respondents. The members selected are:

i) Chief Executives Officer
ii) Director Corporate
iii) Director, Investment Bank
iv) Director, Credits Marketing
v) Director, Account and Finance
vi) Director, treasury
vii) Director, Internal Audit and Control '
,
viii) Director, Operation
ix) Director. Information Systems
x) Head, Marketing and Advances.

The sample size was randomly selected based on their experience and their age and Sex. Primary source and structured questionnaire were used.
The hypothesis formulated were tested using data generated from the field work. The Z-score test was used in testing the hypothesis at 5% level of significance under the Two tailed test.

	No. of questionnaire administered	220
		214

		6
		97.2%
		2,7%

Organization	Frequency	Percentages
Chief executive officer	58	27.01%
Director. Corporate Finance	13	60%
Director, Investment Banking	9	4.2%

Table3
QUESTIONNAIRE ANALYSIS

Director, Credit & Marketing	26	12.1%
Director, account & finance	23	1 0.7%
Director, Treasury	21	9.8%
Director, Internal/Audit	28	13.0%
Director. Operation	14	6.5%
Director, Information System	10	4.6%
Head of Marketing & Advance	12	5.6%
Total	*214*	*100%*

Sex	Frequency	Percentages
Male	181	84.5%
Female	33	15.4%
Total	*214*	*100%*

Source: Questionnaire Administered.

From the table above, two hundred and twenty questionnaires were administered, two hundred and fourteen questionnaire were completed and returned which constitutes 97.2% of the questionnaire. Six questionnaire representing 2.7% of the questionnaire was a success while 2.7% was a failure. Respondent from Chief Executives Officer constituted the balk 27.10% of the sample, Director Corporate Finance constitutes 6.0% of the sample. Director, investigating constitutes 12.1% of the sample. Director, Account & Finance constitutes 10.7% of the sample. Director of Treasury. Director of Internal Audit and Director of Operation constitute 9.8%. 13.0% and 6.5%, Director of Information and the head of marketing and advance have 4.6% and 5.6% respectively. While 84.5% were male and 15.4% were female.

Table 4: What extent that consolidation affects business valuation in Nigeria Banks

	Frequency	Percentages
Strongly agree	91	45.5%
Agree	83	38.8%
Disagree	24	1 1 ,2%
Strongly disagree	16	7.5%
Total	*214*	*100%*

Source: Field work 2018

From table 4 above, strongly agree 45.5%, agree 38.8%, disagree 11.2% while strongly disagree 7.5%. It is strongly agree that the consolidation affect business valuation of banking system in Nigeria.

Table 5: Does consolidation have much impact on business valuation in the bank.

Respondent	Frequency	Percentages
Strongly agree	64	29.9%
Agree	100	46.7%
Disagree	30	14.0%
Strongly disagree	20	9.3%
Total	*214*	*100%*

Source: Field work 2018 Table 5 shows that strongly agree 46 (29.9%) agree 100 (46.7%), disagree 39'(14,0%) while strongly Disagree 20 (9.3%). This shows that the Respondents highly agree that consolidation has impact on the business valuation of the Nigeria Banks as to strengthen the bank.

Table 6: What level of relationship exists between consolidation and business Valuation of the bank.

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Respondent	Frequency	Percentages
Strongly agree	120	56.0%
Agree	81	37.9%
Disagree	10	4.7%
Strongly disagree	3	1 .4%
Total	*214*	*100%*

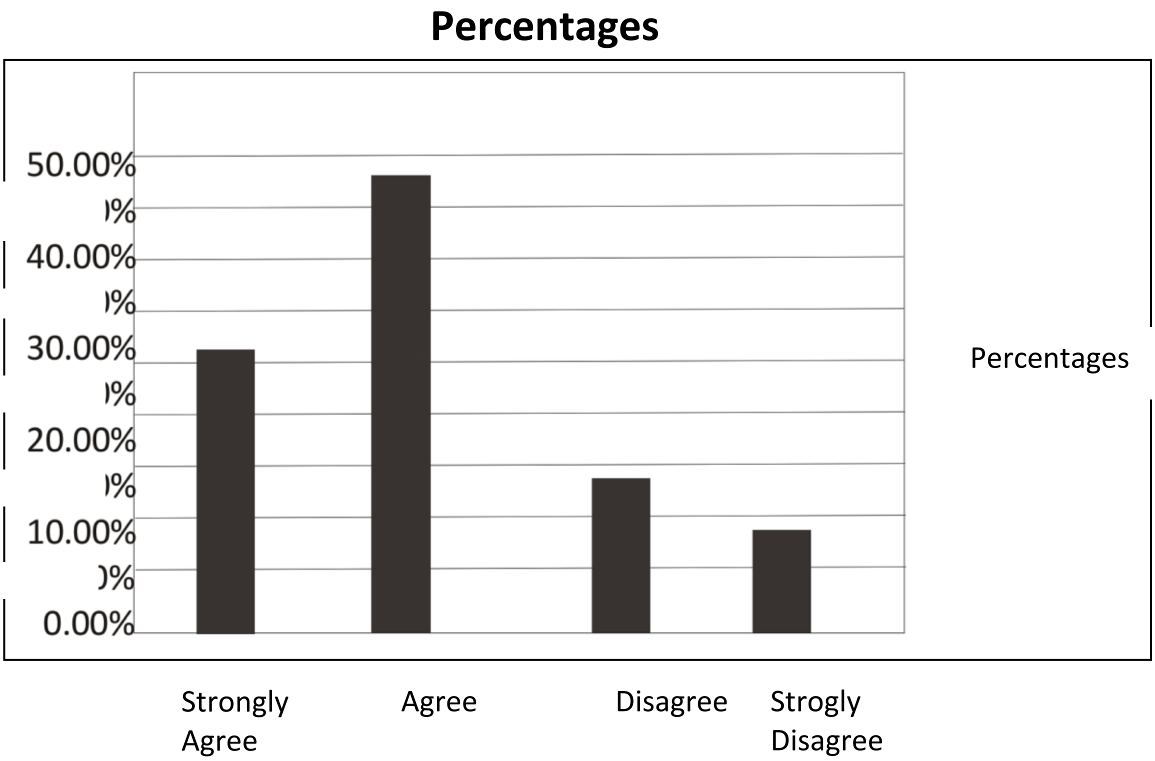
Source: Field work 2018 Table 6 agree that strongly agree 120 (56.0%) agree 81 (37.9%) disagree 10 (4.7%) strongly disagree 3 (1.4%). Strongly agree shows that there is great level of relationship that exist between consolidation and business valuation due to involving in the same merger and acquisition of banking system. TESTING OF HYPOTHESIS

Test of hypothesis and analysis of result.

Hypothesis I: Bank consolidation has direct significant relationship with business valuation In Nigeria banks.

Hypothesis I: Bank consolidation has direct significant relationship with business valuation In Nigeria banks.

Respondent	Frequency	Percentages
Strongly agree	98	45.8%
Agree	60	28.0%
Disagree	36	16.8%
Strongly disagree	20	9.3%
Total	*214*	*100%*



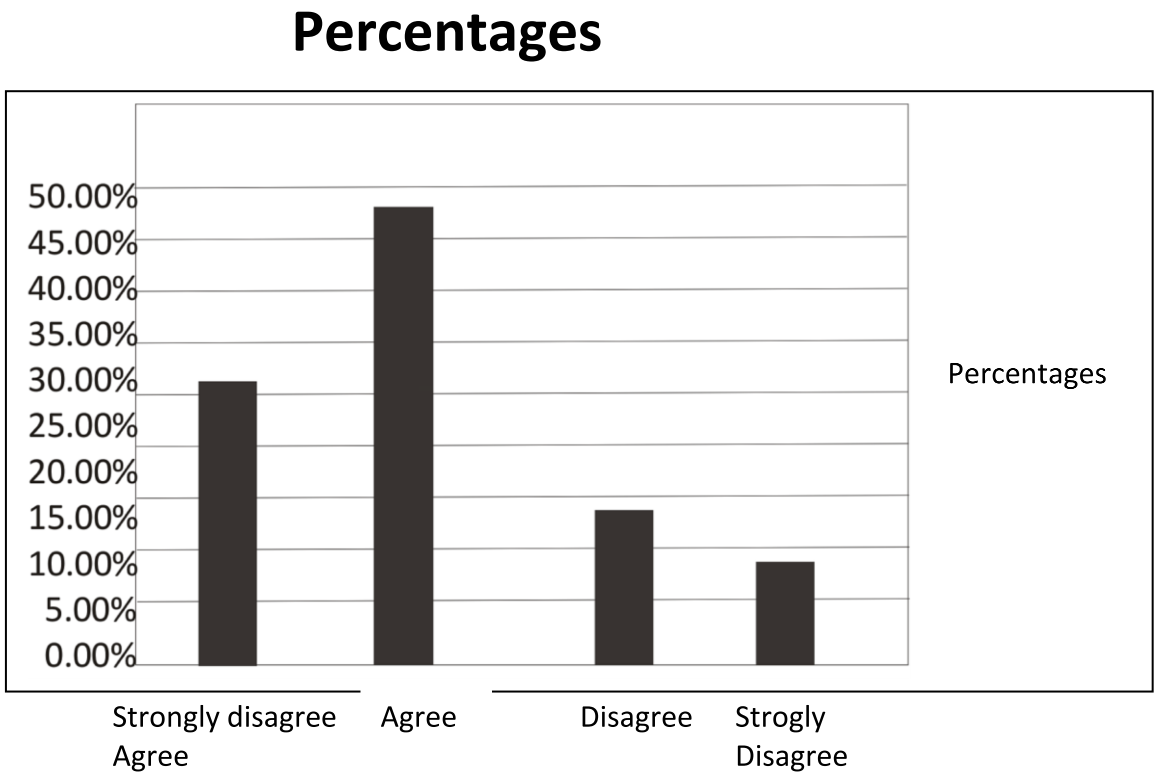
Decision Rule

The empirical analysis shows that the Z-value of 1 .96 is greater than the calculated Z-value of 2.66. in the figure above the calculated Z-value falls outside the acceptance region into the rejection region which means that we reject the null hypothesis and accept the alternative hypothesis which states that bank consolidation has direct significant relationship with business valuation in Nigeria Banks.

Hypothesis II

Bank consolidation has much impact on the business valuation in Nigeria Banks.

Respondent	Frequency	Percentages
Strongly agree	64	29.9%
Agree	100	46.7%
Disagree	30	14.0%
Strongly disagree	20	9.3%
Total	*214*	*100%*



Consolidation Impact on Valuations

Table 9 Descriptive Statistics

	Years	N	Mean	Std. Deviation	Std. Error Mean
Return on Assets	Pre-consolidation	22	4.73451	0.87623	0.243,
		22	2.44514	2.73482	1 .445

The descriptive statistics for return on assets impact on business valuations in the pre - and post consolidation periods presented in table 9 show a decrease in the mean values of return on assets from 4.73451 to 2.44514 per cent of the pre- and post - consolidation periods respectively. This suggests that the consolidation exercise placed a lot of capital at their disposal with which they .acquired more assets that are not effectively utilized.

Table 10: Independent sample test

		Levene's Test for Equality of variance		t-test for Equality of Means						
		F	Sig	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	upper
Ret	Equal variance assumed	4.861	1.134	1.431	13	0.251	1.73002	1.23462	1.66654	4.12324
	Equal variance not			1.431	6.348	0.266	1.73002	1.23462	1.6273	4.96522

Decision Rule

The analysis show a significance value of 1.134 is greater than the calculated of 0.05. In the figure above the calculated Z-value falls outside the acceptance region into the rejection region which means that we reject the null hypothesis and accept the alternative hypothesis which stale that bank consolidation has much impact on the business valuation in Nigeria Banks.

Discussion of Result

From table 4, the respondents strongly agree with 91 (45.5%) that with the topic. Effect of consolidation on business valuations in the Banks of Nigeria. With the consolidation exercise for the banking system, consolidation has effect on business valuation by strengthen it to match with the merger and acquisition of bank.

The same action that was produced from table 5 that agreed the impact of consolidation on business valuation which was on the same direction with table 4. Then table 6 explained the same level of relationship exist between the two variables because they are putting things in order to get it balance. Table 7 shows 98 (45.8%) frequency and percentage that is a direct significant relationship between consolidation and business valuation. That the consolidation exercise brought about business valuation. It is an act of bringing two things together into a power or to make meaning. Table 8, agreed with table 4 and table 5.

Hypothesis 1 was captured using question and table 7 of questionnaire administered. The responses received that all banks valued their business during the consolidation exercise in Nigeria. Table 7 stated that consolidation has high level of significant which reveals a strong relationship between consolidation and business valuation of Nigeria banks resulting in the acceptance of alternate hypothesis and rejection of null hypothesis. Hypothesis II was also captured using question and tables 8 of the questionnaire distributed, which.

Sate that consolidation has some impact on business valuation in the bank with the Z-1.96 is greater than the calculated Z-value of 2.66. In the figure above, the calculated falls outside the acceptance region into the rejection region which means that we reject the null hypothesis and accept the alternative hypothesis which states that consolidation has an impact on business valuation in bank of Nigeria.

CONCLUSION AND RECOMMENDATION

The study was carried out to investigate the effect of consolidation on business valuation during the consolidation exercise on the liquidity level of the banks in Nigeria. The formulated hypothesis were tested and validated and base on test results, and literature reviewed, the following findings were obtained:

1. Consolidation strengthen business valuations.
2. Bank consolidation should be looked as permanent policies introduced by several countries monetary authorities to resolve mainly the problem of capital shortage and other issues such as inefficiency, technological deficiency, poor management and profitability problem.
3. The choice of method of consolidation policy should be done by the organization policy
4. The benefit of bank consolidation policy implementation has mitigate the financial cries and reduces the number of banks and other deposit taking institutions, which fills the gap of this study.
5. Management valued their respective banks to have market price of their business in opening statements of financial position.
6. The regulatory authority should properly define the valuation methods to be

Used to avoid weakness and selected method that yield a highest value. Based on these conclusions, it is recommended that the consolidation should be made a Regular feature in the banking industry and the financial authority process and method to be used to avoid loop holes. Also consolidation strengthens the business valuation or empowers the business valuation to work in proper ways.

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Appendix 2: Affected Consolidation and Business Valuations of Banks in Nigeria

S/No.	Consolidated Banks	Affected Number
1	Access Bank	*V*
2	Citibank	*V*
3	Diamond Bank	*V*
4	Eco-bank Nigeria	*V*
5	Enterprise Bank Limited	*V*
6	Fidelity Bank Nigeria	*V*
7	First Bank of Nigeria	*V*
8	First City Monument Bank	*V*
9	Guaranty Trust Bank	*V*
10	Heritage Bank Pic. 16	*V*
11	Keystone Bank Limited	*V*
12	Main street Bank Limited	*V*
13	Savannah Bank	*V*
14	Skve, -Bank	*V*
15	Stanbic IBTC Bank Nigeria	*V*
16	Standard Chartered Bank	*V*
17	Sterling Bank	*V*
18	Union Bank of Nigeria	*V*
19	United Bank for Africa	*V*
20	Unity Bank	*V*
21	Wema Bank	*V*
22	Zenith Bank	*V*
	TOTAL	*22 Banks*

Source: Field work 201