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MERGERS AND PROFITABILITY OF MONEY DEPOSIT BANKS IN NIGERIA

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Abstract
This paper assessed the impact of Mergers on the profitability of deposit money banks in Nigeria. The specific objectives were to evaluate the effect of current assets, current liabilities, long-term liabilities, and fixed assets on the profitability of deposit money banks in Nigeria. The study employed expo facto design to examine the effect of Mergers on the economy. In this connection, data was collected for the pre-mergers period from 1990 - 2004 as well as Post mergers period from 2006 - 2019. The population of the study was made up of 24 banks. The study selected all the nine (9) merged banks that are still active in Nigeria's financial sector at the time of conducting this research, they are Access Diamond bank, United bank for Africa, Union bank, Sterling bank, First bank of Nigeria, Unity bank, FCMB, Stanbic IBTC, and Keystone bank. Secondary source of data collection was used for this study. The main instrument used for data collection in this study is through statement of financial account. Descriptive statistics and ordinary least square regression model were used for data analysis with the use of E-View version 25. Trend Analysis was thereafter used to ascertain the fashion in which the banks fixed asset, current assets, long-term liabilities as well as short-term liabilities fared to further validate whether merger is a profitable consolidation tool in the Nigerian banking sector. Findings from the study revealed that there is no significant relationship between current assets and bank profitability. Secondly, the study also revealed that there is no significant relationship between current liabilities and bank profitability.

Thirdly, the study also revealed that there is no significant relationship between long-term liabilities and bank profitability. The study however revealed that there is a significant relationship between fixed assets and bank profitability. The study recommended amongst others that deposit money Banks in Nigeria should monitor current liabilities using trend analysis and act accordingly as the critical role played by current liabilities of the banks can be highlighted in the spending of the banking industry.

Keywords: *Mergers profitability, current assets, current liabilities, long-term liabilities, fixed assets*

Introduction

The role of banking sector in an economy cannot be overemphasized, they serve as catalyst for economic growth and development through financial intermediation function. The presence of banks in the country makes payment systems to efficiently carry out and equally facilitate the implementation of monetary policies. They serve as the linkage between the surplus and deficit economic units thereby accurately channeling funds needed for economic growth and development. The robustness and viability of this sector is necessary for a vibrant economy as the state of any economy is often a reflection of the state of its financial system. Uremadu (2017) opined that it is not surprising that government all over the world attempt to evolve an efficient banking system in order to stimulate macroeconomics polices. Gazia, *et al.* (2019), described banking sector as an integral part of an economy, thus, the sector is tending towards high complexity as a result of globalization.

In Nigeria, the banking sector has witnessed tremendous growth over the past years. This assertion is borne out of the number of banks and bank branches, their total deposits, total investments, total loans and advances and the profitability of the industry (Khadijat*et al.* 2022). The idea of mergers in the banking industry started in October, 2003 under the directives of the president of Central Bank Nigeria. The Central Bank of Nigeria rolled out incentives to encourage weaker banks to adopt mergers and acquisitions, to create a more robust financial economy, this correlation cut across the globe for developed and developing economies (Olowe, 2021).

According to Godbole (2019), merger strategy involves integration of intellectual properties such as efficient human resources, brand appeal, strong corporate image, good customer management system, efficient management team, goodwill and technical know- how into one indivisible corporate entity. Winstone (2019) clarifies that managers and stakeholders adopted merger strategy because it was seen as been able to contribute immensely to the overall health of business organizations in the long run; increase bank profits, improve market share and reduce risk.

Ayandele and Akpan (2022) defines profitability as the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Luypaert (2018) stresses that bank profitability is the net after tax income or net earnings of a bank (usually divided by a measure of bank size or capital base). Coccorese and Ferri (2020) assert that a combination of two or more firms may result into cost reduction due to operating economies. A combined firm may avoid or reduce overlapping functions and facilities. It can consolidate its management functions such as marketing research and development and reduce operating costs. Other factors remaining constant, growth leads to higher profits and increase in shareholders' value.

Oladele, *et al.* (2018) posits that the ability of a bank to implement merger strategy and measure performance quantitatively becomes integral activities of most successful business organizations in the twenty-first century. Many scholars have attributed the performance of Deposits Money Banks in Nigeria to merger (recapitalization and mergers) strategy implemented by banks following the CBNs' banking reform program without empirical support, or enough data comparing the pre and post-merger periods in the banking history. This study contributes to the body of knowledge by assessing the impact of merger strategy on banks performance in Nigeria.

The increase in capital and asset base of the consolidated banks as well as their liquidity levels have failed to guarantee some measure of stability in the sector as some major players in the sector came under severe liquidity and capital inadequacy threat within three years of recapitalization and still counting. The consolidation exercise which used a bench mark of 25 billion naira capitalization policy to reduce weak banks in order to pave way for a

more concentrated and robust banking sector is still experiencing waves of mergers and acquisitions, some banks have been restricted to regional operation, some are is still under the control of AMCON awaiting investors to acquire them, this trends are a clear indication of undercapitalization on the part of the various banking institutions even after consolidation. In 1998, a bank with a capitalization of US $688 billion was established in France, while a merger of two banks in Germany resulted in Germany's second largest bank with a capitalisation of US $541 billion in the same year (Kazeem, 2022). Banking institutions around the world have been expanding through Mergers, in hopes of lowering costs, increasing earnings and enhancing market share (Coccorese and Ferri, 2019). These strategies give merging firms a competitive advantage (Khan, *et al.,* 2020). Akinsulire (2022) pointed out that Mergers is a technique for achieving a synergistic impact that carefully planned. Li, Qiu and Shen (2018) asserted that it brings about increased economic growth and boosts market share. Gomes et al. (2017) stressed that Mergers impact on the firm's local and worldwide, operations, result in cost efficiency and the associated benefit of economies of scale inside the organization. Furthermore, Oloye and Osuma (2015) reported that Mergers are important in boosting the public trust, growing stakeholder assets, and improving operational productivity and economic stability. Mergers, according to Central Bank of Nigeria (2015), improve bank sustainability and performance while also expanding economy's potential.

Soludo (2005) asserted that though consolidation which occurred in the financial industry was done exclusively to re-capitalize banks and strengthen financial position yet its economic impact was negligible as there are still insolvent banks because of enormous non-performing loans. As result, it is needed to study the effect of Mergers on Nigeria’s financial sector. The waves of mergers and acquisitions taking place in the Nigerian banking industry raised an important question of whether mergers and acquisitions enhance banking sector's performance in Nigeria. Hence, the need to judgmentally analyze the effect of merger on profitability of deposit money banks became a keen interest to the researcher. To date, studies of pre- and post-merger on financial performance only considered financial ratios but few variables have not been included. The variables such as current assets, current liabilities, long term liabilities and fixed assets of the bank were considered in this study. Arising from inconsistencies in

findings; this work seeks to investigate effect of banks' Pre and Post Mergers on profitability of deposit money banks in Nigeria.

Literature Review

This section is divided into different sub headings which include; theoretical framework, conceptual framework, review of related empirical studies and summary of literature reviewed.

Theoretical Framework

The theoretical frame work of this study is based on two theories that explain the ideas behind mergers and acquisitions strategy. The theories are resource based theory and efficiency theory.

Resource-Based Theory

Resource base theory was propounded by Penrose in 1959. Resource base theory depicts an approach to achieving competitive advantage. The supporters of this theory argue that organizations should look inside the business firm to find the resources for competitive advantage instead of looking at competitive environment for it. Resource-based theory according to Business Dictionary (2015) is a management device used to assess the available amount of a business: strategic assets. It is based on the idea that effective and efficient application of all useful resources that a firm can muster will help determine its competitive advantages. As explained by Rothgermel (2022), resource based view is a model that sees resources as key to superior firm performance. If a resource exhibits, VRIO (Valuable, Rare, Inimitable, organized for used) attributes, the resources enables the firm to gain and sustain competitive advantage. The proponents of this theory, posited that it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. Resource base theory was criticized by Kozlenkova, *et al*, (2014) that is has being static and the theory fails to tackle the effect of organizational activities on resource effectiveness over time.

Efficiency Theory

Efficiency theory assumes that mergers are planned and executed with the main objective of achieving synergies. That is, financial synergies, operational synergies and managerial synergies, which in turn leads to the

rise of studies concerning synergy using corporate performance information (Tang, 2015). According to the efficiency theory, mergers are planned and executed to reduce costs by achieving economies of scale (Porter, 1985; Shelton, 1988). This means firms are expected to have better financial performance and improvement in overall business growth following mergers and acquisition strategy. Tang (2015), describes two major efficiency theories that aid mergers and acquisition: Disciplinary and Synergistic merger theories. According to him, Disciplinary merger theory suggests that acquiring firms acquire other under- performing companies with the objective of improving their performance by realizing the full potential of the target. While the synergistic theory suggests that acquiring firms consolidate with other complementary performing companies in order to obtain efficiency gains. As opine by Allen (2010), bank mergers increase profit efficiency relative to other banks, but have little effect on cost efficiency. Efficiency gains are much more pronounced when the participating banks are relatively inefficient ex-ante. Mergers may wake up slumbering or inefficient management and can be used as an excuse to adjust or alter unpleasant restructuring.

Relevance of Efficiency Theory to the Study

This study is anchored on efficiency theory because it explained the necessity that merger is not end in itself, but a means to an end- profitability and operational efficiency. According to the efficiency theory, mergers are planned and executed to reduce costs by achieving economies of scale (Porter, 1985; Shelton, 1988). This means firms are expected to have better financial performance and improvement in overall business growth following merger strategy.

Conceptual Framework

The relevant concepts and their dimensions as relating to this study are carefully defined and reviewed in this section.

Concept of Mergers

CFI Team (2023) defines merger as a corporate strategy to combine with another company and operate as a single legal entity. The companies agreeing to mergers are typically equal in terms of size and scale of operations. Companies seek mergers to gain access to a larger market and customer base, reduce competition, and achieve economies of scale.

Mergers are business transactions in which the ownership of companies, business organizations, or their operating units are transferred to or consolidated with another company or business organization.

Merger is the term used to refers as the integration of two companies where one new company will continue to exist. Pasha, (2020) defines merger as a combination of two companies into one larger company. Such actions are commonly voluntary and involve stock swap or cash payment to the target. A merger can resemble a takeover but result in a new company name (often combining the names of the original companies) and in new branding. Merger is the "combination of all the assets, liabilities, loans and business of two or more companies such that one of them survives." Many firms across the globe have adopted the strategy of merger and acquisition to achieve high growth in business. Godbole, (2019) opined that merger serves the purpose of expansion, reducing the level of competition and creation of a large entity.

Section 590 of the CAMA also defines "Merger" as "any amalgamation of the undertakings or any part of the undertakings or interests of two or more companies or the undertakings or part of the undertakings of one or more companies. According to Sherman and Hart (2006), Merger is "a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity." In other words, in a merger one of the two existing companies merges its identity into another existing company or one or more existing companies may form a new company and merge their identities into a new company by transferring their businesses and undertakings including all other assets and liabilities to the new company (hereinafter referred to as the merged company). There are three kinds of growth mergers exhibit, these are; horizontal, vertical and conglomerate growths.

Dimensions of Mergers

The following are measures of mergers used in the study:

i. **Current Assets**

According to Kavita, (2019), current assets are short-term *assets*, which are necessary for a company's immediate needs; whereas noncurrent assets are

long-term, as they have a useful life of more than a year. Current assets are considered short-term assets because they generally are convertible to cash within a firm's fiscal year, and are the resources that a company needs to run its day-to-day operations and pay its current expenses. Current assets are generally reported on the balance sheet at their current. Flanagan (2015) also posits that current assets may include items such as: cash and cash, equivalents, accounts receivable, prepaid expenses, inventory, marketable securities.

ii. Current Liabilities

Kayode (2014) defines current liabilities as company's short-term financial obligations that are due within one year or within a normal operating cycle. An operating cycle, also referred to as the cash conversion cycle, is the time it takes a company to purchase inventory and convert it to cash from sales. Current assets are used or converted to cash in less than one year (the short term) and are not depreciated. Current assets include cash and cash equivalents, accounts receivable, inventory, and prepaid expenses.

Gbegi, *et al.,* (2017) current liabilities are an enterprise's obligations or debts that are due within a year or within the normal functioning cycle. Moreover, current liabilities are settled by the use of a current asset, either by creating a new current liability or cash. Current liabilities appear on an enterprise's Balance Sheet and incorporate accounts payable, accrued liabilities, short-term debt and other similar debts. The average amount of current liabilities is a vital component of various measures of the short term liquidity of trading concern, comprising of current ratio, quick ratio and cash ratio.

iii. Long term Liabilities

Kavita, (2019), defined long-term liabilities as a company's non-current financial obligations. These are debts due beyond one fiscal year. This provides a better picture of a company's current liquidity. According to Flanagan (2015), Long-term liabilities are also known as noncurrent liabilities. Long-term liabilities, or non-current liabilities, are liabilities that are due beyond a year or the normal operation period of the company. Long-term liabilities are the noncurrent portions of the following: bonds payable, long-term loans, pension liabilities, postretirement healthcare liabilities, deferred compensation, deferred revenues, deferred income taxes, customer deposits etc. (Hoskisson, *et al.*, 2022). Long-Term

Liabilities Kazmi (2018), refers to those liabilities or the company's financial obligations, which is payable by the company after the next year.

iv. Fixed Assets

Tsai and Tang, 2022) defines f*ixed asset refers to a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income. The general assumption about fixed assets is that they are expected to last, be consumed, or be converted into* <u>*cash*</u> *after at least one year.* Uremadu (2017) defines f*ixed assets are company-owned, long-term tangible assets, such as forms of property or equipment. These assets make up its day-to-day operations to generate income. Being fixed means they cannot be consumed or converted into cash within a year. As such, they are subject to depreciation and are co*nsidered illiquid (Obideyi, 2016). Fixed assets can include buildings, computer equipment, software, furniture, land, machinery, and vehicles. For example, if a company sells produce, the delivery trucks it owns and uses are fixed assets (Tsai and Tang, 2022).

Concept of Profitability

Profitability is a fundamental concern and priority of all the DMBs in the country. This is because achieving shareholders' wealth maximization and long term survival objective is dependent on continuous profitability. Profit has been viewed as the disparity between expenses and revenue over a time frame, mostly a year (Bassey and Moses, 2015). Profitability is a fundamental concept in business and finance that measures a company's ability to generate a profit or financial gain from its operations and activities (Bernardin, 2021). It is a critical indicator of a business's financial health and success (Charles & Uford, 2023). Profitability is typically expressed as a ratio or percentage and is used to assess the efficiency and effectiveness of a company's operations. To CFI Team, (2023) profitability is a central concept in business and finance that assesses a company's ability to generate profit from its operations. It is crucial for business sustainability, growth, and attracting investors. Monitoring and improving profitability is a primary objective for organizations of all sizes and industries.

Measures of Banks Profitability

The measures of profitability used in this study include the following:

i. Gross Profit

Adam (2023) defines gross profit is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold (COGS) from revenue (sales). Gross profit, also called gross income, is calculated by subtracting the cost of goods sold from revenue and generally, gross profit only includes variable costs and does not account for fixed costs and assesses a company's efficiency at using its labor and supplies in producing goods or services. Gross profit, which only reflects the cost of goods sold, is different than net profit which factors in all company-wide expenses. A derivative of gross profit is gross margin; a margin that indicates what percent of revenue a company earns can be applied towards company operating costs. CFI Team, (2023) defines gross Profit (GP) of a business is the accounting result obtained after deducting the cost of goods sold and sales returns/allowances from total sales revenue.

ii. Net Profit

Akinsulire, (2022) defines net profit as the amount of money that a company has after all its expenses are paid. It is the money left after all taxes and benefits are subtracted. Net profit is the source of compensation to a company’s shareholders. According to Donaldson, (2018), net margin is a ratio of profitability calculated by International Financial Reporting Standard (IFRS) as after-tax net income (net profits) divided by sales (revenue). Net profit margin is displayed as a percentage. It shows the amount of each sales dollar left after all expenses have been paid. Market business news (2023) defines net profit, is also referred to ‘bottom line’ results from the traditional appearance of an income statement which shows all allocated expenses and revenues over a given accounting period with the resulting summation on the bottom line of the report. It is calculated by adding up a business’ total expenses, and subtracting that from its revenue this shows what the company has either earned or lost over a specific accounting period, which could be one month, one quarter, six months, or one year.

iii. Cash Flow

According to Adams (2023), cash flow is the net cash and cash equivalents transferred in and out of a company. Cash received represents inflows, while money spent represents outflows. A company creates value for shareholders through its ability to generate positive cash flows and maximize long-term free cash flow (FCF). FCF is the cash from normal

business operations after subtracting any money spent on capital expenditure (CE). Tim, (2020) also defines Cash Flow (CF) as the increase or decrease in the amount of money a business, institution, or individual has. In finance, the term is used to describe the amount of cash (currency) that is generated or consumed in a given time period. There are many types of CF, with various important uses for running a business and performing financial analysis. Tim, (2020) further integrate that CF could mean any of the types listed below, so be sure to clarify which cash flow term is being used.

iv. Return on Investment

According to Jason (2023), Return on Investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost. To Julius (2023), return on investment is a metric that investors often use to evaluate the profitability of an investment or to compare returns across a number of investments. It is expressed as a percentage. ROI is limited in that it does not take into account the time frame, opportunity costs, or the effect of inflation on investment returns, which are all important factors to consider.

Review of Related Empirical Studies

Kazeem, *et' al.* (2022) examined effect of banks' mergers and acquisitions on Nigeria's economic growth prior to and after merger sessions. The study made use of secondary data obtained from Central Bank of Nigeria (CBN) Statistical Bulletin covering the period 1990–2004 for Pre-MandAs and 2005–2019 for Post-MandAs totaling 30 years. Descriptive statistics and ordinary least square regression were employed for data analysis. The results indicated that in the Pre-MandAs era, bank's capital base, credit granted to the private sector and bank spread positively enhanced economic growth howbeit; bank's gross credit adversely affected GDP. Findings also revealed that Post-MandAs era contradicted Pre-MandAs period, with all variables showing insignificant and unexpected relationship with economic growth, except credit granted to the private sector. This indicates that banks' MandAs has not positively and adequately impacted on Nigeria's economic growth during period under consideration. As a result, the study recommends that banks' regulatory and supervisory framework should be strengthened and healthy competition should be promoted. The prior study

used economic growth dimension whereas the current study used the seeks to use profitability dimension.

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Alper and Anbar, (2021) examined the bank- and country-specific factors driving the banks' profitability in Turkey over the time period of 2012-2020. The bank profitability is measured by ROA and ROE as a function of bank internal and external determinants. Using a balanced panel data set, they showed that both asset size and non-interest income have a positive and significant effect on bank profitability, while size of credit portfolio and loans have a negative and significant impact on a banking performance. Among the macroeconomic variables only the real interest rate significantly affects the performance of banks.

Indhumathi, *et al.,* (2021) compared the sample of merged companies from the years 2012–2015. They analyzed the performance of the both target firm and buying firms using data for three years before and after occurrence of mergers by using ratio analysis and t-test. They found that the wealth of shareholders of the buying firms increased after the merger deal. Kumar and Bansal (2018) argued that increase in profits and synergy gain is not only possible by only getting into the merger deals. By using ratio analysis for 74 merger deals for the time period 2000–2006, they found that in large

number of the merger deals, the acquiring firms had generated synergy in the long run in form of higher cash flows, more business diversification, and decreasing costs.

Kaur and Kaur (2020), that examine the impact of mergers on the cost efficiency of Indian commercial banks, Time-series cross sectional data of commercial banks in India for the period, 2000 - 2001 to 2017 - 2018 were used to evaluate how mergers helped banks in India to reducing operating cost. A total of 1055 observations were recorded from the random sampled commercial banks. The study employs Analysis of Variance (ANOVA), mean and median for testing the hypotheses, efficiency distributions, and efficiency measurement. The findings from the study showed that over the entire study period average efficiency cost of public sector banks found to be 73.4% and private banks was 76.3%. The result reveals that mergers implementation has been successful in Indian banking sector in the period under study. It also indicates that merger led to higher profitability and higher level of cost efficiency for the merging firms. That technical efficiency has been the main source of efficiency gain from merger rather than a locative efficiency. Merger between distressed and strong banks did not yield any significant efficiency gain, to participating banks. The researchers recommend that government should not see mergers as a means of bailing out of weak banks and that strong banks should not be merged with weak banks, as it would have adverse effect on the assets quality of the stronger bank, the study further suggests that government and policy makers should be more cautious in promoting merger as a way of reaping economies of scale and scope.

Etim and Nsima (2020) examined the effect of merger and acquisition strategy on performance of selected Deposit Money Banks (DMBs) in Nigeria. Purposive sampling technique was adopted as sampling procedure for selecting three Deposit Money Banks (UBA, Access Bank and FCMB) that successfully implemented Merger and Acquisition Strategy in the Financial Services Sector of the Nigeria economy. Secondary Data Spanning a period of 20 years (1996-2015) were collected from the published annual financials of the banks. Descriptive statistics involving the test of differences in two means (pre and post mergers periods) and multivariate Analysis of variance (MANOVA) were employed in analysis of the data. Results shows that merger and acquisition strategy impacted

positively on performance of the selected Deposit money Banks in Nigeria with improved performance in gross earnings, profit after tax (PAT) values. Earnings Per Share (E.P.S) values. More so the calculated ANOVA values (F-statistic) for test of hypothesis were 32.83, 17.31 and 29.14 as against 3.60 critical value meaning post-merger performance were better than the pre-merger period. It was concluded that merger and acquisition strategy is good for Nigerian Banks. It is recommended that Banks with poor corporate governance issues and weak Capital structure should embrace mergers and acquisition and that the CBN should strengthen it monitoring and oversight functions to enhance operational efficiency of Deposit money Banks in Nigeria. The focused on gross earnings, profit after tax (PAT) values and earnings per share. However, the present study seeks to investigate other variables of to identify the most effective one.

Arbidane and Zelgalve (2019) explore and analyse the structure of current assets, the effectiveness of the indicators characterizing the Latvian business changing economic conditions. The research was based on the data obtained by the Central Statistics Bureau. The research covers the period of 1995–2010. The study involves the use of conventional logic analysis and synthesis methods, content analysis and analysis of monographic. The current assets of companies in Latvia, their structure and indicators to a large extent are influenced by the economic situation in Latvia. Under conditions of a stable and flourishing economic situation companies have stable development indicating balanced increase of financial indicators. Upon increase of net turnover, the amount of current assets also increases. When the national economy and business indicators improve, the proportion of assets flexibly reacts by increasing the proportion of current assets in the total structure of assets. However, when business activity decreases, the proportion of assets in the total structure of assets reduces. As a result of analysis there can be observed a correlation that the amount of stock and debts of debtors are interrelated with the net turnover of companies. The analysis of the structure and indicators of current assets using a maximally longer period of time enables to make timely and effective managerial decisions. The prior study was conducted Latvian businesses and the findings may not be same with Nigerian businesses.

Abbadi and Abu Rub (2019) assessed the effect of capital structure on the bank efficiency measured by using two indicators: accounting one

measured by ROE and market one measured by Tobin's Q. Total deposits to assets, total loans to assets and total loans to deposits were used to measure capital structure. The study employed a dataset for eight commercial banks listed on Palestine Security Exchange during the period 2012-2010. Mainly, it was found that leverage (total deposits to total assets) has a negative effect on bank profits (ROE), an increase in each ROA and deposits to assets increases bank efficiency (Tobin's Q). Leverage has a negative effect on market value measured by Tobin's Q. It was also found that there were positive and strong relationships between market value and ROA and bank deposits to total assets as well as a weak correlation between loans and return on equity and loans and market value.

Oladele, *et al.* (2018) conducted research on a post consolidation assessment of profitability in Nigerian banks", which examined the profit efficiency of Nigerian banks after the recapitalization exercise by the apex bank (CBN) for the period of 2006-2008. According to them, the composition of financial service industries, Post Merger and Acquisition and also Performance of Deposit Money Banks in Nigeria are swiftly changing; hence, it is of high necessity to evaluate the efficiency of developing institutions. Investors and creditors use such efficiency measurements to determine both present and past performance status of banks. Consequent to the growth of competition, enhancement of efficiency is a major priority of banks‟ management. The study found that the estimated profit efficiency scores of troubled banks for the periods; 2006, 2007 and 2008 were 0.79, 0.89 and 0.94 respectively while the corresponding healthy banks‟ scores were; 0.59, 0.75 and 0.86 respectively for the periods; 2006, 2007 and 2008 accordingly. The study concluded that profitability is one but not the best measure of growth.

Fabinu, Jonny, and Osidero (2018), examined the evaluation of comparative effect of Mergers and Acquisitions on profitability and efficiency of Nigerian banks. A quantitative approach was adopted with secondary data collected from selected banks published annual financial reports The study adopted a purposive sampling method in selection of its sample size (Access bank Plc, First Bank of Nigeria Plc and Union Bank of Nigeria Plc) while financial ratios were subsequently used to analyze the secondary data with an in-depth interpretation for validity. The study revealed that Mergers and Acquisitions as recapitalization strategy so far show many benefits as it

significantly leads to better performance of banks and repositioned them with a better outlook across the globe for improved efficiency and profitability. The prior study focused on efficiency of banking sector even though it is conducted in the banking sector. However, this study shall be conducted using profitability as its dependent variable.

Methodology

Research Design

The research design employed by the study is expo facto design in order to examine the effect of Mergers on the economy. In this connection, data was collected for pre-mergers period from 1990 - 2004 as well as Post mergers period from 2006 - 2019. The data was analyzed, and performance in these eras was compared to estimate Pre- and Post-mergers effect on Nigeria's economy. The essence of using a trend analysis is to enable the researcher observe the fashion in which the respective variables posed during the course of the bank mergers, to ascertain if there was a significant effect of merger on bank profitability. The study is on the effect of mergers on profitability. It is conducted in Nigeria with focus on the Mergers in Nigeria’s banking sector that reduced the number of banks from 89 to 24 banks. The 24 banks make up the population of the study. The study selected all the nine (9) merged banks that are still active in Nigeria’s financial sector as at the time of conducting this research, they are Access Diamond bank, United bank for Africa, Union bank, Sterling bank, First bank of Nigeria, Unity bank, FCMB, Stanbic IBTC and Keystone bank. Secondary source of data collection was used for this study. The main instrument used for data collection in this study is through statement of financial account. The CBN's Statistical Bulletin and the Annual Financial Statements of selected DMBs provided secondary data for this study, which spanned for fifteen years from 1990 to 2004 for Pre-Mergers era and 2006 to 2021 for the Post-Mergers era. The study used different procedures in analyzing the data ranging from Descriptive statistics, Unit root test, Co-integration, Autoregressive Distributed Lag (ARDL) and the Error Correction Mechanism (ECM) tool of analysis. The study used mean, median, skewness, kurtosis, standard deviation, maximum in value, minimum in value, Jarque-Bera, Probability and observation.

Model Specification

Following the theoretical framework, the econometric model employed in this study to evaluate the impact of Mergers on profitability of deposit money banks in Nigeria is formulated following the study of Lucas (1988) with modification by including current assets, current liabilities, long term liabilities and fixed assets, if it has any impact on profitability of deposit money banks proxy by its contribution to GDP. Thus, the model for this study is specified thus:

$$PR = \beta_0 + \beta_1 CAt + \beta_2 CLt + \beta_3 LTLt + \beta_4 FAt + \mu \qquad (1)$$

Where;
PR = Profitability
CA = Current assets
CL = Current liabilities
LTL = Long term liabilities
FA = Fixed assets

Incorporating our impact of mergers on profitability of money deposit Banks in Nigeria relationship into the unrestricted ARDL model framework so as to obtain the conditional (restricted) ARDL steady-state model (which was accomplished by applying OLS methods to estimate the general ARDL model), of the form:

$$\Delta PR = \alpha_0 + \sum_{i=1}^{m} \alpha_1^i PR_{t-i} + \sum_{i=1}^{m} \alpha_2^i CA_{t-i} + \sum_{i=1}^{m} \alpha_3^i CL_{t-i} + \sum_{i=1}^{m} \alpha_4^i LTL_{t-i} + \sum_{i=1}^{m} \alpha_5^i FA + \alpha_6 \Delta PR_{t-i} + \alpha_7 \Delta CA_{t-i} + \alpha_8 \Delta CL + \alpha_9 \Delta LTL_{t-i} + \alpha_9 \Delta FA + \mu_{1t} \qquad (2)$$

Once a long-run association is established between the variables in equation (2), the study shall proceed to examine the long-run effect and the short-run dynamics using unrestricted Error Correction Model (ECM) approach given as:

$$\Delta PR = \alpha_0 + \alpha_1 \Delta PR_{t-i} + \alpha_2 \Delta CA_{t-i} + \alpha_3 \Delta CL + \alpha_4 \Delta LTL_{t-i} + \alpha_5 \Delta FA_{t-i} + \delta ECT_{t-1} + \mu_{1t} \qquad (3)$$

Where;
α_0 = Intercept or drift operator
$\alpha_1 - \alpha_4$ = coefficients of short run dynamics

$\lambda_1 - \lambda_4$ = Long run multipliers
Δ = First difference operator
k = Respective specific optimum lags orders of the variables entering ARDL-ECM
μ_t = The white noise Error terms
t = time
The ECT_{t-1} captures the output evolution process by which agents adjust for prediction errors made in the last period.

3.2.2 Data Analysis Techniques

Pre-mergers era was measured from 1990 – 2004 while Post-M&As was from 2006 - 2021. Descriptive statistics and ordinary least square regression model were used for data analysis with the use of EView version 25. The assessment will be for 30 years pre and post consolidation performances of the consolidation instrument (merger) used by the sampled bank in Nigeria. Trend Analysis was thereafter used to ascertain the fashion in which the banks fixed asset, current asset, long term liabilities as well as short term liabilities fared in order to further validate whether merger is a profitable consolidation tool in the Nigerian banking sector.

Results and Discussion

Data presentation

Table 4.1: Descriptive Statistics

	PR	CA	CL	LTL	FA
Mean	32050794.6	142.1035	8.200842	18.37129	10453.88
Median	292583400	129.3600	6.224809	12.88000	4027.902
Maximum	8064796400	399.9600	31.45257	72.84000	43817.57
Minimum	86064330	9.910000	0.990847	5.380000	87.49980
Std. Dev.	3417647221.2	105.9508	6.352752	16.53149	12201.16
Skewness	0.825620	0.775152	1.652556	2.127961	1.132534
Kurtosis	3.136519	2.945510	6.847114	6.420949	3.397224
Jarque-Bera	3.545920	3.108282	33.22690	38.51204	6.830742
Probability	0.019830	0.011371	0.000000	0.000000	0.032864
Sum	99455574633	4405.210	254.2261	569.5100	324070.3
Sum Sq. Dev.	9.23128268907112	336766.9	1210.724	8198.710	4.47E+09
Observations	30	30	30	30	30

Researcher's Compilation using Eviews 20 (2023)

The summary statistics result in Table 4.1 reveals a high tendency for normal distribution (mean and median values lie within the maximum and minimum values). The study found positively skewed series and platykurtic

distributions with flat tails relative to the normal distribution (values less than three (3)). The study found the series to be normally distributed consequently upon probability values that are non-significant at 5% level of significance.

Data Analysis

Correlation Matrix

The Pearson correlation analysis matrix shows the relationship between the explanatory and the explained variable and the relationship among all pairs of independent variables themselves. The correlation matrix table is presented below;

Table 4.2: Correlation Matrix

	PR	CA	CL	LTL	FA
PR	1.000000				
CA	-0.848780	1.000000			
CL	0.208079	-0.350461	1.000000		
LTL	0.428375	-0.402299	0.561555	1.000000	
FA	0.889578	-0.937467	-0.230610	-0.296620	1.000000

Source: Eviews 12 output, 2023

The result of the correlation matrix in table 4.2 shows the correlation between the dependent variable, profitability of deposit money Bank and the independent variables which shows that all the correlation coefficients among the independent variables are below 0.80. The study shows that current liabilities has a positive correlation of 0.1833. This implies that the two explanatory variables move in the same direction with profitability of money deposit Bank. The correlation matrix also reveals that long-term liabilities and fixed assets exhibit positive correlations with coefficients of 0.4283 and 0.8895 respectively. This implies that long-term liabilities and fixed assets move in the same direction as profitability of money deposit Bank in Nigeria.

Test for Stationarity (Unit Root - Augmented Dickey-Fuller (ADF) Test)

The Augmented Dickey Fuller (ADF) test of stationarity is adopted to determine the underlying properties of the process that generated the time series, that is, whether the variables of interest have unit root or not.

Table 4.3 Unit Root Test Summary (Augmented Dickey-Fuller Test (ADF))

Augmented Dickey-Fuller	**PR 1st difference**	**CA 1st difference**	**CL @ Level**	**LTL 1st difference**	**FA 2nd difference**
	t-stat.	**t-stat.**	**t-stat.**	**t-stat.**	**t-stat.**
	3.8739	-3.6952	-5.1514	-5.3209	-4.5351
	Prob.	**Prob.**	**Prob.**	**Prob.**	**Prob.**
	0.0062	0.0096	0.0002	0.0002	0.0014
1% Level	-3.6793	-3.6793	-3.6701	-3.6793	-3.7114
5% Level	-2.9677	-2.9677	-2.9639	-2.9677	-2.9810
10%Level	-2.6229	-2.6229	-2.6210	-2.6229	-2.6299

Source: Author's computation using Eviews 12, 2023

The result of the unit root test in Table 4.3 shows that profitability of deposit money Bank was not stationary at level but stationary at first difference but however became stationary at first difference with ADF statistic value of -3.8739 and the associated one-sided p-value of 0.0062. The critical values at the 1%, 5% and 10% levels were greater than the statistic value which indicates the presence of stationarity at first difference. The unit root of current assets indicates that it was not stationary at first difference with an ADF statistic value of -3.6952 and the associated one-sided p-value of 0.0096. The critical values at the 1%, 5% and 10% levels were greater than the statistic value which indicates the presence of stationarity at first difference. Also, interest rate was stationary at level with an ADF statistic value of -5.1541 and the associated one-sided p-value of 0.0000 and the critical values at the 1%, 5% and 10% levels were greater than the statistic value which indicates the presence of stationarity at level. Furthermore, inflation was found to be stationary at first difference with an ADF statistic value of -5.3209 and the associated one-sided p-value of 0.0002. All the values at 1%, 5% 10% levels were greater than the statistic value which indicates the presence of stationarity first difference. Finally, money supply is stationary at second difference with ADF statistic value of -4.5351 and the associated one-sided p-value of 0.0014. In addition, all the critical values at 1%, 5% 10% levels are greater than the statistic value which indicates the presence of stationarity.

Cointegration Test

The table below shows the result of the bound test for this study.

Table. 4.4: ADRL Bound Cointegration Estimation

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	37.31301	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Author's computation using Eviews 12, 2023

Table 4.4 Shows the result of the ADRL bound test for variables used in the study. You can reject the null hypothesis if the F-calculated is greater than the critical value for the upper bound 1(1) and vice versa. From this result, it can be seen that the F-statistics is greater than the critical values at 1(1) and as such, it is concluded that there is the presence of a long-run relationship among the variables.

Diagnostics Test

The result for test of multicollinearity is presented below.

Table 4.5 Variance Inflation Factor

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
CA	1.82E+13	29.28682	10.24430
CL	7.74E+14	4.273384	1.569942
LTL	1.16E+14	3.634301	1.596701
FA	1.23E+09	16.21524	9.220715
C	2.21E+17	11.46701	NA

Source: Author's computation using Eviews 12, 2023

Based on the evidence presented in Table 4.2.4, it can be concluded that there is no multicollinearity problem. This is because the mean VIF values for the set of models are less than 10 and the tolerance values for all the variables are greater than 0.10 (Gujarati, 2004).

Table 4.6 Test for Heteroscedasticity

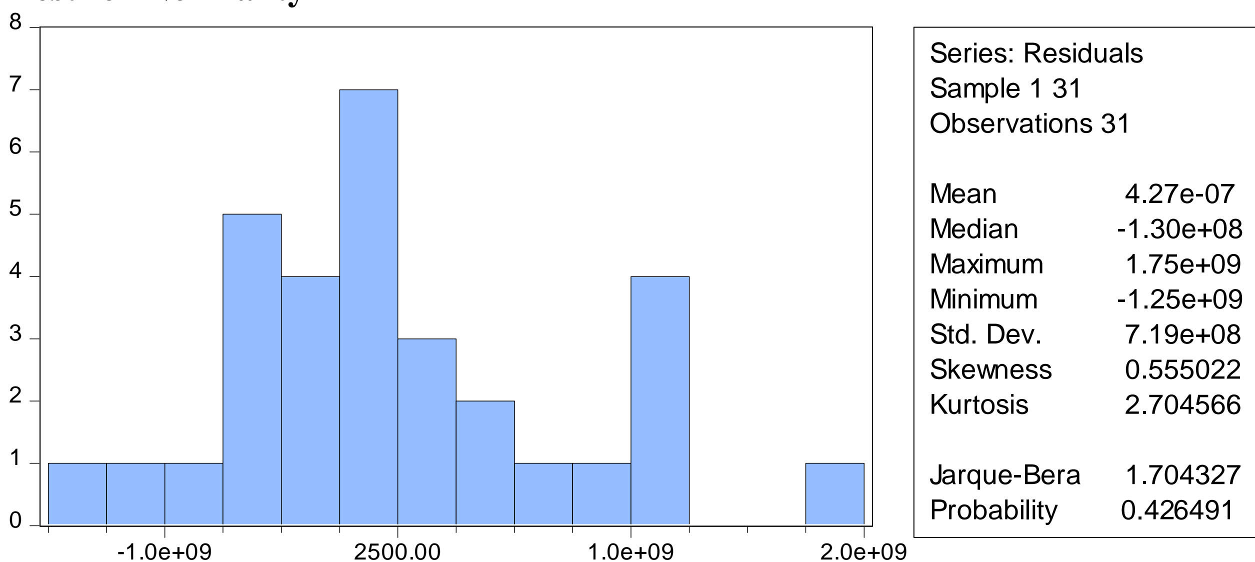
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.801984	Prob. F(4,26)	0.5350
Obs*R-squared	3.404760	Prob. Chi-Square(4)	0.4925
Scaled explained SS	2.041237	Prob. Chi-Square(4)	0.7282

Source: Author's computation using Eviews 12, 2023

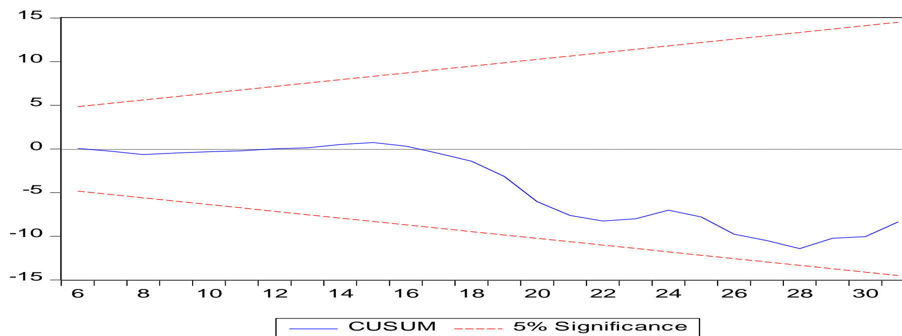
Basically, the presence of heteroskedasticity signifies that the variation of the residuals or term error is not constant which would affect inferences in respect of beta coefficient, coefficient of determination (R^2) and F-statistic of the study. Based on the results, it can be concluded that there is no problem of heteroscedasticity as the F-statistics and its corresponding probability stands at 0.8019 and 0.5350 which is insignificant, implying that there is absence of heteroscedasticity in the model (see Appendix B).

Test for Normality



The residual test of normality indicates that the data were normally distributed because the probability of Jarque-Bera is 0.4264 which is greater than 5%.

Cusum Stability Test



The Cusum stability test indicates that profitability of deposit money Bank is stable because the best line of fit is stable within the two bisecting lines in the result above.

Autoregressive Redistributive Lag Model
Table 4.7: ARDL Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PR(-1)	0.001555	0.183834	0.008457	0.9936
PR(-2)	0.452721	0.158287	2.860125	0.0354
CA	-23044455	6155422.	-3.743765	0.0134
CA(-1)	7651915.	6773092.	1.129752	0.3098
CA(-2)	16424647	5624314.	2.920294	0.0330
CA(-3)	-5123136.	4269466.	-1.199948	0.2839
CL	-13099652	20334814	-0.644198	0.5478
CL(-1)	-60259414	21069042	-2.860093	0.0354
CL(-2)	-64058868	24616109	-2.602315	0.0481
CL(-3)	-99768449	19923965	-5.007460	0.0041
CL(-4)	-89950816	17291763	-5.201946	0.0035
LTL	1708023.	8590676.	0.198823	0.8502
LTL(-1)	12287658	8271087.	1.485616	0.1975
LTL(-2)	-21531515	10435979	-2.063200	0.0940
LTL(-3)	13177917	11774978	1.119146	0.3139
LTL(-4)	44035804	10245999	4.297853	0.0077
FA	-77201.51	48579.11	-1.589191	0.1729
FA(-1)	276579.6	60724.41	4.554669	0.0061
FA(-2)	-387434.4	107876.8	-3.591451	0.0157
FA(-3)	-39320.87	132815.1	-0.296057	0.7791
FA(-4)	444983.0	140092.0	3.176363	0.0246
C	3.80E+09	7.12E+08	5.337451	0.0031

R-squared	0.897670	Mean dependent var	3.49E+09
Adjusted R-squared	0.787882	S.D. dependent var	1.70E+09
S.E. of regression	1.87E+08	Akaike info criterion	40.87319

Sum squared resid	1.75E+17	Schwarz criterion	41.92906
Log likelihood	-529.7881	Hannan-Quinn criter.	41.18715
F-statistic	101.9345	Durbin-Watson stat	2.208016
Prob(F-statistic)	0.000033		

*Note: p-values and any subsequent tests do not account for model selection.

Source: Author's computation using Eviews 12, 2023

The ARDL result in table 4.5 reveals the explanatory power of the regression model with an r-squared of eight-eight (89%) percent. This indicates that 89% percent of the variation in profitability of money deposit Bank rate (i.e. profitability of deposit money Bank) is explained by the independent variables current assets, current liabilities, long-term liabilities and fixed assets. The remaining twelve percent is explained by variables outside this model. The Adjusted R^2 of seventy-eight is close to the R^2 value of eighty-nine, meaning that the model is fit and useful for making generalizations within this period. The Durbin-Watson statistic shows evidence of no first-order serial autocorrelation in the model given that its value is 2.2. Furthermore, the value of F-statistics stands at 101.93 with a corresponding probability of 0.0000 which is less than 0.05 indicating the absolute fitness of the model.

Test of Hypotheses

H_{01}: current assets have no significant effect on profitability of deposit money Bank in Nigeria

The result of the study revealed a coefficient of -5123136, a mean value of 0.0134 and a P-value of 0.2839. This means a percentage increase in the current assets will result in a 5,123,136-million-naira decrease in profitability of deposit money Bank in Nigeria. This is also insignificant at a 5% level of significance and as such the study accepts the hypothesis which states that current has no significant effect on the profitability of deposit money Bank in Nigeria.

H_{02}: Current liabilities has no significant impact on profitability of deposit money Bank in Nigeria

The result of the study revealed a coefficient of -89950816, a mean value of 0.5478 and a p-value of 0.00035 implying that a percentage increase in currents assets will result in 89, 950, 816-million-naira decrease in Current

liabilities in Nigeria. This is significant at a 95% level of confidence and as such the study has evidence to reject the null which states that currents assets have no significant impact on profitability of deposit money Bank in Nigeria

H_{03}: long-term liabilities have no significant impact on profitability of deposit money Bank in Nigeria

From the result, it can be seen that the coefficient stands at 44035804, a mean value of 0.8502 and a corresponding p-value 0.0077. The import of this is that a percentage increase in the long-term liabilities will lead to a 44, 035, 804-million-naira increase in the profitability of deposit money Bank as measured by the volume of transactions. This means long-term liabilities is can statistically determine the profitability of deposit money Banks in Nigeria at a 95% level of significance. This is evidenced by a p-value of 0.0077 which is less than 0.05 significance level and as such the study rejects the hypothesis that long-term liabilities have no significant effect on the profitability of deposit money Banks in Nigeria.

H_{04}: fixed assets have no significant effect on profitability of deposit money Banks in Nigeria

The study also, found that fixed assets has a positive and significant effect on the profitability of deposit money Banks in Nigeria. This is evidenced by the coefficient of 444983, a mean value of 0.1729 and a corresponding probability of 0.0246 which is found to be less than 5% thrash hold. This implies that a percentage increase in fixed assets will lead to 444, 983-thousand-naira increase in the profitability of deposit money Banks in Nigeria. Given that the p-value is less than 5%, the study failed to accept the hypothesis that fixed assets has no significant effect on the profitability of deposit money Banks in Nigeria.

Table 4.8: Short-Run Error Correction Model Output

Variable	Coefficient	Standard Error	T-Statistic	Prob. Value
CointEq(-1)*	-0.316558	0.011309	-27.99238	0.0013

Source: Author's computation using Eviews 12, 2023

The coefficient of most importance in the short-run estimate is the ECM coefficient. The statistical value of the lagged error correction model (ECM) is significant at 5% level with the expected negative sign. The ECM coefficient is -0.316558 which indicates approximately 32% of the previous

year's disequilibrium in profitability of deposit money Banks in Nigeria. (PR). This shows the speed at which the model converges to equilibrium. In this study, the negative value of the ECM coefficient (-0.316558) confirms that there is disequilibrium in the short run which the set of variables in the model is trying to correct in the long run. The magnitude of the ECM coefficient implies that nearly 32% of any disequilibrium in profitability of deposit money Banks in Nigeria. (PR) is corrected by the exogenous variables within the period of over ten years. The adjustment speed is very slow.

Discussion of Findings

Current Assets and Profitability of Deposit Money Banks in Nigeria

The first objective of this study was to assess the effect of current assets on the profitability of deposit money Banks in Nigeria. The study tested the first hypothesis which states that of current assets has no significant effect on the profitability of deposit money Banks in Nigeria. The implication of this result is that a percentage increase in the currents assets will result in a 5,123, 136-million-naira decrease in profitability of deposit money Banks in Nigeria. This finding aligns with the findings of Alper and Anbar, (2021 Etim and Nsima (2020); Fabinu, *et al.* (2018) whose analysis revealed that current assets has a positive and statistically significant effect on profitability of deposit money Banks in Nigeria for the period considered.

Current Liabilities and Profitability of Deposit Money Banks in Nigeria

The second objective of this study is to ascertain the effect of current liabilities on profitability of deposit money Banks in Nigeria. The second hypothesis states that current liabilities have no significant effect on profitability of deposit money Banks in Nigeria. The result of the study using the ARDL error correction procedure revealed that current liabilities has a negative and significant influence on profitability of deposit money Banks in Nigeria. The import of this finding is that a percentage increase in current liabilities will result in 89,950, 816-million-naira decrease in profitability of deposit money Banks in Nigeria. Hence, this study shows a negative relationship between current liabilities and profitability of deposit money Banks in Nigeria. This present finding collaborates with the findings of Kazeem, *et' al.* (2022); Alper and Anbar, (2021) and contradicts that of Kaur and Kaur (2020) that current liabilities may not contribute positively to the increase in profitability of deposit money Banks in Nigeria when

there is no conducive business environment for businesses to thrive in Nigeria.

Long-Term Liabilities and Profitability of Deposit Money Banks in Nigeria

The third objective of the study is to determine the effect of long-term liabilities on the profitability of deposit money Banks in Nigeria. The hypothesis states that long-term liabilities have no significant effect on the profitability of deposit money Banks in Nigeria. The result of the study revealed that the long-term liabilities has a positive and significant effect on the profitability of deposit money Banks in Nigeria. This is seen by the result of the ARDL error correction procedure that depicted a significant relationship. This shows an existent relationship between long-term liabilities and the profitability of deposit money Banks in Nigeria. An increase in the long-term liabilities may affect profitability of deposit money Banks in Nigeria. The empirical finding is in tandem with the studies of Joseph, Kazeem, (2022); Indhumathi, *et al.*, (2021); and contradicts that of Etim and Nsima (2020) and Oladele, *et al.* (2018).

Fixed Current and Profitability of Deposit Money Banks in Nigeria

The fourth and final objective of the study is to examine the effect of fixed assets on the profitability of deposit money Banks in Nigeria. The hypothesis stated that fixed assets has no significant effect on the profitability of deposit money Banks in Nigeria. The result of the study revealed a positive and significant association between fixed assets and profitability of deposit money Banks in Nigeria as reviewed by the result of the ADRL error correction procedure. This implies that fixed assets have influence the profitability of deposit money Banks in Nigeria significantly.

Conclusion and Recommendations

Conclusion

The study found that a percentage increase in current assets will result to a decrease in the profitability of deposit money Banks. As such the study concludes that currents assets are not a predictor of profitability of deposit money Banks. Also, a percentage increase in interest rate will result to a decrease in the profitability of deposit money Banks. Accordingly, the import of this findings is that current liabilities do not possess the likelihood of influencing the extent of profitability of deposit money Banks.

Conversely, long-term liabilities were found to statistically determine profitability of deposit money Banks at a level of significance. This implies that long-term liabilities do influence the variations in profitability of deposit money Banks. Finally, the study concluded that fixed assets possess the likelihood of influencing the behaviour of profitability of deposit money Banks in Nigeria. This conclusion may hold true because the impact of fixed assets on the banking sector in the economy is pertinent as increase in the fixed assets will lower current assets, which in turn, will stem investment and enhance access to credit by private sector players and stimulating investment spending.

Recommendations

Current assets of the deposit money banks are found to decrease the potential of profitability of deposit money Banks in Nigeria. It is therefore expedient to note that since the Current assets has a propulsive influence on the profitability of deposit money Banks in Nigeria, they should take abreast of the economic environment for effective decision-making since it is external to them. This can be done by monitoring trends of the Banks Current assets over time and taking cognisance of economic happenings that are capable of affecting Current assets of the Banks.

The study also recommends that deposit money Banks in Nigeria should monitor currents liabilities using trend analysis and act accordingly as the critical role played by currents liabilities of the banks can be highlighted in the spending of the banking industry.

Deposit money Banks in Nigeria must watch out for higher long-term liabilities even though they are found to stimulate increase in profitability of deposit money Banks in Nigeria in the short term.

This study recommends that the deposit money Banks in Nigeria should increase their expenditure on fixed assets consistently. This is because increase fixed assets lowers current liabilities which means that deposit money Banks will increase production and investment drive and stem economic boom.

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