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## CONCLUSION

From all indications internationalization of accounting information is desirous as concerted efforts have been made in the recent past. The need has been made obvious in view of the global trends of economics coupled with the emerging regional economic integration. It is therefore a challenge to the accountancy profession and accounting academic to intensify efforts towards achieving the utopia in no distant future. The information technology has reduced the world to a global village and what more accounting information should be prepared with the international users and investors at the heart of the preparers. The National accounting standard boards should issue standards that are international in focus even though the peculiarity of the national sovereignty, and environment will not be ignored. This may only require additional disclosures. The accountancy professional bodies need to intensify the harmonization of accounting standards, while the teaching of international accounting should form a core course in the curriculum of higher institutions where it has not been accorded such recognition

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# ECONOMICS OF BUSINESS CONSOLIDATION IN NIGERIAN FINANCIAL SERVICES INDUSTRY


*By*

1. *Dr. Okerhe Joseph Macaver*

*and*

2. *Mr. Alex O. Ehimare*



## ABSTRACT

*This paper examines economics of business consolidation in Nigerian financial services industry. Historical evidence of the trends and effects of business consolidation through mergers, acquisitions and takeovers are provided. The paper discussed prospects and challenges of consolidation and highlights dangers of demergers/business failure among consolidated firms. The paper recommends employment of high level manpower in research and risk management to thoroughly appraise investment projects before approval.*


## Introduction

The recapitalization of firms in the Nigerian financial services industry, which began on 6th July, 2004, was aimed at shoring-up the capital base of banks, insurance companies and capital market operators such as stock-broking firms and issuing houses. The exercise was flagged-off in the banking sub-sector with a directive from the Governor of the Central Bank of Nigeria (CBN) ordering each bank in the country to raise its capital base from the then ₦2.5 billion to ₦25 billion on or before December 31, 2005 or close shop. In a swift move, the Director-General of the Security and Exchange Commission (SEC) also ordered operators in the money and capital markets to shore-up their capital base on or before December 31, 2005. Dealers were ordered to increase their capital base from ₦5 million to ₦30 million, brokers from ₦40 million to ₦70 million and issuing houses to recapitalise from ₦50 million to ₦100 million.

Banking literature suggests that several reasons informed the recapitalization exercise. Previously, most banks operated with low capital base that led to a


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## CONCLUSION

From all indications internationalization of accounting information is desirous and concerted efforts have been made in the recent past. The need has been made obvious in view of the global trends of economics coupled with the emerging regional economic integration. It is therefore a challenge to the accountancy profession and accounting academic to intensify efforts towards achieving the utopia in no distant future. The information technology has reduced the world to a global village and what more accounting information should be prepared with the international users and investors at the heart of the preparers. The National accounting standard boards should issue standards that are international in focus even though the peculiarity of the national sovereignty, and environment will not be ignored. This may only require additional disclosures. The accountancy professional bodies need to intensify the harmonization of accounting standards while the teaching of international accounting should form a core course in the curriculum of higher institutions where it has not been accorded such recognition

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wave of systemic distress. About 31 insolvent banks were liquidated between 1994 and 1998 (Umoh, 2005). An additional 11 unsound banks were identified by the CBN in 2002 which, if liquidated could trigger a major financial crisis (Kalu, 2005). Majority of the insolvent banks could not absorb losses arising from non-performing risk assets and keen competition or invest in information and communication technology (ICT). Some started operation through debt financing, which is a very risky and unstable capital instrument (Lipsey and Chrystal, 1997). The banks failed to finance the real sector because of their capital inadequacy, risk-aversion, and preference for patronizing riskless government debt instruments and foreign exchange that yield low returns than lending to the private sector at a higher rate of return (Nnanna, 2005). The recapitalization exercise sought to promote banks that can finance the real sector, assume greater risks, and vie for business at regional and continental levels (Ndanusa, 2005), in addition to deepening the financial system and forestalling systemic distress.

The Governor of the Central Bank specifically encouraged banks to recapitalize through consolidation – mergers, acquisitions and takeovers. He promised the CBN Governor's Award for speedy consolidation and the merger with the highest number of insolvent banks. This is in addition to authorization to deal in foreign exchange, collect public sector revenue, and prospects for managing part of Nigeria's external reserves. The objective of the reforms, he noted, is to promote soundness, stability and efficiency. He envisaged a banking system that depositors can trust, investor can rely upon to finance their projects; that promotes sound corporate governance practices, eradicates corruption and mismanagement; and meet international benchmarks for regional integration and globalization. According to him, "the ever changing needs of the 21st century and the need to make Nigerian banks compete favourably in the global financial system in the years to come, have made consolidation a logical option. Typically, size has become an essential ingredient for success, given the internationalization of financial markets" (Soludo, 2005:98).

These financial sector reforms that aim at economic efficiency and integration of Nigeria into the global financial market are neither new to Africa nor to the rest of the developing world. The World Bank has encouraged such reforms in Latin America, Southeast Asia, Middle East and in the emerging markets/transition economies of Eastern Europe and China. The literature suggests that there are as many failures as are success cases in financial sector reforms (World Bank, 1995). Furthermore, business expansion through mergers and acquisitions has produced mixed results throughout the world (Kay, 1997, Lipsey and Chrystal, 1997;





Lynch, 1997). Indeed, the CBN recently noted that two-thirds of mergers worldwide fail for a variety of reasons (Ighomweghian, 2006), and some of these failures, according to the Director-General of the Security and Exchange Commission, involves voluntary mergers (Aderinokun, 2006). The need to prevent demergers in the ongoing consolidation experiment in the Nigerian financial services industry can hardly be overemphasized. Demergers and business failures have the potential to unravel the entire financial system and to bring panic, pain and grief to all stakeholders.

This paper seeks to examine the economic challenges and prospects of consolidation of firms in the Nigerian financial services industry. The paper is divided into five sections, with the foregoing introduction as section 1. Section 2 contains conceptual issues and literature review on recapitalization and business consolidation. Section 3 presents trends and evidence of the effects of business mergers and acquisitions. Section 4 discusses the prospects and challenges of business consolidation in the Nigerian financial sector, while Section 5 contains the concluding remarks and recommendations of the paper.

## Section 2: Conceptual Issues and Literature Review

Recapitalization is a process that involves increasing the capital base of a company, which helps to improve liquidity and capacity to finance investments requiring large capital outlay. Lynch (1997) identified six methods of finance or capital restructuring. These are:

(i) retaining profits for investment instead of distributing them as dividends to shareholders;
(ii) boosting the value of company assets by recovering problem loans and collaterals;
(iii) reduction in liability by writing down certain debts or insisting on more prompt payment by debtors;
(iv) lease or sale of some company assets;
(v) debt financing by obtaining loans from banks; and
(vi) equity financing by:
    (a) issuance of shares to the public to attract new owners,
    (b) private placement and
    (c) rights issue. In the latter, the right to purchase new shares is issued to current shareholders in proportion to their existing voting rights in the company (Lynch, 1997). All six methods can be decomposed into debt and equity financing