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The Impact of Mergers and Acquisitions on Financial Deepening in the Nigerian Banking Sector

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Abstract : Mergers and Acquisitions (M&A) have been proposed as a mechanism through which, problems associated with inefficiency or poor performance in financial institution could be addressed. The aim of this study is to examine the proposition that recapitalization of banks, which encouraged Mergers and Acquisitions in Nigeria banking system, would strengthen the domestic banks, improve financial deepening and the confidence of depositors. Hence, this study examines the impact of the 2005 M&A in the Nigerian-banking sector on financial deepening using mixed method (quantitative and qualitative approach). The quantitative process of this study utilised annual time series for financial deepening indicator for the period of 1997 to 2012. While, the qualitative aspect adopted semi-structured interview to collate data from three merged banks and three stand-alone banks to explore, understand and complement the quantitative results. Furthermore, a framework thematic analysis is employed to analyse the themes developed using NVivo 11 software. Using the quantitative approach, findings from the equality of mean test (EMT) used suggests that M&A have significant impact on financial deepening. However, this method is not robust enough given its weak validity as it does not control for other potential factors that may determine financial deepening. Thus, to control for other factors that may affect the level of financial deepening, a Multiple Regression Model (MRM) and Interrupted Times Series Analysis (ITSA) were applied. The coefficient for M&A dummy turned negative and insignificant using MRM. In addition, the estimated linear trend of the post intervention when ITSA was applied suggests that after M&A, the level of financial deepening decreased annually; however, this was statistically insignificant. Similarly, using the qualitative approach, the results from the interview supported the quantitative results from ITSA and MRM. The result suggests that interest rate should fall when capital base is increased to improve financial deepening. Hence, this study contributes to the existing literature the importance of other factors that may affect financial deepening and the economy when policies that will enhance bank performance and the economy are made. In addition, this study will enable the use of valuable policy instruments relevant to monetary authorities when formulating policies that will strengthen the Nigerian banking sector and the economy.

Keywords : mergers and acquisitions, recapitalization, financial deepening, efficiency, financial crisis
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