FALLACIES OF BANKING CONSOLIDATION IN NIGERIA: (AN EMPIRICAL REVIEW OF THE FIRST PHASE OF THE REFORM BETWEEN 2004 AND 2009)

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Abstract: *Distress in banking industry has been worrisome right from the colonial period when banking institutions were less regulated as anybody who had money can establish a bank. As development and competitions became rampant, the focus of successive administrations has been to regulate the industry so as to safeguard the interest of the savings populace.*

This is part of what prompted the immediate past governor of Central Bank of Nigeria, Professor Charles Chukwuma Soludo, to borrow a leave from the success recorded in M&A in the banking industry embarked upon by the government of Malaysia. As at the last count he was able to prune the industry from the original 89 to 25 banks by January 1st 2006 after given 18 months ultimatum for the then existing banks to merge or be forced to wind up, if they eventually fail to recapitalise to the tune of N25bn.

As beautiful as the programme was, there are some lapses; these lapses were addressed by this study. Promises made as stimulant for efficient result of the program was used as reference points. Questionnaires were distributed and 3 hypotheses were tested using Chi-square and t-test statistics for the relationship between the consolidation exercise and the lending rates; between the new policy and family bank in Nigeria and between the exercise and corporate governance existing in the consolidated bank.

Based on the findings, it was recommended that CBN should:

(i) Enforce a lower lending rate regime especially for the manufacturing sector;

(ii) Dilute the ownership structure of the banks to check abuses;

(iii) Undertake corporate governance audit in all the banks.

Keywords: *merger, acquisition, consolidation, banking, corporate governance, recapitalisation, reform.*

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1.1 INTRODUCTION

Prior to the appointment of Professor Charles Chukwuma Soludo (the immediate past Governor of Central Bank of Nigeria), 89 banks were operating in the country. Subsequent to his appointment, he announced at the Bankers Committee in Abuja, the Federal Capital Territory, on 6 July, 2004 his intended 13-point reform agenda on which his administration intended to recapitalise and consolidate Nigerian banks for efficient service delivery and operate shoulder by shoulder with their peers in the world (Soludo 2004). Out of the 13-point reform agenda, the proposal to increase banks' shareholders' funds to a minimum of N25 billion by the end of December, 2005 was very prominent. As at the time of the meeting, the paid up capital of the existing banks was N1 billion and plans were on the way to jerk it up to N2 billion by the end of 2006.

In continuation, the Governor said that CBN would achieve this objective of minimum capital through recapitalisation in form of:

- Consolidation and strengthening the Nigerian banking system;
- Addressing the systemic distress that has been plaguing the system;
- Re-positioning the Nigerian banking system to compete favourably with foreign banks (Soludo, 2004).

He was also of the view that the above objectives can be attained by:

- Merger and acquisition of banks;
- Encouraging the reduction of cut throat competition and unnecessary rivalry among the bank;
- Ensuring that there is professionalism in the conduct of banking business;
- Making the banking system absolutely safe and engendering depositors' confidence;
- Making the industry strong enough to finance domestic business;
- Assisting in mobilising international capital for the country's development.

The announcement came as a big surprise to the industry players and the public at large. There were initial disbelief and opinion that Soludo may have to rescind the decision. However, by the deadline of 31 December, 2005, 18 months after the pronouncement, the reality set in and as at the last count 69 banks merged into 19 consolidated banks and 6 banks stood on their own. Sadly, 14 banks that could not meet the deadline to raise their minimum capital to N25 billion had their licenses withdrawn. The banks in this category were African Express Bank Plc (Afex bank); Assurance Bank of Nigeria Plc; Eagle Bank Limited; Gulf Bank Plc; Lead Bank Plc; Metropolitan Bank Limited; Trade Bank Plc; Allstate Trust Bank Plc; City Express Bank Limited; Fortune International Bank Limited; Hallmark Bank Plc; Liberty Bank Limited; Societe Generale Bank Limited and Triumph Bank Limited.

Five of these banks, namely, Trade Bank Plc, Metropolitan Bank Limited, City Express Bank Limited, African Express Bank Plc and Gulf Bank Plc were later acquired under Purchase and Assumption basis by United Bank for Africa Plc (CBN 2006). Assurance Bank Plc and Lead Bank Plc were acquired under the same arrangement by Afribank Plc, while Allstate Bank Plc was cherry picked, like others, by Ecobank Nigeria Plc. Hallmark Bank Plc was also cherry picked by Oceanic Bank Plc, making 9 banks, while 5 banks remained untouched up to the end of the era of the Governor in 2009.

Agusto (2007) opined that the essence of the recapitalisation program was to create a stronger, safer and pro-active banking sector in Nigeria. In tandom with this believe, the CBN governor made the following promises as stimulants of the programme (CBN 2005):

- The new bigger and consolidated banks shall now lend at highly reduced interest rate;
- CBN shall create a help desk to provide technical assistance to banks that require help;
- CBN promised staff who would lose their jobs, in the course of the exercise, access to funds through the SMIEIS scheme;
- Nigerian banks to be big and of equal size with similar complexities, cutting of specialisation, product differentiation and special niches, thus reducing unnecessary competition;
- Appeal for tax breaks from the Federal Board of Inland Revenue;
- Establishment of Asset Management Company to transfer, at discount, properly collaterized but non-performing loans;
- Elimination of family banks to engender good corporate governance in the industry.

1.2 LITERATURE REVIEW

We hereby review the relevant literature on the topic starting with the historical background of banking consolidation in the USA and Malaysia. USA experience is useful because the country has become the reference point for several revolutionary reforms world wide and Malaysia example is also handy because Nigerian consolidation reform was fashioned after Malaysian's modest experience.

1.21 History of Banking Consolidation

Changes in legal and technical environments influenced the transformation of US banking industry from 1896 to 2001 (Marquis, 2003). During the 12^{th} Century, 99% of more than 12,000 commercial banks were single unit operations. A century later, approximately 6,500 organisation operate more than 80,000 separate units. Banking during that time was characterised by strong institutional, legal and technical pressures (Scott 1998). The legal environment in which the bank operated varied considerably across states and through time, most especially in the degree to which banks were permitted to establish multiple locations within a state. Technological advances made during this century also influenced bank's ability to grow. Inter-unit coordination was necessary when one considers the paper work required in transaction businesses between the head office and branches of the banks. Variations in the scale of banks throughout the US resulted from pronounced cross state differences in law restricting the ability to establish multiple locations. Banking was for much of its history heavily regulated at the federal and state levels (Roe, 1994). Legal environment at the state level variously permitted unit banks whereby banks are permitted to operate in only a single location state wide banking; banks are permitted to operate branches throughout the state and limited state wide banking. State legal environment changed in the 12^{th} century as a great number of unit banking states fall while number of branch banking increased drastically.

Until inter-state banking was permitted in 1978, each state's banking environment determined the scale of the organisations that operated therein. Before inter-state banking was possible in 1978, states with no restriction in state-wide banking had larger bank's companies while those restricted to only one office had smaller companies on the average (Marquis, 2003). Changes in the banking regulation between 1978 and 2001 that expanded bank's potential markets explicitly encouraged industry consolidation through acquisition.

Malaysian banking consolidation, on the other hand, was borne out of the resolution to resolve the outbreak of financial crisis which started in July 1997. The country entered the period of financial crisis from a position of strenght. Before the crisis, economic fundamentals were strong with real GDP average growth of 8% for about a decade before the crisis; several years of fiscal policy and external debt levels contained at manageable levels. The nation witnessed low debt with most of the debts hedged and national savings high at 40% of GNP, and with adequate liquidity to support productive economic activities. To crown it all, the country was operating at full employment. The banking sector was also strong with high capitalisation levels, strong institutional and regulatory framework in place to withstand any crisis. Nevertheless, the financial crisis, placed the banking sector under strains, then more comprehensive legislative frameworks, risk based management and supervisory practices and enhanced corporate governance were emphasised by regulatory authorities to stem the crisis (Shanmugam & Nair, 2004).

In spite of these efforts, Malaysia did not recover from the effect of the currency crisis in 1997-98, Ringgit, the local currency, depreciated by 40% against the US Dollar over a period of 18 months. The banking sector was not spared, as the annual loan growth rate declined sharply during the first half of 1998, lending rate climbed up to as high as 16%, even beyond 20% in some cases. This led to a contraction in the real GDP of 6.7% in 1998 (Bank Negara Malaysia, 1999). To arrest the crisis, Malaysia instituted a wide range of measures to minimise the impact brought upon by the currency crisis and to restore stability in the economy and banking sector. To ensure that the banking sector continued its intermediary function in the economy, three-in-one reform was put in place as follows:

- Institutional arrangement that included Assets Management Corporation, “Danaharta”;
- A special purpose recapitalisation vehicle, called “Danamodal” and
- A Corporate Debt Restructuring Committee (CDRC) was set up to resolve debt problems of large corporate

Significant progress has been achieved by these agencies in their respective operations, but specifically the recapitalisation process, under Danamodal arrangement, was completed by December, 1999. As the capital position of the banking institution strenghtened it enabled the banking institutions to repay Danamodal. The conducive economic environment also provided Danamodal with the opportunity to divest its investments in one of the banking institutions under the merger scheme. As a result, the outstanding amount of recapitalisation was reduced to RM2.1bn from a total of RM7.1 bn since its inception, by December 2002.

A major development in 2000 was the consolidation of the banking system following the increased capitalisation requirement imposed effective end of December 2001. The aim of this was to address the fragmentation of domestic banking sector and develop financially strong institution with sufficient large capital size to undertake business expansion. This was successfully completed with minimal impact on the provision of banking services (Aziz, 2002). As at the deadline in January 2002, the banking industry was reduced from 54 banks (including finance companies, merchant banks and discount houses) to only 10, in line with Malaysian government 10 years "Financial Sector Master Plan" (FSMP) to fully liberalise the banking industry by 2010. The second round of consolidation occurred in 2006 with the take over of Southern Bank by Commerce Asset Holding, now known as Bumiputra Commerce (Bank Negara Malaysia, 2007). The plan according to FSMP is for Malaysia to have six to eight domestic banks operating by 2010. It is believed that 3 to 4 large banks, providing a full range of financial operations and another 3 to 4 medium sized banks, offering more specialised services would be in place at the deadline.

1.22 Mergers & Acquisitions

The occurrence of merger and acquisition (M&A) has increased significantly, not only in the USA, but all over the continent. Cartwright (2006), was of the view that M&A activities are mostly affected by knowledge based industries, such as banking and insurance. This is the same thing that is now playing out in Nigeria, as M&A is now the new song in the two industries. This section hopes to throw light on factors that can assist in achieving efficiency in a merger arrangement and also determine the dynamism of growth and financial synergy in merger arrangement.

1.221 Phases of Merger and Acquisition

Stigler (1950) traced the phases of M&A in the USA along with events that characterised each era as listed below:

- Growth phase of 1893 to 1904: this phase reflected merger between heavy industries called horizontal merger. Here companies sought to transform themselves from regional to national status. This phase was labelled as a monopolistic wave;
- Growth phase of 1922 to 1929: this phase was tagged as oligopolistic wave. The era was a mix of vertical and horizontal mergers. In addition to heavy industry, the era

also witnessed mergers and take over bids in the food, chemical and coal mining industries. Then company sought to increase their monopolistic power to extend their market share;

- Growth phase of 1940 to 1948: a subsiding wave against the backdrop of economic growth. 3rd phase of horizontal mergers which witnessed freiendly take overs of smaller private companies by larger ones;
- Growth phase of mid 1950 to 1969: this is the era of horizontal mergers and also the establishment of conglomerates based on merger and take overs. This era saw a lot of mergers and takeovers bid in the automotive and aerospace industries. The era also moved away from the widespread practice of unfriendly seizures of control over boards of directors through proxy voting and without the purchase of a controlling interest;
- Growth phase of 1981 to 1989: this era displayed all forms of merger, horizontal, vertical, conglomerate and others in all sectors. Lots of hostile takeovers took place during this period. There was also emergence of leveraged buy-out;
- Growth phase of 1990s: merger wave slowed down during this period, but was resuscitated sometimes 1993. Merger involving conglomerate was the least popular, but horizontal type predominates as a reaction to still competitons at a time of changing markets.

1.222 What motivates merger?

The whole essence of merger is value creation as posited by Brigham and Ehrhardt (2002). Craig and dos Santos (1996) cited Knapp *et al.* also identified scale of economies as another motive for merger. All these point to diversification of risk and the desire to become “too big to fail”.

Milbourn, Boot and Thakor (1999) cited Knapp *et al,* explained that banks are encouraged to merge as they see their coming together as an attempt to increase their shareholders’ wealth or to enhance the reputation of their CEO, who will receive higher compensation as a result of having more assets and employees under management.

Knapp *et al,* concluded that market normally respond positively to deal with higher projected cost savings and since there is economies of scale to be derived from merger and acquisitions, they tend to favour the exercise.

Throwing support to the above submission that merger stimulates project cost saving, Karceski, Ongena and Smith (2005) conclude that profit maximisation induced banks to merge. This is attributed to increase in shareholders' wealth which comes in two ways. The first comes in form of gains in market power, as consolidation will reduce competition, which in turn will lead to bank charging higher prices on services rendered; they have the market power to dictate the trend of event, they can collude to make new entrant find it difficult to enter. The second comes in the area of upgrades in efficiency, this can come in form of reduced cost or through enhanced revenues or even closure of surplus branches thus saving unnecessary administrative costs, it can even come in form of reduction of redundant staff, consolidation operation with large fixed costs, cross selling products to combined client base. Higher synergy can come when a well run bank acquires a mismanaged or weaker one.

1.223 Evaluation of successful merger

Becher and Campbell II (2005) were of the opinion that successful mergers were able to reduce costs through elimination of redundant operations. This is natural as the combined groups will need to cut down on cost through removal of duplication of personnel and other processes that abound in individual banks before they merged.

Dr Long (2004) itemised three necessary steps needed to classify merger as successful. These are acquisition profile, due diligence and non financial factors as explained below:

- Acquisition profile: is a necessary ingredient that defines clearly the criteria for a potential acquisition to ensure that all criteria are strictly adhered to by all parties involved in the merger;
- Due diligence: is like a courtship process, exercised by couples to find out the behaviour of husband and wife before the real marriage, it is needed for evaluation and analysing of possible acquisition. It is more or less a mirror to reflect unforseeable and unidentified potential problems in advance which can be prevented before the real marriage or may be a determining factor for the continuation of the arrangement;
- Non financial consideration: this includes such factor as culture of each organisation.

Sherman (2005) concluded that a successful merger demands a ten step evaluation. He posits that stakeholders in banking consolidation, such as board members, management, investors and security analysts should use these steps to evaluate how successful the merger is. These steps are:

- How has the bank ensured the realisation of the merger benefits within the first 2 years of the merger? These benefits should surpass redundancy elimination benefits;
- Is there a plan and method for identifying and adopting best practices in each major business activity through benchmarking or other rigorous methods? How soon after the merger are these best practices being implemented?
- Is there merger reserve sufficient to cover all costs of consolidating the merged banks, if not, what aspects of the merger process are likely to suffer due to under funding? If past reserves were not enough, is that influencing the decision for current bank acquisition to create a new reserve?
- What initiatives ensure that the new merged management team includes the most competent managers and that political issues and positioning will not delay realization of potential merger benefits?
- Are decisions to retain customer service personnel and meet overall targeted personnel reductions resulting in loss of key internal personnel that take valuable legacy knowledge with them, which may be costly to replace?
- Are revenue growth and customer retention promises realistic, and are they driving other decisions to artificially achieve these goals that can prove costly in other aspects of banking operations?
- What type of costs are applied to the merger reserve, and are any of the judgments in this process tilted to artificially boast short term operating profits? The activity of current and past mergers and restructuring reserves deserve close scrutiny;
- If your bank is being acquired, is it being under-valued because management has deferred benefits from past mergers?
- Are promised benefits of merger traceable to merger? Or are they resulting from initiatives that management of the acquring and acquired banks have deferred? Can management demonstrate that the potential and actual benefits are attributable to the merger? Are initiatives to meet the promised short term savings also resulting in neglecting other needed initiatives that can prove costly two or more years after the merger?

- Does the bank have a management control system that will clearly track impact of the merger and allow the bank to benefit from benchmarking and other efforts to identify and adopt best practices in key banking activities?

Finally and specifically, Cornett *et. al* (2006) identified performance indicators to evaluate bank's performance to be:

- Profitability: to measure overall performance;
- Capital adequacy: ability to meet regulated capital standards and still attract loans and deposits;
- Assets Quality: measures changes in banks loan quality
- Operating efficiency: bank's ability to generate revenue, pay expenses and measure employees productivity;
- Loan composition: measures changes in the composition of risk assets and returns on the bank's loan portfolio;
- Non interest income: changes in income generated from banking activities other than lending;
- Off-balance sheet indicator: changes in the bank's off balance sheet engagements;
- Liquidity Risk: changes in bank's cash position;
- Growth: changes in bank's deposit and asset size.

1.224 How to overcome problems associated with merger

Price (2004, 331) posits that mergers are unsuccessful because of the nature of takeover. He attributed this to behavioural problem on the part of staff members feeling defensive and threatened due to lack of goals and objectives of the human resources management harmonisation, inarticulate coordination of different human resources policies of different organisations, lack of sound implementation of change management strategy, non re-orientation and passive cultural integration process.

Long (2004), on the other hand, argued that key area of integration process is staff matters which would be surplus or might end in duplication of function, to re-structure, plan should be in top gear to right size the work force.

Sherman (2005) concludes that corporate cultures within an organisation are one of the social elements that can stimulate a successful merger. Poor reconciliation of different banks cultural difference may cause merger to under perform. He surmised that the set of inherited managers comprising of a mixture of two or more merged banks might form allegiances to former colleague. The political gamming that usually emanates can cripple the ability to achieve the potential benefits of the merger.

2.4 The emerging mega-banks from Nigeria bank recapitalisation (2006)

The table below shows the list of 25 banks that emerged on 1 January, 2006, that is, those that met the N25bn minimum capital requirement by the deadline of 31 December, 2005 stipulated by CBN

s/n	Emerging Bank	Nature of arrangemnet	Participants	Remarks
1	Access Bank Plc	Merger	With Capital Bank and Marina Bank	Event later proved acquisition by Access Bank
2	Afribank	Acquisition	With Afribank Inter'nal Ltd. Later acquired Lead Bank and Assurance Bank	Real acquisition as Afribank Inter Ltd was Afribank subsidiary
3	Diamond Bank	Acquisition	Acquired Lion Bank	
4	Ecobank Plc	Acquisition	Acquired Allstate Bank	
5	Equitorial Trust Bank	Merger	With Devcom Bank	Cosmetic merger as the banks were related
6	Fidelity Bank	Merger	With Manny Bank and FSB Inter'nal	Complex merger
7	First bank Plc	Merger	With FBN Merchant Bank and MBC Inter'nal	The same way as Access Bank
8	First City Monument Bank	Merger	Cooperative Dev. Bank; Midas Bank; Nig America Merchant Bank	Also like Access Bank, acquisition in practice
9	First Inland Bank	Merger	First Atlantic Bank, Inland Bank, IMB Plc and NUB Inter'nal	Complex merger
10	GT Bank Plc	N/A	GT Bank alone	
11	IBTC Chartered	Merger	IBTC, Chartered and Regent Bank	Later acquired by Stanbic
12	Intercontinental Bank	Merger	With Gateway Bank, Equity and Global Bank	Cosmetic merger (family bank)
13	Nigeria Inter'nal	N/A	NIB alone	

	Bank			
14	Oceanic Bank	Acquisition	With Intern'al Trust Bank	
15	Bank PHB Plc	Merger	Platinum and Habib Bank	Complex merger
16	Skye Bank	Merger	Prudent, Bond, Cooperative, Reliance and EIB	Complex merger
17	Spring Bank	Merger	Citizen Bank, Fountain Trust Bank, Guardian Express Bank, ACB Inter'nal, Omegabank and Trans Inter'nal	Very complex with cultural and ethical differences that led to a debacle
18	Stanbic Bank	N/A	Stanbic alone	Later absorbed IBTC Chartered
19	Standard Chartered Bank	N/A	Standard chartered bank	
20	Sterling Bank	Merger	Magnum Trust Bank, NAL Bank, NBM Bank, INMB Ltd and Trust Bank of Africa	Another complex merger
21	Union Bank	Merger/acquisition	UBN, UBN Merchant Bank, UTB and Broad Bank	Like Access bank
22	United Bank for Africa	Merger/acquisition	UBA, Standard Trust Bank, Continental Trust Bank	Later absorbed Trade Bank, Metropolitan Bank, City Express Bank, African Express Bank and Gulf Bank on P&A basis
23	Unity Bank Plc	Merger	Bank of the North, New African Merchant Bank, Tropical Bank, Centre Point Bank, NNB Plc, First Interstate Bank, Intercity Bank, Societe Bancaire and Pacific Bank	Most complex of all. The member banks are the largest so far. They are of different cultural and heritage background.
24	Wema Bank Plc	Merger	With National Bank	Though the simplest merger,

				went through a debacle that led to the exit of the FC and MD
25	Zenith Bank Plc	N/A	Zenith Bank alone	

2.5 Corporate Governance

Corporate governance is the system by which the affairs of corporate entities are directed and controlled by those charged with the responsibility, all in the bid to ensure that the entity does not suffer from the serious and fraudulent mismanagement by powerful executive directors who acted in their personal interest instead of corporate interest.

To ensure compliance with corporate governance the company is required to make a statement in the annual report and account as to whether or not it has complied throughout the accounting period with the principle of corporate governance. It has become an acceptable international practice to check excesses of directors which culminated in fraudulent practices in the past as we had seen in the cases of Cadbury, Enron etc.

The issue of corporate governance in Nigeria was initially handled by Corporate Affairs Commission and Security Exchange Commissions when they inaugurated a 17-member committee in June 2000 under the Chairmanship of Peterside Atedo, the then Managing Director of IBTC Plc, the report of the committee, which has now become of Code of Best Practice in Corporate Governance in Nigeria, focused on the Board of Directors as the leader of corporate entities, the shareholders and the Audit Committee.

The Board of Directors has the responsibility for controlling the affairs of the entity in a lawful and efficient manner so as to improve value creation and the Chairman of the Board is to ensure effective operation of the board but not to be in executive capacity. Members should be people of diverse experience, upright character, possessing requisite core competence, knowledge on the board and entrepreneurial bais. The board shall meet regularly, at least once in a quarter, with sufficient notice and formal schedule of matters to discuss. It has the duty to present a balance, reasonable and transparent assessment of the company's position, to promote transparency in financial and non-financial reporting. The board should maintain objective and professional relationship with external auditors and ensure that the company is run as a going concern.

The shareholders, on the other hand, is charged with the responsibility of electing and approving terms and conditions of the directors, they are therefore not to be disenfranchised by the directors so elected by them, as often time AGMs are held in remote areas to prevent the shareholders from voting on an issue that might affect the directors. This is part of what the Code of Best Practice aimed at resolving. Shareholders having more than 20% holding in the company shall have a representative in the board, unless that shareholder is in a competing business with the company.

To complement the efforts of the Corporate Affairs Commission and Security Exchange Commission and also sanitise the financial institutions and their role as financial intermediaries, the CBN on 1 March, 2006 announced a new code of conduct for banks in Nigeria. The code became effective from 3 April, 2006. This was done to address the under-listed flaws and challenges of Corporate Governance for banks post consolidation. Some of these flaws led to problems in some of the banks in later years, which put to question the transparency of some of the players in the industry:

2.51 Challenges of Corporate Governance in Nigerian Banks

- Technical incompetence of Board and Management: Some of the members lack pre-requisite skills and competence to refocus the enlarged entity;
- Relationship among Directors: Squabbles resulted from differences in business culture and high ownership concentration, especially with bank who dominates the arrangement in terms of ownership portion and management;
- Relationship between management and staff: There were also squabbled due to knowledge gap, harmonisation of salary and grade;
- Increased level of risk: Poor assets quality hiding from other legacy banks to conceal false reporting, the basis for negotiating position in the arrangement;
- Ineffective integration of entities: Different component of the bank still operating according to their old ways, until harmonisation of processes and cultures are put in place;
- Poor integration and development of information technology systems, accounting systems and records;
- Inadequate management capacity;
- Resurgence of high level malpractices: sharp practices which resurfaced later, post consolidation;

- Insider related lending: Without transparency, pervasive influence of family and related party affliation continues, this led to debacle earlier referred to;
- Rendition of false report: To cover gap created by the initial wrong position submitted when coming together;
- Continued concealment of material issues;
- Ineffective board/statutory audit committee;
- Inadequate operational and financial controls:
- Absence of robust Risk Management System;
- Disposal of surplus assets after consolidation: some branches of the bank that are closely located were sold to insiders at below market prices;
- Transparency and adequate disclosure of information.

1.3 Statement of Problem

Some of the promises made by Professor Soludo as stimulants of the program have been found to be unrealistic, as we later found in the case of widely published debacle in Spring Bank, Wema Bank and others. The work aimed at reviewing the promises to bring out the areas of fallacies that needed to be corrected to make the reform effective going forward.

1.4 Research Questions

The study was guided by the following research questions:

- To what extent has consolidation affected the lending rate in banks?
- What contribution has the help desk, created by CBN, on the implementation of consolidation exercise?
- What impact has SMIEIS scheme made on job creation, with particular reference to staffers who lost their jobs through bank consolidation?
- How has consolidation been impacted on bank's performance?
- How effective is the consolidation programme on governance culture of banks in Nigeria?
- How authentic is the information presented by individual banks for consolidation purposes?

1.5 Research Hypothesis

For the purpose of analysing the data, the following hypotheses were tested:

- Ho_1: Recapitalisation has highly reduced the lending rates in banks;

- Ho2: The policy has eliminated the existence of family banks in Nigeria;
- Ho3: Consolidation exercise has engendered good corporate governance in Nigerian banks.

1.6 Methodology

The methods adopted by this researcher in collecting the data are direct interviews, observations and the use of questionnaire. Inquiries were also made both directly and indirectly through some unusual questions to diverse groups within the industry.

1.7 Population, Sample and Sampling Technique

The study focuses on all aspects of corporate governance in the bank. In order to carry out an in-depth and comprehensive study, 50 respondents were randomly selected. These respondents cut across all the cadres of the bank.

1.8 Instrument

The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including some of the ex-staff of the bank who moved to other banks to avoid being caught in the web. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

1.9 Validity and Reliability of the Instrument

To ensure the validity of this research, the instrument was subjected to criticism by specialist in the areas of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through a test-retest techniques to analyse the data collected.

2.0 RESULTS

Table 1: Has recapitalisation reduced lending rate in Nigeria?

Subject	No	%	T-calculated	Table value	Decision
Agreed	19	38.0			
Disagreed	31	62.0	45.00	21.026	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 45.00 > 21.026), then the null hypothesis is rejected, while the alternative hypothesis is accepted and we conclude that recapitalisation has not reduced lending rates in Nigerian banks.

Table 2: Has the reform eliminated existence of family banks in Nigeria?

Subject	No	%	T-calculated	Table value	Decision
Agreed	20	40.0			
Disagreed	30	60.0	45.00	21.026	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 45.00 > 21.026), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that the reform has not fully eliminated existence of family banks in Nigeria.

Table3: Has consolidation engendered the advent of good corporate governance in Nigeria banks?

Subject	No	%	T-calculated	Table value	Decision
Agreed	17	34.0			
Disagreed	33	66.0	160.00	9.489	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 160.00 > 9.489), then the null hypothesis is rejected, while the alternative hypothesis is accepted and we conclude that consolidation exercise has not engendered good corporate governance in Nigerian banks.

2.1 Discussion

Finding of hypotheses tested and direct interview conducted on the personnel of the company reveals the followings

- In spite of increased capital as a result of M&A, lending rate in Nigerian banks has not reduced, hence the manufacturing sector has not seen the impact of the policy on cost of production;
- The help desk promised by CBN governor is non-existent as majority of the respondents are not aware of any such desk;
- There is no evidence that the regulatory authority has any special arrangement to extend SMIEIS facilities to employees of banks that lost their jobs as a result of consolidation exercise;
- Rivalries and competitions among the banks still persist in spite of the intention of CBN that consolidation exercise would check unnecessary rivalry among emerging banks;

- Banks are still left in the cold on the tax breaks expected from Federal Board of Inland Revenue;
- Some of the respondents are not aware of the existence of Assets Management Company (AMC) promised by CBN. AMCON was just introduced by the current Governor;
- Respondents believed that family banks are still in existence in Nigeria. They cited the example of Intercontinental Bank Plc, First City Monument Bank Plc, Oceanic Bank Plc and Zenith Bank Plc;

2.2 Conclusions

Though the policy is working in Malaysia and some foreign countries, the situation in Nigeria is different, as we have multi-cultural and different attitudinal backgrounds, which affect the practicability of certain policies that are working perfectly in developed countries. As beautiful as the exercise was, there seems to be some problems which need to be resolved by modifying the consolidation exercise, as second level reform, in line with the reality on the ground. The outcome of the investigation into the affairs of Spring Bank Plc and Wema Bank Plc will help the regulatory authority to refine the process so as to make the policy amenable to our local environment.

There is a need for the regulatory authority to do a comprehensive compliance audit of the activities of all the other banks with a view to confirming the peculiar situation of all the banks and use the findings in addition to the result of the investigations in Spring Bank and Wema Bank as framework for re-modifying the consolidation exercise.

2.3 Recommendations

From the above findings, the following critical steps should be taken by CBN as a way of refining the process:

- Generate report on the actual lending rates of individual banks and ensure that stipulated lending rate as stated from time to time is strictly adhered to. Any bank that contravenes this should be seriously dealt with.
- In addition to the above, special lending rate should be specified to stimulate the manufacturing sector so as to bring down cost of production as promised by CBN governor while formulating the policy.

- The help desk should be made functional, as many respondents are not even aware of its existence.
- The desk should go extra miles to solve any problems brought to its notice. Hence the officers in charge should be knowledgeable to handle any issue on M&A.
- It is not late for CBN to come to the aid of those employees of banks who lost their jobs as a result of consolidation exercise. Those officers with genuine business proposals could be directed to approach banks for SMIEIS facilities. By so doing, the CBN will help to reduce social menace caused by unemployment induced by M&A in banks.
- Unnecessary rivalries among the banks should be checked. At the moment banks still engage in de-marketing strategies, most especially when any bank is in difficulty, others will stop at nothing to discredit it with a view to luring its customers to their fold. Even though CBN has made a pronouncement against the strategy through a circular reference BSD/08/2006 of 12th April 2006, titled "the unethical and unprofessional practice of de-marketing colleagues/other banks in the industry by spreading false rumours", there is no indication that the banks involved have stopped the practice. It is therefore recommended that special penalty should be imposed on culprits, henceforth.
- CBN should reach a special agreement with Federal Board of Inland Revenue to give adequate tax break to banks so as to make life easy for them.
- Since AMC is to free the banks of their non-performing loans, thus making their balance sheet neater, CBN should actualise this. By so doing, recovery will be effective as it would be handled by professionals. This will also hold the fraudsters fully accountable for all their debts rather than having the impression that the debt is their share of national cake that needs not be repaid. This will also make enforcement effective and debar fraudsters from approaching different banks for loan facilities when they know that they are bound to pay any such debt;
- As regards the continued existence of family banks in Nigeria, CBN should look at the ownership structure of these banks. Further dilutions of their holdings should be undertaken to check the abuse. This will engender good corporate governance in banks.

- Corporate governance audit should be undertaken in all the banks by CBN, so as to confirm compliance.
- Any hole found in the figure presented for consolidation by individual banks should be investigated and if found to be unresolved, should be reversed from the bank's capital account. If after reversing this, the net balance made the capital to be lower than the minimum stipulated capital of N25bn, such bank should be given up to six months to make up for the shortfall.

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