CHANGE AND CONSOLIDATION IN THE NIGERIAN BANKING INDUSTRY: AN EXPLORATION OF TWO KEY CENTRAL BANK OF NIGERIA OBJECTIVES

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Glossary

Acculturation

A process in which members of one cultural group adopt the belief and behaviours of another group.

Asset

Any item of economic value owned by an individual or corporation.

Banking Consolidation

The transfer of ownership in a payment and settlement context through mergers and acquisitions and other developments within the financial industry.

Banking Crisis

A systemic crisis episode in which significant segments of the banking sector become insolvent or illiquid, and cannot continue to operate without special assistance from the monetary or supervisory authorities.

Bank for International Settlements (BIS)

The Bank for International Settlements is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks.

Business Environment

Encompasses all those factors that affect a company's operations, and includes customers, competitors, stakeholders, suppliers, industry trends, regulations, other government activities, social and economic factors and technological developments.

Bankruptcy

Legally declared impairment of ability of an individual or organisation to pay its creditors.

Capital Adequacy

A measure of the financial strength of a bank or securities firm, usually expressed as a ratio of its capital to its assets.

Capital Base

The issued capital of a company, plus reserves and retained profits.

Capital Flight

Short term private capital outflows.

Credit

Is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately, but instead arranges

either to repay or return those resources at a later date.
Credit Bureaus Organisations providing information on individuals borrowing and bill paying habits. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan.
Cultural Fit The compatibility between individual and organisational values, beliefs, attitudes and behaviours.
Currency Crisis A speculative attack on the exchange value of a national currency resulting in the devaluation of the currency.
Deposit The liability owed by the bank to its depositor.
Deposit insurance A measure implemented to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due.
Deregulation The removal or simplification of government rules and regulations that constrain the operation of market forces.
Financial Deregulation Exposing existing banks to greater competition through new entry, freeing interest and deposit rates, and allowing banks to move into geographical areas and products from which they had been barred.
Group of 10 (G-10) The Group of Ten is made up of eleven industrial countries which consult and co-operate on economic, monetary and financial matters.
Human Capital The set of skills which an employee acquires on the job, through training and experience, and which increase that employee's value in the marketplace.
Intermediation Matching of lenders with savings to borrowers who need money by an agent or third party, such as a bank.
International Monetary Fund (IMF) The International Monetary Fund is the principal international banking regulator. It

issues advisory reports, which member countries often act on, about credit-worthiness, banking quality and public spending.

Keynesian model

Allows monetary policy to have long-run effects on unemployment, real wages, and income distribution, but growth is not affected.

Liberalisation

The relaxation of previous government restrictions, usually in areas of social or economic policy.

Management Incentives

Programs particularly used in business management to motivate employees

Non-Performing Loan

Lending money without sound credit analysis, which results to defaults in repayment.

Optimal Resource Allocation

The most efficient allocation of resources.

Organisational Culture

Describes the psychology, attitudes, experiences, beliefs and values of an organisation.

Organisational Values

The acceptable standards which govern the behaviour of individuals within an organisation.

Policy Instruments

Is the term used to describe some methods used by government to achieve a desired effect. The two basic types of policy instruments are regulatory and economic instruments.

Public offering

A public offering occurs when a company raises capital by issuing common stock or shares to the public.

Recapitalisation

A change in a company's capital structure, such as an exchange of bonds for stock. Recapitalisation is often undertaken with the aim of making the company's capital structure more stable, and sometimes to boost the company's stock price.

Recession

A recession occurs when a business cycle contracts, this generally leads to a slowdown in economic activity over a period of time (i.e. more than two consecutive

quarters).
Risk Diversification Strategy designed to reduce exposure to risk by combining a variety of investments.
Rural Bank A rural bank has the power to provide credit facilities to farmers and merchants or to cooperatives of such farmers and merchants and, in general, to the people of the rural communities in which the rural bank operates.
Strategic Fit The degree to which an organisation is matching its resources and capabilities with the opportunities in the external environment.
Universal Banking In universal banking, large banks operate extensive networks of branches, provide many different services, hold several claims on firms (including equity and debt), and participate directly in the corporate governance of firms that rely on the banks for funding or as insurance underwriters (Calomiris 1995).

List of Abbreviations

$	Dollar
ARDL	Autoregressive Distributed Lag
ATM	Automated Teller Machine
BAS	Banking Analysis System
BIS	Bank for International Settlement
BNM	Bank Negara Malaysia
BOFIA	Bank and Other Financial Institutions Act
CAMEL	Capital, Asset quality, Management, Earnings, and Liquidity
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CR	Concentration Ratio
CRMS	Credit Risk Management System
DEA	Data Envelopment Analysis
DMU	Decision Making Unit
e-FASS	Electronic Financial Analysis and Surveillance System
EFCC	Economic and Financial Crime Commission
FCMB	First City Monument Bank
FEAF	Formal Enforcement Action Framework
FITC	Financial Institute Training Centre
FIU	Financial Intelligence Unit
FMP	Fries Mella-Barral and Perraudin
FSA	Financial Supervisory Authority
FSA	Financial Service Authority
FSMP	Financial Sector Master Plan
FSS	Financial System Stability
FSS	Financial System Stability
FSSA	Financial Service Supervisory Agency
G-10	Group of Ten
GDP	Gross Domestic Product
GNP	Gross National Product

HHI	Herfindahal-Hirschman Index
HVB	HypoVereinsbank
IBA	Indonesia Banking Architecture
IBRA	Indonesia Bank Restructuring Agency
IEAF	Informal Enforcement Action Framework
IMF	International Monetary Fund
IPO	Initial Public Offer
IS/IT	Information System/Information Technology
IT	Information Technology
KYC	Know Your Customer
MEM	Main Equations of the Model
MD	Managing Director
MPI	Malmquist Productivity Index
N	Naira
NDIC	Nigerian Deposit Insurance Corporation
NEEDS	National Economic Empowerment and Development Strategy
NERP	National Economic Recovery Plan
NFIU	Nigerian Financial Intelligence Unit
NPL	Non-Performing Loan
OSFI	Office of the Superintendent of Financial Institutions
PHB	Platinum-Habib Bank
SAP	Structural Adjustment Programme
SCB	Standard Charted Bank
SCH	Santander Central Hispano
SE	Scale Efficiency
SERVQUAL	Service Quality
SME	Small and Medium Scale Enterprise
UBA	United Bank for Africa
US	United States

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Abstract

In an attempt to correct economic shortfalls, authorities in Nigeria deployed consolidation as the main policy instrument in the 2004-2006 reform of the banking industry. The Central Bank of Nigeria drew lessons from similar challenges faced by Malaysian and Indonesian authorities. Nigerian banks were given an 18 month window, to achieve an increased minimum capital base of N25 billion. To survive, banks could either raise the new requirements on their own or engage in mergers or acquisitions. The process of consolidation resulted in the reduction of banks from 89 to 24 and the emergence of three categories of banks namely: Stand alone, Common ownership, and Common interest banks.

Primarily, this study examines change management practices of senior bank managers directly involved in implementing consolidation in Nigeria, and the impact of consolidation on credit availability to the private sector. Aggregate secondary data on the Nigerian banking industry from 2001-2009 were analysed and used to inform in-depth semi-structured interviews with thirteen senior bank managers and a respected independent financial analyst. Mixed methods were used to conduct further analysis. A conceptual framework was developed through an extension of Pettigrew's 1988 model, while a modified Berger et al. 1998 model was deployed to test credit availability. Findings indicate that most aspects of organisational change were successful, but a lot more needs to be done to improve cultural integration and employee motivation. The successes achieved by Nigerian banks, resulted in higher levels of credit being made available to the private sector. There is, however, scope for further improvement to be made. For example, senior bank managers should deploy a more holistic approach to planned change, and there should be an improved collaborative approach between the government and private sector which could help enhance alternative credit delivery channels such as micro finance firms, venture capitalists and business angels.

Chapter 1: Introduction and Overview of Research

1.0 Introduction

This chapter sets out the context, scope and boundaries of this study. It also establishes the rationale for focusing on banking consolidation as a technique for preventing systemic banking crises in emerging economies. The chapter consists of five sections. Section 1.1 presents the research background. Section 1.2 highlights the research questions. Section 1.3 identifies the research aim and objectives. Section 1.4 reviews the research approach and methodology. Section 1.5 outlines the structure of the chapters that follow.

1.1 Research Background

In the last four years (2008-2011), the global financial industry experienced significant problems reflected in excessive bank risk taking. There have also been significant episodes of systemic banking crisis in developed and developing countries in the last two decades. The financial industry in developing countries has often been characterised by poor corporate governance, high numbers of non-performing loans and weak banks. Therefore authorities in these countries continue to be faced with dilemma, to maintain financial stability through offering protection to failing banks and jeopardising future stability by increasing moral hazards if actions make future assistance appear more likely (Hoggarth et al. 2004). Following this is the challenge for policy makers to strengthen financial regulation and create supervisory systems that reveal conditions conducive to bank failures, thus forming the basis for early warning systems. These episodes have renewed the debate in academic and policy circles as to how best to manage the systemic risks posed by weak financial institutions.

The Economist (2006) notes that, most cases of bank failures are due to bad managerial practices resulting in the deterioration of capital structures and portfolios. Although it is difficult to directly measure management quality because it can take several forms; Wheelock and Wilson (2000) suggest that inefficiencies in banking are generally as a result of poor corporate governance, excessive risk taking or simply bad luck. In principle, bank failures could threaten national economies with its knock on effect on the supply of credit to the private sector. However, Hoggarth et al. (2004) state that such systemic threat will vary with the size of bank intermediation in the economy, as banks could become too big to fail, and whether borrowers have other sources of credit.

The cost of financial distress on stakeholders (e.g. shareholders, managers, depositors and creditors) depends on the extent of clarity and transparency provided by authorities involved in the crisis resolution. Hoggarth et al. (2004) argue that a clear legal framework can have an important bearing on both the range and effectiveness of the policy options deployed in resolving crises. George (1994), Lindgren et al. (1999), Mishkin (2001), Pangestu and Habir (2002), Batunanggar (2003), Honohan and Klingebiel (2003), and Hoggarth et al. (2004), outline Unassisted Resolutions, Assisted Resolutions and Liquidation as three main policy options and techniques used by authorities (e.g. Central Banks) to resolve banking crisis. The Unassisted Resolution approach necessitates troubled banks to internally make required changes or merge with another financially healthy bank. The Assisted Resolution approach requires Central Banks (lenders of last resort) to provide liquidity assistance to troubled individual banks that potentially pose systemic threats for a limited period of time, or induce such banks to merge or be acquired. In a Liquidation, the restructuring authority liquidates all assets, the bank is declared insolvent and depositors paid off. These techniques are deployed by authorities individually or in combination, in response to the context of financial distress.

Gelos and Roldos (2002) note that consolidation, primarily through mergers or acquisitions, has served to eliminate excess capacity more efficiently than bankruptcy or other means of exit in mature markets. While in emerging markets, consolidation has often been a way of dealing with problems stemming from financial crises. In retrospect, the Asian crises of the 1990s were due primarily to a combination of unsustainable current account deficits, excessive short-term foreign debts and weak domestic banking systems (Feldstein 2002). The financial challenges faced by the Malaysian and Indonesian authorities in the 1990s were similar in Nigeria, as authorities under the recommendation of the World Bank and IMF began to liberalise the financial sector. Lewis and Stein (1997) note that rapid deregulation in Nigeria was not supported by effective institutional reform or by macroeconomic stability, giving rise to adverse trends and distortions in the financial sector. The prevention of such episodes as seen in Malaysia and Indonesia, and the lessons for other emerging economies particularly Nigeria form the basis for this study.

Aminu (2007) states that the Central Bank of Nigeria (CBN) gained practical experience from the banking consolidation carried out in Malaysia. Casey and Dostal (2008) argue that in policy learning and transfers, authorities must ensure when seeking a model, that there are perceived similarities in terms of economic, social development, infrastructure, and fundamentally whether such a model (system) is appropriate for the needs of the country in question. To highlight these issues in the context of the Nigerian banking consolidation, chapter 2 examines the Malaysia and Indonesian banking reforms and the perceived parallels between these countries and Nigeria (section 2.4).

In an attempt to correct economic short falls, authorities in Nigeria used consolidation as the main policy instrument in the 2004-2006 reforms of the banking industry. Soludo (2004 p. 1) claimed that consolidation will create “a diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system”. It is against this backdrop that this study aims to critically appraise the performance of banking consolidation as a technique for resolving financial crises.

It is generally agreed that the global shift towards market-oriented policies and advances in technology have increased the attractiveness of investing and lending in emerging market countries (Economist 2006). According to The Economist (2006), these economies provide opportunities to diversify portfolios with higher returns. Avoiding the mistakes of the past and preventing a return to financial crisis create major policy concerns. This study is primarily driven by the need to minimise the risk of recurrent financial crises, and to examine how future crises can be better managed to reduce direct adverse consequences in emerging economies.

1.2 Research Questions

Policymakers, academics and investors believe that there are various reasons for the unequal performance of banks in a crisis situation. Although the purpose of this study is to test the use of banking consolidation as a technique for resolving future financial crises in emerging economies, the ability of senior bank mangers to coordinate changes necessitated by this phenomenon would influence outcomes. In carrying out reforms, Hayes (2007) states that attention needs to be given to each step in the change process and to the way the overall process is to be managed. In the case of the Nigerian financial reforms, this entails analysing the requirements for deploying unassisted resolutions, and examining management practices of managers from consolidating banks. The 13 liquidated banks are not part of the investigation in this study.

The research agenda developed from the change management literature contributes to this debate by addressing two main questions: (i) To critically examine what gaps exist in the change management literature as it relates to organisational change in banking, (ii) To highlight how change was managed in Nigerian banks and benchmark these practices with aspects of the change management literature. This investigation provides a unique insight to explaining the fundamentals of theory and practice in implementing change in the banking industry.

The testing of bank performance also allows this study to question the effects of banking consolidation on the Nigerian economy. The CBN (2005 p. 9) notes that one of the goals of consolidating the Nigerian banking industry includes: “driving down cost structures of banks, improving banks’ efficiency and encouraging competition with the goals of lowering interest rates and providing cheap credit to the economy”. On the basis of the CBN’s assertions, (iii) the extent to which banking consolidation improved the availability of credit to the private sector is an important hypothesis for this study. Therefore, the focus here is on factors influencing the supply of credit from banks and not on the demand for credit.

These three questions are interrelated; as the change management practices of managers directly impact on the performance of their banks and its ability to achieve the expected gains of consolidation.

1.3 Research Aim and Objectives

This study aims to further advance knowledge in imperative change management by highlighting challenges faced by managers implementing financial sector reforms in developing economies. Thus, this study will seek to make an original contribution to knowledge and practice through the lessons learnt from the consolidation of the Nigerian banking industry in 2004-2006.

In order to achieve this, the following objectives have been identified.

- To empirically explore the use of banking consolidation in Malaysia and Indonesia and highlight lessons for Nigeria.

- To identify internal and external change drivers, by undertaking an exploratory critical evaluation of events leading up to the consolidation of the Nigerian banking industry in 2004-2006.
- To critically explore the change management literature in order to identify conceptual models and frameworks, to help understand the nature of change in the Nigerian banking industry.
- To understand the nature of strategic change in the Nigerian financial industry, by examining change management practices of senior bank managers involved in the reduction of the number of banks from 89 to 24.
- To critically appraise the effectiveness of key policy instruments and support mechanisms on performance, competition and availability of credit to the private sector in Nigeria.
- To develop a conceptual framework for incorporating institutional variables (e.g. shared values, structures, systems etc) into financial sector reforms in developing economies, based on the review of change management literature and evidence from this study.
- To contribute to professional practice through a review of public policy and managerial recommendations in order to address identified barriers and opportunities for industry participants.

1.4 Research Methodology

Positivism, Interpretivisim and Realism are some of the most common philosophical stances in social science. Marsh and Stocker (2002) argue that positivists are concerned with establishing causal relationships between social phenomena to detect the regularities in nature, thus propose generalisation. Their claims are based on two assumptions: (i) reality is external and objective, and (ii) knowledge is only significant if it is based on observation of external reality (Easterby-Smith et al. 1991). In contrast, interpretivism arose from the criticism of the positivist approach to research. Ritchie and Lewis (2003) suggest that interpretists believe the methods of the natural sciences are not appropriate because the social world is not governed by law-like regularities but is mediated through meaning and human agency. Delanty (2005) argues that the real strength of the social sciences is not in predictive or explanatory theory but in reflexive understanding, which is the weakness of the natural sciences.

However the argument presented by realists tends to bridge the gap between positivism and interpretivisim. Sayer (2000) notes that the defining feature of realism is the belief that there is a world existing independently of our knowledge, while the independence of objects from knowledge immediately undermines any complacent assumptions about the relationship between them and renders it problematic. Thus realists acknowledge two points: (i) while social phenomena exist independently of our interpretation of them (ii) our interpretation/understanding of them affects outcomes. Bhaskar (1975) claims that reality exists in three overlapping domains: (i) the “Empirical” are experiences or observed events, (ii) the “Actual” are events whether observed or not, and (iii) the “Real” are those underlying tendencies or mechanisms which may in a given situation give rise to events or lie dormant, being cancelled by other forces. For example Marsh and Stocker (2002 p. 31) state that “realists might use quantitative methods to identify which financial markets are ‘globalised’. However, they would also want to analyse qualitatively how globalisation is perceived, or discursively constructed, by governments, because the realist argument would be that both the ‘reality’ and the discursive construction affect what government does in response to global pressures”. The approach deployed by Marsh and Stocker (2002), seems to be the most appropriate for studying a complex phenomenon such as banking consolidation, where the application of a multi-level analysis is required to understand the interplay of forces within the Central Bank of Nigeria (CBN), the Nigerian banking industry, the different categories of banks, and individual banks in Nigeria.

The first set of research questions examines change management practices of managers from consolidating banks. This necessitates the collection of data from senior bank mangers directly involved in the consolidation process. Though this option of collecting data has its advantages, it does have some practical problems. These include: commercial confidentiality issues, gaining access to key managers and the ability of these managers to recall details that occurred 4 years earlier. Some of the difficulties of obtaining accurate and objective data can be eliminated by using the qualitative research method. Ritchie and Lewis (2003 p. 3) state that qualitative research is a "naturalistic, interpretative approach concerned with understanding the meaning which people attach to phenomena (actions, decisions, beliefs, values etc.) within their social worlds". This method is, therefore, deployed in this study.

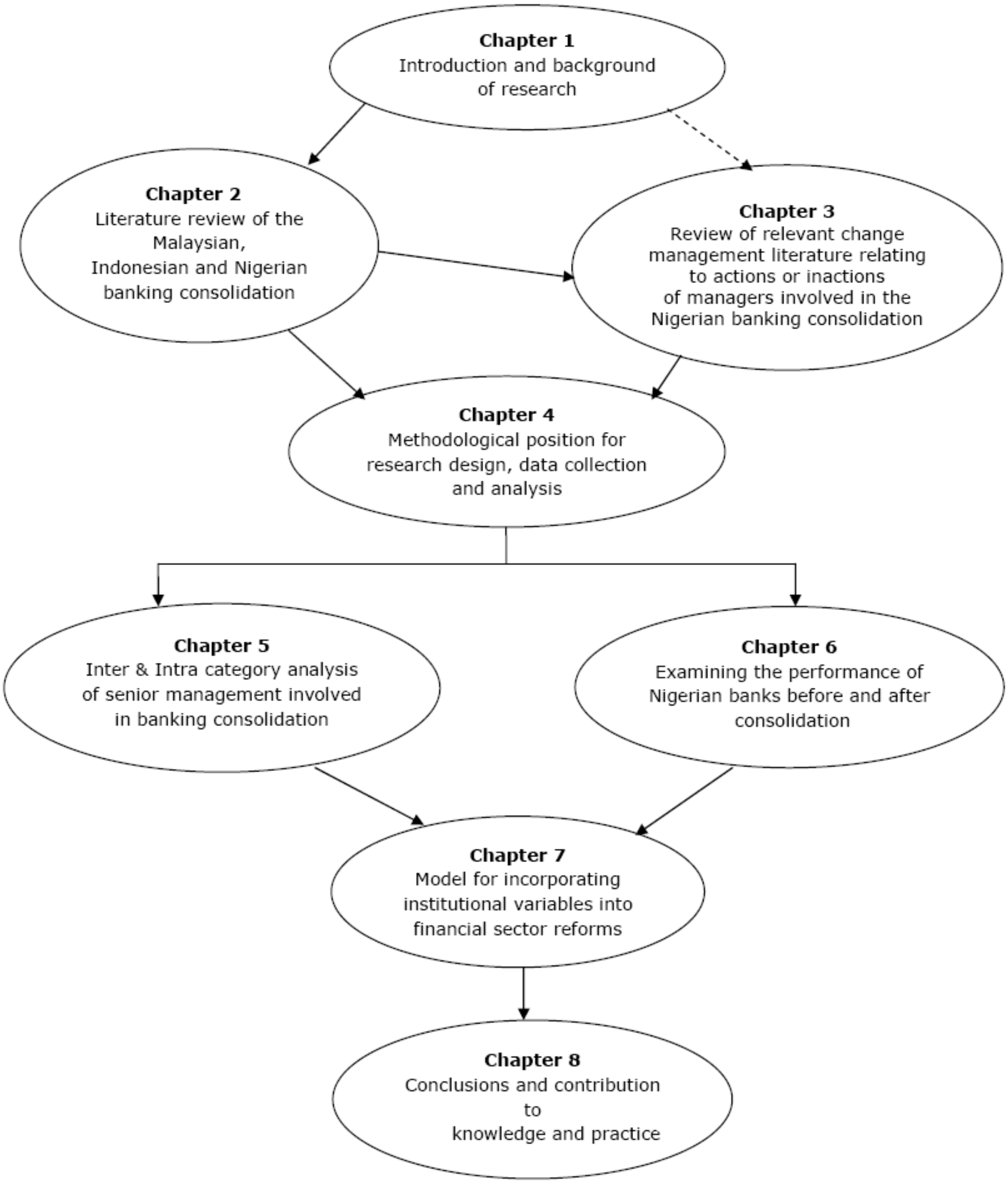
The second set of research questions relates to the effects of banking consolidation on the availability of credit to the private sector in Nigeria. To achieve this, information appearing on the balance sheets and income statements of banks from 2001-2009 is analysed using a quantitative approach (see for example Saunders et al. 2003). Based on these results, the relative contribution of banks to credit availability in the private sector before and after consolidation is established.

The use of qualitative and quantitative data as described above, are acknowledged by realists (Marsh and Stocker 2002) and a mixture of both methods are deployed to test five hypotheses proposed by this study.

1.5 Structure of the Thesis

This section provides an overview of all the chapters in this study. The structural changes required by individual banks as a result of the CBN's imperative for change, presented contextual issues around economic stability, bank productivity and performance. The policy instruments chosen by the CBN which represents their content of change, was strongly influenced by the experiences in Malaysia and Indonesia (Aminu 2007). The content of change and strategic choices for senior bank managers were, however, influenced by their existing reserve base at the start of the consolidation. Aggregate data on bank credit to the private sector, were used to analyse concentration ratios, level of competition, and the spread between deposit and lending rates. These tools are identified by Gambacorta (2008) as effective for examining bank efficiency and overall performance. The study consists of eight chapters, and the flow of these chapters is shown in figure 1.1 below:

Figure 1.1: Flow Diagram of Thesis



Source: Author Generated

Chapter 1 presents the research background, and highlights the rationale for focusing on banking consolidation as a technique used in resolving banking crises in emerging economies. The chapter also identifies the research questions and the aim and objectives of this study. The research approach and methodology are discussed, and on the basis of this the use of mixed methods for examining the banking consolidation in Nigeria is justified.

Chapter 2 reviews existing literature on the use of banking consolidation in Malaysia, Indonesia and Nigeria and by so doing highlights events leading to financial reform in these countries. The essence here is to establish the context under which these countries deployed consolidation as a corrective measure to address systemic issues in the banking industry. The chapter also focuses on drivers of consolidation, objectives of consolidating authorities, policy instruments used by authorities, nature of consolidation and lessons for Nigeria from the prior Malaysian and Indonesian experience.

Chapter 3 examines the change management literature and highlights relevant areas in the literature for analysing the actions or inactions of managers in the Nigerian banking industry. The consolidation led some banks to engage in mergers and acquisitions, thus the overlap of strategy and organisational culture encompasses a host of pressures which ultimately influence the performance of these banks. The second part of this chapter identifies gaps in the literature and develops a conceptual framework built to address these gaps. The framework addresses some of the research questions and objectives by incorporating relevant factors and institutional variables that influence change management practices of managers in the Nigerian banking industry.

Chapter 4 reviews the research approach, methodology and design used in this study. Thus it presents a methodological position which justifies the research design and methods adopted for data collection and analysis. Data collected are analysed through mixed methods. A series of null hypotheses and codes are used to address the research questions. Null hypotheses 1-5 looks at the effects of banking consolidation on credit availability to the private sector in Nigeria, with quantitative and qualitative methods of data collection and analysis. Secondly, coding is deployed to examine managerial practices of senior bank managers in the Nigerian banking industry using qualitative methods for data collection and analysis.

Chapter 5 presents a multiple case/cross category analysis of events relating to the banking consolidation in Nigeria, by reviewing the results of qualitative data collected from senior managers directly involved in implementing consolidation. The chapter analyses practices of senior bank managers by benchmarking their actions or inactions with relevant sections of the change management literature. Specifically, the chapter is organised to analyse why the Central Bank of Nigeria (CBN) consolidated the Nigerian banking industry, what aspects of banking practices were transformed, how this was achieved and highlight lessons learnt.

Chapter 6 analyses the subsequent effects of banking consolidation in Nigeria. It tests hypotheses 1-5 by examining the performance of banks before and after the consolidation. The chapter uses qualitative methods to present and analyse empirical evidence of managers involved in the consolidation. The evidence are then compared with results from relevant quantitative data on the static effect, the restructuring effect, the direct effect and the external effect of consolidation on credit availability to the private sector.

Arising from the critical analysis in chapters 5 and 6 of change management practices across categories of consolidating banks and the effects of consolidation on credit availability to the private sector, chapter 7 presents a conceptual framework developed for incorporating institutional variables into financial sector reforms in developing economies. It also attempts to compare the CBN's expected benefits in consolidating the banking industry with actual outcomes.

Chapter 8 summarises the findings of this study and draws conclusions relating to the original research questions. The chapter also identifies the study's contribution to the body of knowledge and professional practice. The practical and theoretical implications are acknowledged, while the study's limitations and opportunities for further research are also identified.

Chapter 2: Review of Banking Consolidation

2.0 Introduction

This chapter contains a critical examination of events leading to the financial reforms in Malaysia, Indonesia and Nigeria. The essence here is to establish the context under which these countries deployed consolidation as a corrective measure to address systemic issues in the banking industry. The financial reform in Malaysia presents practical experience for consolidating authorities in Nigeria (Aminu 2007). Therefore, a detailed understanding of these events is achieved by focusing on drivers of consolidation, objectives of consolidating authorities, policy instruments used by authorities, nature of consolidation and lessons for Nigeria from the Malaysian and Indonesian experience.

Secondly, this chapter provides a detailed examination of the challenges faced by these countries and highlights critical issues for managers implementing consolidation. Thus, the understanding of key issues related to banking consolidation, through the experiences of these countries informs the primary research questions of this study.

2.1 Banking Consolidation

The last two decades have seen a clear trend towards the abolition of geographic restrictions on banks and the consolidation of financial intermediaries around the globe. This is fuelling an active public policy debate on the impact of banking consolidation on financial stability. The Group of 10 (G-10) (2001 p. 309) defines banking consolidation as "the transfer of ownership in a payment and settlement context through mergers and acquisitions and other developments within the financial industry, such as alliances, joint ventures and the outsourcing of payment processing, that result in a higher degree of concentration of payment and securities settlement activities". The G-10 (2001) report identifies mergers and acquisitions as the primary method of consolidation employed by banks, in which formerly independent banks become commonly controlled. Lindgren et al (1999 p. 17) state that “In a merger (or sale) of an institution, all the assets and liabilities of the firm are transferred to another institution”.

Many academic commentators (for example: Boyd and Graham 1991; Broaddus 1998; Kwan 2004) have attempted to identify the generic drivers and economic forces influencing banking consolidation. Kwan (2004 p. 1-2) suggests that “economies of scale”, “economies of scope”, “potential for risk diversification” and “bank managements’ personal incentives” may be four economic forces driving banks to merge. The “economies of scale” is the relationship between the average production cost per unit of output and production volume. The “economies of scope” is a situation where the joint costs of producing and distributing two complementary outputs are less than the combined costs of producing the two outputs separately. The “potential for risk diversification” suggests that product or geographic expansion would provide diversification benefits to a banking organisation not only by reducing its portfolio risk on the asset side, but also by lowering its funding risk on the liability side, as it spreads funding activities over a larger geographic area. The “bank managements’ personal incentives” may include the desire to run a larger bank and desire to maximize their own personal welfare. For example: Grinyer et al. (1991) note that managers were likely to obtain satisfaction from their status, reputations and spheres of influence, and would other things being equal prefer larger streams of reported earnings to smaller streams.

However, the argument presented by Broaddus (1998) identifies the extra-ordinary advances in communications and data processing technology over the last two decades as the single most important underlying force enabling bank mergers. Broaddus (1998) argues that a prime example is the database-management software for mainframe computers that automated the recordkeeping that is the core of banking business. Thus, the ability to share customer and product information via computer networks has greatly lowered the cost of maintaining far-flung branches and has increased the relative advantage of being a big bank. This view is supported by a survey reported in the G-10 (2001) study. The study concluded that the enabling forces encouraging consolidation have been improvements in information technology, financial deregulation, globalisation and increased shareholder pressure for financial performance.

Boyd and Graham (1991) further argue that “safety” is the last popular explanation for consolidation, as average bank size increases reflect a natural attempt to improve efficiency in the banking industry. They opine that, reforms of banking laws must provide for diversification of risk, larger institutions and a national regulatory scheme. The argument highlighted by Boyd and Graham (1991) is consistent with the driving forces for consolidation in emerging markets. The Bank for International Settlements (BIS) (2001) identified banking crises and the privatization of state owned banks as the two other factors contributing to consolidation in emerging market countries. Beck et al. (2003 p. 6) define a banking crisis as “a systemic crisis episode in which significant segments of the banking sector become insolvent or illiquid, and cannot continue to operate without special assistance from the monetary or supervisory authorities”. BIS (2001) states that in some emerging market countries, failed banking institutions merged with other institutions. In other cases, failed banking institutions were recapitalised with government assistance or nationalized.

Allen and Gale (2000) cited some theoretical arguments and country comparisons, which suggest a less concentrated banking sector with many small banks is more prone to financial crises than a concentrated banking sector with a few large banks. According to their findings, concentrated banking systems may enhance profits and therefore lower bank fragility. Advocates of the “concentration-fragility” (supporters of less concentrated banking industries) oppose the view that a more concentrated banking structure lowers bank fragility. Boyd and Runkle (1993) and Mishkin (1999) argue, that large banks frequently receive greater net subsidies than small banks through implicit “too big to fail” polices. This greater subsidy for large banks may in turn intensify risk-taking incentives, increasing the fragility of concentrated banking systems. Proponents of the concentration-fragility noted that size is positively correlated with complexity, and that large banks may be more opaque than small banks, which would tend to produce a positive relationship between concentration and fragility.

Guenther (1997) suggests that with consolidation, rural communities often face a loss of deposits since the out of state bank often removes deposits from local communities to use them for other economic opportunities, often non-rural in nature. Gilbert’s paper of 1997 (in Guenther 1997) explains that banking consolidation will have adverse effects on the access to bank credit for rural residents. On the contrary, Colombo and Turati (2007) found that the profitability and efficiency of the banks appear to be strictly correlated with the institutional features of the local banking markets. In particular, the presence of cooperative banks influences the performance of the banking industry evaluated at the regional level. This is consistent with the well known result that mutual institutions are important determinants of bank performance. Unfortunately, Colombo and Turati (2007) fail to adequately discuss the commercial forces that could prompt banks to invest deposits removed from local markets in other non-local economic opportunities. These authors examine the more general prevailing conditions in banking consolidation; this study will focus on issues leading to consolidation in the context of the Nigerian banking industry.

In mature markets the role of market forces was more dominant, as banking consolidation has been a way to eliminate excess capacity more efficiently than bankruptcy or other means of exists (International Monetary Fund 1998). This indicates that, unassisted resolutions were the most favoured approach to resolving banking crisis in mature markets (George 1994; Lindgren et al. 1999; Mishkin 2001; Pangestu and Habir 2002; Batunanggar

2003; Honohan and Klingebiel 2003; Hoggarth et al. 2004). According to the IMF (1998) report, the situation is different in emerging markets as consolidation has been predominantly a way of resolving financial crises, with authorities playing a major role in the consolidation process.

G-10 (2001) notes that, banking firms have grown larger and market an even more diverse product range to clients in many more countries. Arguably, the USA provides the clearest example of a casual link between regulatory changes in the banking sector and financial consolidation (Hagendorff et al. 2007). Hagendroff et al. (2007) specifically highlighted the Riegle-Neal Interstate Banking and Efficiency Act of 1994, which eliminated restrictions on interstate banking and the Gramm-Leach-Biley Financial Modernisation Act of 1999 which repealed the Glass-Steagall 1932 type restrictions and, thus, effectively introduced universal banking to the USA. In this study, the effects of universal banking as a tool deployed by the CBN to improve stability in the Nigerian banking industry are examined.

In Europe, Ayadi and Pujals (2005) suggest regulatory developments were complemented by the creation of the single currency in 1999 and the Financial Services Action Plan (FSAP), which consists of a long series of regulator initiatives taken to ensure the full integration of the banking and capital markets. Ayadi and Pujals (2005) found that this strategy consists of merging domestic banking institutions, while maintaining the existing branch network and secondly in implementing upstream cost synergies, i.e. at the level of physical network management. The desire to achieve greater economies of scale can be seen in the recent operations of several retail banks: HVB in Germany, SCH and BBVA in Spain, CIC-Credit Mutuel in France, UniCredit in Italy and Lloyds TSB-HBOS or RBS-Natwest in the United Kingdom.

The ever-growing scale of bank mergers and acquisitions the world over raises challenging policy questions. This includes banking concentration at the national and trans-national levels, which present systemic risk concerns that must be addressed by policymakers in the course of promoting economic efficiency while safeguarding the nation's financial system.

2.2 Banking Consolidation in East Asia: The case of Malaysia and Indonesia.

Aminu (2007) states that the Central Bank of Nigeria (CBN) gained practical experience from the banking consolidation carried out in Malaysia. The East Asian currency and banking crisis of 1997 stands out as one of the major crises of the 20^{th} century. Aykut (2003) notes that banking failure occurs when excessive rising liquidity, credit, interest-rate, or exchange-rate risk pushes the bank to suspend the internal convertibility of its liabilities. If the bank failure problem undermines an entire banking system, the crisis turns out to be systemic. On the other hand, the IMF (1998 p. 74) World Economic Outlook defines currency crisis as a situation "when a speculative attack on the exchange value of a national currency results in the devaluation (or sharp depreciation) of the currency, or forces the authorities to defend the currency by expending large volumes of international reserves or by sharply raising interest rates".

The world recession and the dramatic oil price drop in the early 1980s prompted the government of Indonesia to change its development strategy. As their current account deficits widened, thus threatening the external position of the country, and GDP growth dropped to 2.3% in 1982, the government took sweeping adjustment measures (Alamsyah et al. 2005). Under the June 1983 reform, BIS (2001) indicates that the government of Indonesia decided to reduce the interest rate subsidies and refinancing credit while simultaneously introducing discount window facilities. In implementing an IMF-led Structural Adjustment Programme (SAP), the banking industry grew rapidly in terms of number of banks as well as total assets. Batunangga (2002) notes that Bank Indonesia granted licenses for 73 new banks and 301 commercial banks' branches in two years. These measures effectively marked the new and liberalized financial era in Indonesia and raises questions about the availability of management talent to support this.

In the early 1980s, the economies of Malaysia and Indonesia had specialised in transforming intermediate and raw material imports into finished manufactured export goods and thus enjoyed large current account surpluses. Hickson and Turner (1999) believe the contractionary monetary and fiscal policy pursued by Japan caused a reversal of these current account surpluses. In effect the undervaluing of the yen, led to increased Japanese competition and a reduction of Malaysian and Indonesian exports to western nations. Hickson and Turner (1999) note that Malaysia and Indonesia operated fixed exchange rate regimes that pegged their currencies to the US dollar. This implied that balance of payments shortfalls had to be financed by foreign short-term capital loans. Maintaining their existing pegs to the dollar otherwise would have required these countries to implement a contractionary monetary policy and adopt severe fiscal austerity measures. Policy makers believed that such a policy would have slowed their economic growth further.

In Malaysia, Sheng (1989) reports that the decline in commodity prices in 1981-82 saw deterioration in the terms of trade of 10.2%, and the current account deficit in the balance of payments worsened from a near balance position in 1980 to M$8.4 billion or 14.1% of Gross National Product (GNP) in 1982. The net result was a tripling in the foreign debt from M$10 billion in 1980 to M$31.8 billion at the end of 1983, or 48.5 GNP. Sheng (1989) indicates that Malaysia embarked on a structural adjustment program to control its fiscal and balance of payment deficits between 1983 and 1986.

Therefore, at the time of the crisis in 1997, the Malaysian government had restricted borrowing of foreign currency above certain levels and most of the capital inflows into Malaysia were of longer term nature in the form of foreign direct investment. The inflation rate in Malaysia as at 1996 was 3.5%

compared to 7.9% in Indonesia. The next section examines the drivers of consolidation in Malaysia and Indonesia.

2.2.1 Drivers for Banking Consolidation in Malaysia and Indonesia.

According to Casserly and Gibb (1999) many banks merged in the United States, Europe and Australia between 1987 and 1997, however over the same period only 22 out of 1700 banks merged in Asia. Hawkins and Mihaljek (2001) played a significant role in providing an insight into some of the global and national forces that led to the consolidation of the financial sectors in Malaysia and Indonesia. Hawkins and Mihaljek (2001 p. 3) believe that the financial sector consolidation in Malaysia and Indonesia was driven by four main factors: "the deregulation of financial services at national level and opening-up to international competition; banking crisis, changes in corporate behaviour; and technological innovation".

Deregulation of financial services at national level opened Malaysia and Indonesia to international competition. Bank for International Settlement (2001) define deregulation as exposing existing players to greater competition through new entry, freeing interest and deposit rates, and allowing banks to move into geographical areas and products from which they had been barred. Hawkins and Mihaljek (2001) argue that these economies traditionally had highly protected banking industries, living off good spreads achieved on regulated deposit and lending rates and pervasive restrictions on domestic and foreign entry. However, global market and technology developments, macroeconomics pressures and banking crises in the 1990s have forced the banking industry and the regulators to change the old way of doing business, and to deregulate the banking industry at national level and open up its financial markets to foreign competition. Hawkins and Mihaljek (2001) opines that as a result, borders between financial products, banks and non-bank financial institutions and the geographical locations started to break down. Catalysts for increased competition at the domestic level have been the removal of ceilings on deposit rates and the lifting of prohibitions on interest payments on current accounts. Intensified competition has made it harder for banks to cross-subsidise different activities and has forced them to price risks more realistically and change explicitly for previously free services. With deregulation, greater emphasis was placed on capital adequacy, improved efficiency, privatisation of state-owned banks, mergers and consolidation, and a large increase in the presence of foreign banks.

Shortly after the deregulation of their banking industries, Malaysia and Indonesia experienced a banking crisis. For state banks, the lack of credit analysis was a major problem because most of the credit policies were influenced by government. Hawkins and Mihaljek (2001) identify non-performing loans within private banks to be normally related to loans within the banking group, violating the statutory lending limit, which was only minimally enforced by dependent central banks. In Indonesia for example; the problem loans, which increased gradually from 6% in 1990 to 11% in 1991 and 17% in 1992 (17% of problem loans is not a benchmark trigger for panic), were the main sources of bank failure in the 1990s. Banking crisis thus became a driver for consolidation as Montinola (2003) argues that this situation triggered panic and capital flight, leading to government bailouts or intervention, thus producing fiscal deficits. The banking crises made it too costly for government to defend a peg by raising interest rates and this led to a currency collapse. Gbosi (1996) notes that prior to 1986 exchange rates in Nigeria were administratively determined by the CBN, but since 1987 exchange rates have been determined by the forces demand and supply. Even though the Nigerian government did not have a currency peg in place in the period under review, the need to prevent a similar situation as seen in Malaysia and Indonesia precipitated the CBN’s consolidation drive.

Another driver for consolidation in Malaysia and Indonesia was the new emphasis on economies of scale. Hawkins and Mihaljek (2001) believe that as a result of the need for economies of scale in management and diversification of credit risks, banks have an incentive to merge with other institutions, including foreign banks, which in turn leads to consolidation and a growing presence of foreign banks in the banking industry. The implication of these developments is that commercial banks in bank-centred financial systems can no longer maintain their traditional, close relationships with corporate customers (organisations with bank accounts). This is because of pressure from alternative funding sources and other domestic and foreign banks, there was growing emphasis on shareholder value as the sole commercial objective of banks. Hawkins and Mihaljek (2001) found that banks in many emerging economies with bank-based financial systems were therefore increasingly divesting their non-financial shareholdings, establishing arm’s length relationships with their traditional corporate customers, cutting operating costs, and concentration on core activities where they generate the highest rate of return.

Likewise, the potential for rapid development of commercial banking functions offered by alternative delivery channels such as ATMs (Automated Teller Machine), debit cards, telephone, internet and electronic banking, support the drive for consolidation. The vast majority of banks in emerging economies see such channels as a must for their industries, despite the still low level usage of such channels. Hawkins and Mihaljek (2001) believe that in East Asia, the major issue about new IT is its impact on the processing of information, which is the very essence of the banking business. They argue that the development of financial instruments such as derivatives enabled risk to be reallocated to the parties most willing and able to bear that risk, thereby inducing more investment in real assets and fostering the development of banking and financial markets in general; is perhaps the most significant innovation.

In summary, the review of drivers for consolidation in Malaysia and Indonesia indicates that these countries deployed consolidation as a corrective and efficiency measure. Primarily, the aim here is to identify these drivers and enablers and benchmark them with events leading to consolidation in Nigeria. The parallels drawn from the review in this section with events leading to consolidation in Nigeria, are discussed in section 2.4.

2.2.2 Policy Instruments/Objectives in Malaysia

Lindgren et al's. (1999 p. 13) IMF occasional paper description of the structure of the financial system in Malaysia at the end of 1996 states that:

> "In Malaysia, the financial system included 35 commercial banks, 39 finance companies, 12 merchant banks, 7 discount houses, 4 pension and provident funds, 62 insurance companies, 6 unit trusts, 7 development institutions, and a savings bank. Total assets of the system were equivalent to 300 percent of GDP. Commercial banks accounted for 70 percent of total of the banking system (comprising the commercial banks, finance companies, and merchant banks), and merchant banks and finance companies for 30 percent of total assets".

Malaysia's policy response to the crises was guided by a National Economic Recovery Plan (NERP) launched on 23 July 1998. Hui and Chee (2003) note that the policies aimed (i) to enlarge and strengthen individual banking units in the country (ii) to enforce structural efficiency in the banking system as fundamental in ensuring the quantity and quality of domestic banks an effective intermediary in the economy. Bank Negara Malaysia (Central Bank of Malaysia) identified the following objectives for the consolidation program:

- The substantial reduction in the number of domestic banking institutions.
- To improve profitability and efficiency for the proposed banking groups through an effective merger structure.
- Minimal disruption in the provision of banking services following the rationalization of branches and employees.

- To minimize post-integration costs that might otherwise affect the viability of the merged entity.
- Upon completion of the merger, to ensure each banking group was of the sufficient size with a minimum shareholders' fund of RM2 billion and asset base of at least RM25 billion.
- To protect consumers of banking services.

(Comparative analysis of the objectives deployed by consolidating authorities in Malaysia, Indonesia and Nigeria, and its relevance in the context of this study are examined in section 2.4.)

To implement these policies Athukorala (2007) notes that an asset management company Pengurusan Danaharta Nasional Berhad, was set up to acquire and manage non performing loans from banks. This was followed by the establishment of Danamodal Nasional Berhad; a banking and corporate recapitalisation company and a Corporate Debt Restructuring Committee to facilitate the restructuring of corporate debts through out-of-court settlement between debtor and creditors. This special agency was tasked with recapitalising those financial institutions whose capital adequacy ratio (capital that provides banks with cushion against losses; Singer 2004) had fallen bellow 9%.

Hui and Chee (2003) state that the Central Bank of Malaysia (Bank Negara Malaysia) announced a consolidation program for domestic financial institutions in July 1999. Subsequently, another announcement of 10 anchor banks was made in mid-February 2000, with a target date of end-December 2000 for the completion of the entire consolidation exercise. Hui and Chee (2003) note that as at 31 December 2000, 54 domestic financial institutions were consolidated in 10 banking groups as shown in the Table 2.1 below, while 13 foreign-owned banks were left untouched. Effectively, about 70 percent of the total assets of the entire banking sector had been rationalized and consolidated.

Table 2.1: The Revised 10 Anchor Banking Group (as at 2003)

Anchor Bank	Banking Institutions in Group
Malayan Banking Berhad	Malayan Banking Berhad Mayban Finance Berhad Aseambankers Malaysia Berhad Phileo Allied Bank Berhad The Pacific Bank Bhd Sime Finance Bhd Kewangan Bersatu Bhd
Bumiputra-Commerce Bank Bhd	Bumiputra-Commerce Bank Bhd Bumiputra-Commerce Finance Bhd Commerce International Merchant Bankers Bhd
RHB Bank Bhd	RHB Bank Bhd RHB Sakura Merchant Banks Bhd Delta Finance Bhd Interfinance Bhd
Public Bank Berhad	Public Bank Bhd Public Finance Bhd Hock Hua Bank Bhd Advance Finance Bhd Sime Merchant Bankers Bhd
Arab Malaysian Bank Berhad	Arab-Malaysian Bank Bhd Arab-Malaysian Finance Bhd Arab-Malaysian Merchant Bank Bhd Bank Utama Malaysia Bhd Utama Merchant Bank Bhd
Hong Leong Bank Berhad	Hong Leong Bank Bhd Hong Leong Finance Bhd Wat Tat Bank Bhd Credit Corporation Malaysia Bhd
Perwira Affin Bank Berhad	Perwira Affin Bank Bhd Affin Bank Bhd Perwira Affin Merchant Bankers Bhd BSN Commercial Bank Bhd BSN Finance Bhd BSN Merchant Bank Bhd
Multi-Purpose Bank Berhad	Multi-Purpose Bank Bhd International Bank Malaysia Bhd Sabah Bank Bhd MBF Finance Bhd Bolton Finance Bhd Sabah Finance Bhd Bumiputra Merchant Bankers Bhd

Anchor Bank	Banking Institutions in Group
	Amanah Merchant Bank Bhd
Southern Bank Berhad	Southern Bank Bhd Ban Hin Lee Bank Bhd Cempaka Finance Bhd United Merchant Finance Bhd Perdana Finance Bhd Perdana Merchant Bankers Bhd
EON Bank Berhad	EON Bank Bhd EON Finance Bhd Oriental Bank Bhd City Finance Bhd Perkasa Finance Bhd Malaysian International Merchant Bankers Bhd

Source: Bank Negara Malaysia (2003)

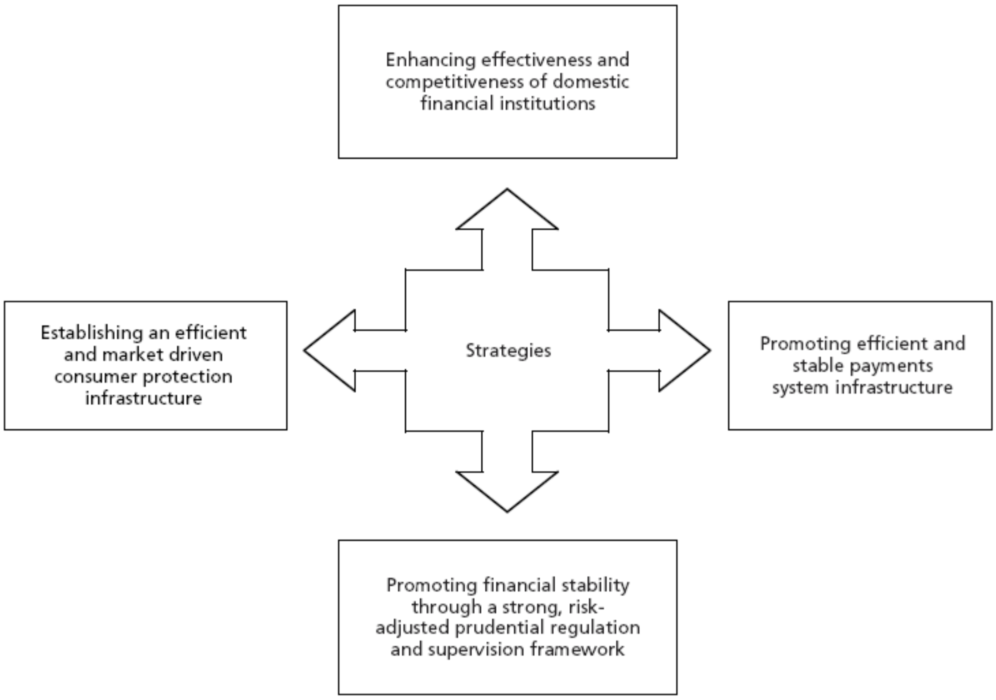
Athukorala (2007) advocates that the standard Keynesian therapy deployed by Malaysia marked a significant departure from the IMF-centered approach adopted by other crisis-hit countries in the region. Palley (2007 p. 62) states that the Keynesian model "allows monetary policy to have long-run effects on unemployment, real wages, and income distribution, but growth is not affected". However, there is an intense debate on whether this episode holds lessons for using capital controls as a tool of crisis resolution (Athukorala 2007). The application of the standard Keynesian therapy is not the focus of this study.

Bank Negara Malaysia (2003) notes that The Financial Sector Master Plan (FSMP) launched in March 2001 set out the broad strategies for the development of the financial sector over a ten year period. The end objective is to evolve the financial sector into a competitive, resilient and dynamic system. The initial implementation of the FSMP were predominantly directed towards enhancing the capability of domestic financial institutions in order to enhance their level of effectiveness and competitiveness, strengthening the regulatory and supervisory framework, promoting a safe and efficient payment system as well as developing the framework on consumer education and protection.

Bank Negara Malaysia (2003 p. 116) indicates that priority was accorded to strengthening the capability of domestic banking institutions. To improve their level of “effectiveness and competitiveness”, domestic banks aimed to re-assess their performance management systems, so as to meet consumer demands in an effective and efficient manner and thus provide high quality services at competitive prices to benefit the overall economy. The “regulatory and supervisory framework” was further strengthened as, the Central Bank of Malaysia Act 1958, the banking and Financial Institution Act 1989, the Islamic Banking Act 1983 and the Takaful Act 1984 were amended in 2003. A new Payment System Act 2003 was also enacted during the year to provide for a comprehensive legal framework to ensure that the payment systems are protected from disruptions that may affect financial stability while the on-site examination and off-site surveillance in supervising banking institutions continued to be premised on the risk-based supervisory approach. “Consumer education and protection” was enhanced by encouraging active consumerism. As outlined in the FSMP, banking consumers will take greater responsibility for their financial decisions. Once the relevant information and risks have been appropriately disclosed and explained, consumers must be actively involved in comparing, examining and deciding on investments or purchases to be made, and assume responsibility.

In promoting a “safe and efficient payment system” the authorities in Malaysia introduced a deposit insurance system. BNM (2002 p. 123) states that the “Deposit insurance provides an explicit guarantee on insured deposits up to a specified amount in the event that a deposit-taking institution that is a member of the deposit insurance system is unable to meet its obligations to depositors”. The framework for the Financial System Master Plan is shown in figure 2.1 below.

Figure 2.1The Financial System Master Plan



Source: Bank Negara Malaysia (2003).

Maintaining stability in the financial sector was one of the core objectives of the Financial Systems Master Plan (FSMP). The FSMP focused on promoting an efficient and stable payment system infrastructure on the premise that, a safe and reliable payments system facilitates the smooth functioning of the financial markets and economic activities and hence, is central in preserving consumer confidence (Bank Negara Malaysia 2003). Bank Negara Malaysia (2003) states that several recommendations in the FSMP focused on the development of financial institutions and strengthening the strategic business focus and risk management practices as well as the formulation of relevant rules and regulations.

Furthermore, Bank Negara Malaysia (2003) notes that in line with the FSMP, an Enforcement Action Framework was developed to provide a comprehensive and incremental approach towards enforcing actions to be taken following supervisory exercise on banking institutions. The first phase involving Informal Enforcement Action Framework (IEAF) was implemented while the second phase where a Formal Enforcement Action Framework (FEAF) developed as an extension of the existing informal framework. Under the formal framework, action will be taken in institutions with problems or where informal actions have been unsuccessful in achieving the desired outcome.

Some of the most notable research on Malaysian banking efficiency during the 1989-1995, 1991-1997 and 1998-2003 were conducted by Katib and Mathews (2000), Okuda and Hashimoto (2004) and Sufian (2004). Sufian (2004) builds on the work of these authors and utilises the nonparametric frontier approach, Data Envelopment Analysis (DEA), to analyse the technical and scale efficiency of domestic incorporated Malaysian commercial banks during the merger year, pre and post merger period. Efficiency measures shows how a firm is doing relative to the benchmark. This benchmark is called the best practice frontier. Sufian (2004) describes the DEA (first introduced by Charnes et al. (1978) to measure the efficiency of each Decision Making Unit (DMU), that is obtained as a maximum of a ratio of weighted outputs to weighted inputs) as a method that allows for the decomposition of the efficiency and productivity differences into one representing the bank's efficiency and productivity levels relative to their peers' best practice frontiers. Thus DEA is a linear (mathematical) programming technique which forms a nonparametric surface over the data points to determine the efficiencies of each DMU relative to this frontier. Bauer et al. (1998) found that DEA is less data demanding, as it works fine with small sample size and does not require knowledge of the proper functional form of the frontier, error and inefficiency structures.

Sufian (2004) suggests that during the sample period, Malaysian banks have exhibited a commendable overall efficiency level of 95.9% suggesting minimal input waste of 4.1%. Sufian (2004) found that during the merger year, Malaysian banks' overall efficiency level deteriorated significantly compared to the pre-merger period, which was mainly due to scale inefficiency. Despite this short run effect, post merger Malaysian banks' mean overall efficiency has not only recovered but is higher compared to the pre-merger period. The nonparametric techniques generally do not allow for random error, thus a key drawback (Rabtsun 2003). However, banking industry seems to minimize the drawback of the nonparametric methods since accounting data are usually very precise by definition.

Saunders (2000) presented a model of financial analysis for financial institutions based on the DuPont system of return on equity. Collier et al (2006) state the DuPont formula shows that the rate of return on assets can be found as the product of the profit margin multiplied by the total assets turnover. They argue the DuPont system implies that the return on equity model disaggregates performance into three components: net profit margin, total asset turnover and the equity multiplier. Thus the DuPont system of financial analysis provides a means for the firm to monitor performance through the planning period and to post-audit planning process. Collier et al. (2006) applied this model to Maybank in Malaysia which is one of the ten anchor banks in Malaysia that must satisfy the requirement of having a minimum RM2 billion shareholder fund and minimum total assets of RM25 billion.

Collier et al. (2006) found that over the period of study (i.e. 1998-2003) during which substantial financial difficulties existed, Maybank's assets rose gradually. Both income and expenses dropped during the study period with unusually large decrease in expenses in 2000, because of decreases in both interest expense and loan loss and provision. This combination leads to an increase in net profit margin and a subsequent increase in return on equity leading to an increase in the stock price. Maybank appears to have benefited from the financial restructuring of the Malaysian banking industry.

Unfortunately, the DuPont model as applied by Collier et al. (2006) fails to address long term effects of consolidation on financial performance. This study examines the effects of banking consolidation on credit availability and not the rate of return on assets. Thus the DuPont model is not appropriate for the kind of analysis required here.

Sufian (2005) found that earlier authors on the Malaysian banking industry have not examined the sources of productivity changes among Malaysian banks. Berg et al. (1992), Grifell-Tatje and Lovell (1996) and Wheelock and Wilson (1999) were among the first to investigate productivity changes in the banking industry. By applying the non-parametric Malmquist Productivity Index (MPI) methodology, Sufian (2005) attempted to investigate the sources of productive efficiency changes of the Malaysian banking sector during the post crisis period of 1998-2003. Grifell-Tatje and Lovell (1996) argue that the Malmquist index has three main advantages relative to the Fischer and Tornqvist indices. First it does not require the profit or cost maximization assumption, secondly it does not require information on the input and output prices, and finally it allows the decomposition of productivity changes into two components (technical efficiency change and changes in best practice). Sufian (2005) argues its main disadvantage is the necessity to compute the distance function, although DEA technique can be used to solve this problem.

The Malmquist results suggest that Malaysian banks have reported productivity decline in 1999 (14.4%), 2000 (7.8%), 2001 (5.8%) and 2002 (4.7%). Sufian (2005) notes that Scale Efficiency (SE) components suggest the smallest bank in the sample is too small to reap the benefits of economies of scale, while the largest bank is too large to be scale efficient. The importance of scale efficiency in banking consolidation is highlighted, even though this model fails to adequately address the commercial and competitive pressures facing the banks. These findings provide relevant lessons for authorities in Nigeria, as scale and efficiency gains form part of the expected benefits of banking consolidation in Nigeria (CBN 2005). However, the non-parametric MPI methodology is not deployed as a tool for analysis in this study, as the focus here is on credit availability and not scale efficiency.

Zeithaml et al. (1996) utilises a framework built around the service quality (SERVQUAL) methodology developed by Zeithaml et al. (1990). Zeithaml et al. (1990 p. 19) define service quality as "the extent of discrepancy between customer' expectations or desires and their perception". According to Zeithaml et al. (1996) the behavioural consequences of service quality mediate between service quality and the financial gains or losses from the retention or defection. Zeithaml et al. (1996) identifies favourable behavioural intentions to include saying positive things and recommending the services to others, paying the price premium and expressing cognitive royalty to the organisation. There is similarity with Zeithaml et al's. (1996) model and the study conducted by Ndubuisi (2004). Ndubuisi (2004) indicates that the issue of customer retention is an important one for service organisations, as superior service with customer perceived mutualism is associated with customer support, in which outcomes include increasing market share and/or profits. Izah and Wan Zulqurnain (2005) suggest a new dimension called "Compliance with Islamic Law" be added to Parasuraman's five dimensions in studying service quality in Islamic banks in Malaysia.

Izah and Wan Zulqurnain (2005) argue that assessing customer service quality in the financial industry such as banks and insurance is vital in determining the standard expected of the industry, thus Islamic banks and Insurance companies are no exception to this requirement. Izah and Wan Zulqurnain (2005) found negative indicators, as delivered service level did not meet expectations of service quality in the financial services industry in Malaysia. The author suggests the negative gap could be as a result of behavioural intentions in Islamic law. However, these analyses highlight the importance of customer expectations in achieving intended objectives in banking sector consolidation.

In summary, this section highlights various methods deployed to analyse the effects of banking consolidation in Malaysia. Primarily, analysts focus on scale efficiency, rate of return on assets, and service quality before and after banking consolidation. Issues of scale efficiency present relevant lessons for consolidating authorities in Nigeria, as the CBN expected consolidating Nigerian banks to achieve sizable scale efficiency gains (CBN 2005). However, these authors (in terms of my literature review) do not examine the effects of banking consolidation on credit availability to the private sector, and as a result the methods used to analyse the effects of consolidation in this section are not appropriate for the analysis required in this study.

2.2.3 Policy Instruments/Objectives in Indonesia

Lindgren et al's. (1999 p. 13) IMF occasional paper description of the structure of the financial system in Indonesia at the end of 1996 (this study will not examine rural banks) states that:

> "Commercial banks dominated the financial system in Indonesia. Out of a total of 238 commercial banks, there were 7 state-owned banks, 27 regional government banks, 160 private banks, 34 joint-venture banks, and 10 foreign banks. In addition, there were approximately 9,200 rural banks (provides credit facilities to people in rural communities). Nonbank financial institutions included 252 finance companies, 163 insurance companies, about 300 pension and provident funds, and 39 mutual fund companies. Total assets of the system were equivalent to about 90 percent of GDP. Commercial banks held about 84 percent of total assets while rural banks held about 2 percent. The remaining assets were held by finance companies

(7 percent of total assets), insurance companies (5 percent), and other nonblank financial institutions (2 percent)".

Goeltom (2005) identifies Indonesia Banking Architecture (IBA) as a comprehensive framework for the Indonesian banking system. In the architecture, the policy direction for the future development of the banking industry is based on the vision of building a sound, strong and efficient banking system to create financial system stability for the promotion of national economic growth. However banking policy broadly aimed at addressing two main agendas: (i) Banking recovery: Government guarantee (based on Presidential Decree no. 26/1998), Recapitalization and Loan restructuring. (ii) Banking system strengthening: Improvement of banking infrastructure, the implementation of good governance, and improving the effectiveness of banking regulation and supervision (Banking Supervision Report 2004). Goeltom (2005) states that the main objectives of the IBA were:

- To establish a robust structure for the domestic banking system, capable of meeting the needs of the public and promoting sustainable economic development.
- To create an effective system for bank regulation and supervision in line with international standards.
- To build a strong, highly competitive banking industry, resilient in the face of risk.
- To increase the percentage of statutory reserves in rupiah, from 5% to a progressive varied percentage level based on total bank assets, as follows:
    i. Banks that have deposits in rupiah of more than 50 billion have to maintain 8% statutory reserves in rupiah of the total deposit in rupiah.

ii. Banks that have deposits in rupiah of 10-50 billion have to maintain 7% statutory reserves in rupiah of the total deposits in rupiah.

iii. Banks that have deposit in rupiah of 1-10 billion have to maintain 6% statutory reserves in rupiah of the total deposit in rupiah.

- To ensure good corporate governance for internal strengthening of the national banking industry
- To provide a complete range of infrastructure to support the creation of a healthy banking industry.
- To empower and protect consumers of banking services.

(Comparative analysis of the objectives deployed by consolidating authorities in Indonesia, Malaysia and Nigeria, and its relevance in the context of this study are examined in section 2.4.)

From November 1997-2000, there were six major rounds of intervention taken by the authorities, including “open bank” resolutions and bank closures: (i) the closure of 16 small banks in November 1997; (ii) intervention into 54 banks in February 1998; (iii) the takeover of 7 banks and closure of another 7 in April 1998; (iv) the closure of four banks previously taken over in April 1998 and August 1998; (v) the closure of 38 banks together with a takeover of 7 banks and joint recapitalisation of 7 banks in March 1999; and (vi) a recapitalisation of 6 state-owned banks and 12 regional banks during 1999-2000 (Batunanggar 2002). This is shown in Table 2.2 below:

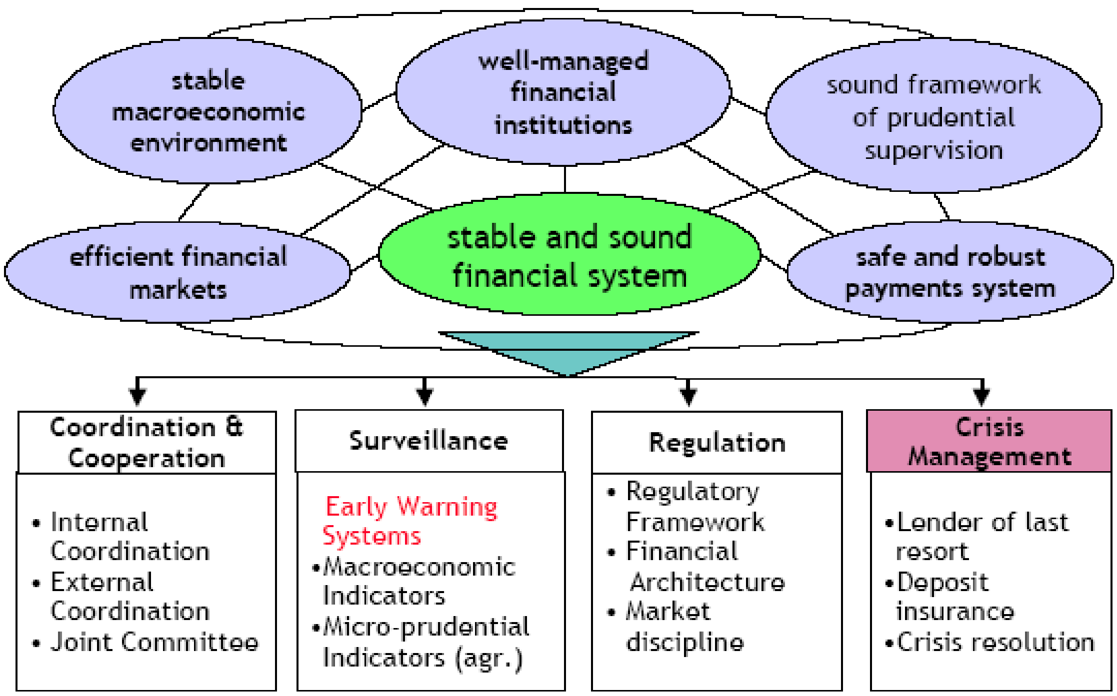
Table 2.2: Banking Groups in Indonesia

Bank Group	October 1997	Changes of November 1997 – November 2000			December 2000
		Liquidation, Frozen Operations, Frozen Business	Merger	New Banks	
State-owned Banks	7	-	4	2*)	5
Foreign Exchange Private National Banks:	115	34	14	-	67
- Category A	-	-	-	-	28
- Recapitalized Banks	-	-	-	-	6
- Taken Over Banks	-	-	-	-	4
- Others (ex. Joints Venture Banks)	-	-	-	-	29
Non Foreign Exchange Private National Banks:	79	35	1	-	43
- Category A	-	-	-	-	42
- Recapitalized Banks	-	-	-	-	1
Regional Development Banks	27	1	-	-	26
- Recapitalized	-	-	-	-	12
- Non Recapitalized	-	-	-	-	14
Foreign Banks	10	-	-	-	10
TOTAL COMMERCIAL BANKS	**238**	**70**	**19**	**2**	**151**
TOTAL BANK OFFICES	**7,781**				**6,509**

Source: Bank Indonesia (2004)

Sato (2005) reports that a Letter of Intent to the IMF described the blanket guarantee as a temporary measure, which would expire by 2004. The government decided to establish a deposit insurance agency in 2004, with the phased introduction of a payoff system. This plan called for the gradual lowering of the ceiling on guaranteed deposits from the full amount to 5 billion rupiahs, to 1 billion rupiahs, and then to 100 million rupiahs by 2007. This payoff system is expected to encourage depositor confidence in banks, and therefore make positive contributions to competition and soundness of the banking sector. The framework for financial system stability in Indonesia is shown in figure 2.2 below.

Figure 2.2: Framework for Financial System Stability (FSS)



Source: Bank Indonesia (2004)

Batunanggar (2002 p. 42) notes that the authorities in Indonesia developed a framework for Financial System Stability (FSS), with four major pillars of "coordination and cooperation", "surveillance", "regulation", and "crisis management". The authorities focused on establishing "coordination and cooperation" both internally and externally with other related institutions, especially the Ministry of Finance, Indonesian Banking Regulation Agency (set up in January 1998), the Supervisory Authority (Independent of Bank Indonesia) and the Deposit Insurance Agency. Most importantly a clear definition of the role and responsibilities for each institution and a coordination mechanism between them were spelt out. Secondly, for effective “surveillance” an early warning system consisting micro and macro-economic indicators to identify, assess and monitor risk, and related aspects of the financial system. Thirdly through “regulation” a proper financial architecture for fostering market discipline formed the basis for promoting financial stability. Finally, in accordance with the regulations the “crisis management” framework allowed Bank Indonesia through deposit insurance policies to provide short-term financing facilities for banks undergoing liquidity difficulties, thus acting as lender of last resort.

Unfortunately this framework does not adequately address the problem of asymmetric information facing the banking community in Indonesia. The FSS framework ignores the need to initiate efforts that provide more information on the credit-worthiness of borrowers. As established Credit Bureaus, (rating agency) improve transparency and availability of debtor information, thus reducing asymmetric information problems.

The strategic alignment framework outlined by Iman and Hartono (2007) follow a similar approach to that of Henderson and Venkatraman (1993) and they consider the use of business strategy and information systems to boost business performance. Iman and Hartono (2007) opine that the use of information systems is a fundamental issue in business, especially in the banking sector. They develop their concept of strategic alignment from co-variation between a business strategy’s importance level attributes and information technology/system strategy’s importance level attributes at a particular time. To achieve a detailed examination, the constructs of business strategy, Information System/Information Technology strategy and organisation performance are considered non-observed or latent variables, measured by specific observed variables. Iman and Hartono (2007) found that the information technology/system expenditures of most respondents (Bankers) have reached more than 20 percent of the total income after consolidation in Indonesia. This implies that consolidation has led banks to expand the technical capacities of their operating systems, which could positively impact on customers. The effects of such increase in information technology/systems expenditures as an enabler to credit management and availability is an important aspect of this study.

The framework of Iman and Hartono (2007) highlight the infancy of IS/IT in the Indonesian banking sector, but fails to holistically address some of the threats faced by senior executives. This includes the application of information technology to achieve competitive advantage based on generic strategies of cost leadership, market focus and product differentiation. Gates (1997) (in Iman and Hartono 2007 p. 254) argues that “Technology will let banks get closer to customers, deliver a wider range of services at lower costs, and streamline internal systems, so that all customer data is integrated and can be used to spot trends that can lead to new products. The web will offer banks great opportunities-It will be interesting to see which banks step up to this opportunity”.

Majid (2007) employs a battery of time-series techniques based on the Autoregressive Distributed Lag (ARDL) model, to examine the short and long-run relationship between financial development and economic growth during the post-1997 financial crisis in Indonesia. Majid (2007) notes that the ARDL model introduced by Pesaran et al. (1996) provides long-run estimates and takes a sufficient number of lags to capture the data generating process in a general-to-specific modelling framework. From the long-run ARDL coefficient estimates Majid (2007) found that inflation is the only variable significantly (negatively) affecting economic growth in Indonesia, while in the short run, development of the Indonesian economy hinges crucially on the performance of investment, particularly the conduciveness of the stock market in the country. Financial development proxied by financial depth and share of investment are insignificant in promoting the Indonesian economic growth. An interpretation of Majid's (2007) work is that government must maintain price stability by reducing the rate of inflation below two digits to promote growth in the Indonesian economy.

Hall (2005) estimated the deposit insurance liabilities incurred by regulators' guarantees in Indonesia using the Fries, Mella-Barral and Perraudin (1997) (FMP) model. Hall (2005) adopts the FMP model and uses the American-style option model to calculate the authorities' liabilities arising from the provision of depositor protection in form of deposit insurance. The FMP model balances the lump-sum bankruptcy costs against the cost of monitoring to keep a bank operating as a going concern, using data from Indonesian banks. In the period under review Hall (2005) found that three banks most likely to face imminent bankruptcy are Bank MJB (1.21), Bank USK (1.32), and Bank ABX (1.32); while the three least likely to face imminent bankruptcy are Bank EJK (9.51), Bank FKE (6.55), and Bank SRH (4.78). The cost of insuring deposits is a significant concern, as this study notes that the CBN tasked the Nigerian Deposit Insurance Corporation (NDIC) to liquidate 13 banks that did not meet the 25 billion capital requirement. The policy implications resulting from high bankruptcy costs could lead to better resource allocation to monitor banks more closely. The focus of this study however is on the availability of credit to the private sector and as a result the FMP model is not deployed as a tool for analysis.

In summary, this section highlights various methods deployed to analyse the effects of banking consolidation in Indonesia. Primarily, analysts focus on the enabling effects of information system/information technology, the impact of inflation on economic growth, and deposit protection costs. The use of information system/information technology as an enabler to improved credit availability is an important aspect of this study, and will be drawn on to interpret the study's findings. Issues of deposit protection costs present relevant lessons for consolidating authorities in Nigeria, as the CBN employed the NDIC to liquidate banks that did not meet the N25 billion capital requirement (CBN 2005). However, these authors do not examine the effects of banking consolidation on credit availability to the private sector, and as a result the methods used to analyse the effects of consolidation in this section are not appropriate for the analysis required in this study.

2.2.4 Lessons from the Malaysian and Indonesian Experience

According to the IMF (1998) banking consolidation in emerging markets has predominantly been a way of resolving financial crises, with authorities playing a major role in the consolidation process. Consolidation was used as a corrective measure in Malaysia and Indonesia after the East Asian financial crises in 1997 (Bank Negara Malaysia 2003; Batunanggar 2002). Therefore, a careful evaluation of the Asian financial sector crises highlights some salient lessons to be learnt by policy makers in Nigeria.

This study notes that the fixed exchange rate regime operated by Malaysia and Indonesia failed to cope with rapid capital flows and financial globalisation. Das (2000) states that an economy could either rigidly tie its currency to another or allow its currency to float. The experience of Malaysia and Indonesia provide a critical lesson for policy makers in Nigeria as an exchange rate peg provides short-term lenders and borrowers with a guarantee against adverse exchange rate movement. Thus lenders and borrowers perceive an exchange rate peg as a link in the chain of implicit guarantees, which could lead to overinvestment and poor quality risk assessment (Hawkins and Mihaljek 2001). Monetary authorities should therefore introduce flexible exchange rates, as the risk associated with flexible exchange rates can play a useful role in moderating the volume of short-term capital inflows. It is however important to note, that Nigeria did not operate an exchange rate peg in the period under review and this will not be part of the investigation in this study.

Numerous analysts (e.g. Batunangga 2002; Hawkins and Mihaljek 2001) also agree that large capital inflows can have a destabilizing impact on the recipient economy, particularly when the currency is convertible. Noteworthy is the fact that short-term capital is particularly volatile and loss in confidence result in massive portfolio reallocation. For monetary authorities in Nigeria, cautious management of capital inflow and a strict watch over short-term borrowings denominated in foreign currencies are critical lessons from the Asian crises.

Monetary authorities in Nigeria and particularly the IMF should understand that stringent monetary and fiscal policies are not the answer to the financial problems of all member economies, as different crises call for different solutions. Policy analysts such as Radelet and Sachs (1998), Wade and Veneroso (1998) (in Montinola 2003) acknowledge that IMF financing can be vital to recovery, but they fault the fund's policy conditions. These analysts note that the IMF's response to economic crises could be improved with policy conditions tailored to meet the specific economic needs of troubled countries. This is evident in the experiences of Malaysia and Indonesia, in which the IMF implemented its standard Structural Adjustment Programme-more or less a one-size-fits-all strategy-to correct balance of payment problems in these economies. The IMF needs to develop support programmes and lending policy conditionality in collaboration with governments of crisis affected countries, as this will help convince the market that the reforms can be implemented successfully within realistic targets and timetables in the reform programme.

The Malaysian and Indonesian experience confirms that liberalising the capital account is a difficult process and could lead to systemic disturbances in which important segments of the financial sector are likely to be driven into insolvency. Sequencing therefore in liberalising capital accounts is an important tool that ensures problems in the domestic financial systems are addressed before removing restrictions on capital accounts, as weak or financially troubled institutions develop a crisis situation more rapidly. However, this depends on the pace and depth of change required, as a slow response could entail tolerating inappropriate behaviour while a too fast response could create a crisis in its own rights. Das (2000) advocates that prompt recapitalisation of banks and restructuring of corporate debt should be attempted by policy makers, if financial crisis causes large-scale corporate and financial insolvency. The main policy options could include unassisted resolutions, assisted resolutions and liquidation (George 1994; Lindgren et al. 1999; Mishkin 2001; Pangestu and Habir 2002; Batunanggar 2003; Honohan and Klingebiel 2003; Hoggarth et al. 2004), and an exit strategy should be devised for firms that cannot return to financial health in a short time span. The Malaysian and Indonesian experience shows that with a blanket guarantee, timing is critical. It is required as a temporary measure at the outset when bank closures occur.

Prudential banking regulation and supervision is important in creating and maintaining financial system stability. The significance of prudential norms, regulations and supervision helps declare minimum norms in the banking and financial sector, as surveillance of financial and corporate sector should focus on identifying vulnerabilities, assessing the quality of policies and ensuring transparency of information and regulations. Table 2.3 shows some of the lessons learnt in developing a strategy for restructuring banks through a process of consolidation from the Malaysian and Indonesian experience:

Table 2.3: Lessons Learnt From the Malaysian and Indonesian Banking Consolidation

Lessons Learnt From the Malaysian and Indonesian Banking Consolidation	**Relevance to Consolidating Authorities in Nigeria**
The provision of Institutional and legal framework for restructuring. For example: The Financial Systems Master Plan (Bank Negara Malaysia 2003) in Malaysia and Framework for Financial System Stability (Bank Indonesia 2004) in Indonesia.	Provided benchmarks for the development of a policy response, to the banking reforms required in Nigeria (Aminu 2007).
Allocation of qualified human resources to manage the changes necessitated by consolidation. For example: the emphasis on well-managed financial institutions in the Framework for Financial System Stability (Bank Indonesia 2004) in Indonesia.	Highlighted the need for adequate human capital, to manage changes in Nigerian banks (CBN 2005).
Standard requirements for discriminating between sound banks that need no public support (unassisted resolution), banks that are viable but need public support (assisted resolution) and those that should exit the system (liquidation). For example: the requirement of a minimum shareholders' fund of RM2 billion and asset base of at least RM25 billion (Bank Negara Malaysia 2003) in Malaysia, and the statutory requirement of reserves in rupiah from 5% to a progressive varied percentage level based on total bank assets (Goeltom 2005) in Indonesia.	The CBN stipulated N25 billion as the standard recapitalisation requirement, for newly consolidated banks in Nigeria (Imala 2005). According to Imala (2005), the CBN's policy stance notes that, fewer bigger banks are secure and as a result a fixed amount (N25 billion) was favoured over the sliding scale approach used in Indonesia.
Provision of methods for dealing with troubled banks (i.e. liquidation, mergers	The CBN's guidelines for consolidation stated that the only legal modes of

and acquisitions, nationalisation). For example: mergers were deployed in Malaysia (Sufian 2004).	consolidation allowed are going solo, mergers and outright acquisition/takeover. It further stated that mere group arrangements were not acceptable for meeting the N25 billion capital base (Ezeoha 2007).
Financing arrangements should include; target level of recapitalisation, types of instruments, terms and conditions, and guided by the principle of minimizing government's contribution (Bank Negara Malaysia 2003; Goeltom 2005).	Financing arrangements in Nigeria include: Initial Public Offers, Private Placement, Group Injection of Funds and Partnership with Strategic Investors (CBN 2005). The target level of recapitalisation was N25 billion (Ezeoha 2007).
Prompt creation of agencies to manage the restructuring programme and problem assets. For example: the creation of Danamodal Nasional Berhad (Recapitalisation Company) and Danaharta Nasional Berhad (an asset management company) to handle the Malaysian crisis immensely aided the implementation and success of the banking sector reform. These agencies had an estimated life span of 7 to 10 years (Bank Negara Malaysia 2003).	The creation of the Asset Management Company of Nigeria (CBN 2005).
Provision of an appropriate timeframe for the different steps in operational and bank restructuring. For example: the timeframe for the Malaysian banking consolidation was between July 1999- December 2000 (Hui and Chee 2003).	The CBN provided an 18 mouths timeframe between July 2004- December 2005 for all banks to consolidate (CBN 2005).
Exit strategy from government ownership of banks and blanket guarantee. For example: the 7 to 10 years estimated life span of the Danaharta Nasional Berhad	All banks which did not meet the recapitalisation requirements were liquidated by the Nigerian Deposit Insurance Corporation (NDIC), however no

asset management company in Malaysia (Bank Negara Malaysia 2003).	blanket guarantees was deployed.
Effective and transparent information campaign, to ensure public confidence and credibility. For example: periodic announcement by the Bank Negara Malaysia (Bank Negara Malaysia 2003).	The provided a number of press releases to inform the general public of the changes being implemented in the Nigerian banking industry (CBN 2005).

Source: Author Generated (Based on a synthesis of: Bank Negara Malaysia 2003; Hui and Chee 2003; Bank Indonesia 2004; Sufian 2004; Imala 2005; CBN 2005; Imala 2005; Goeltom 2005; Aminu 2007; Ezeoha 2007)

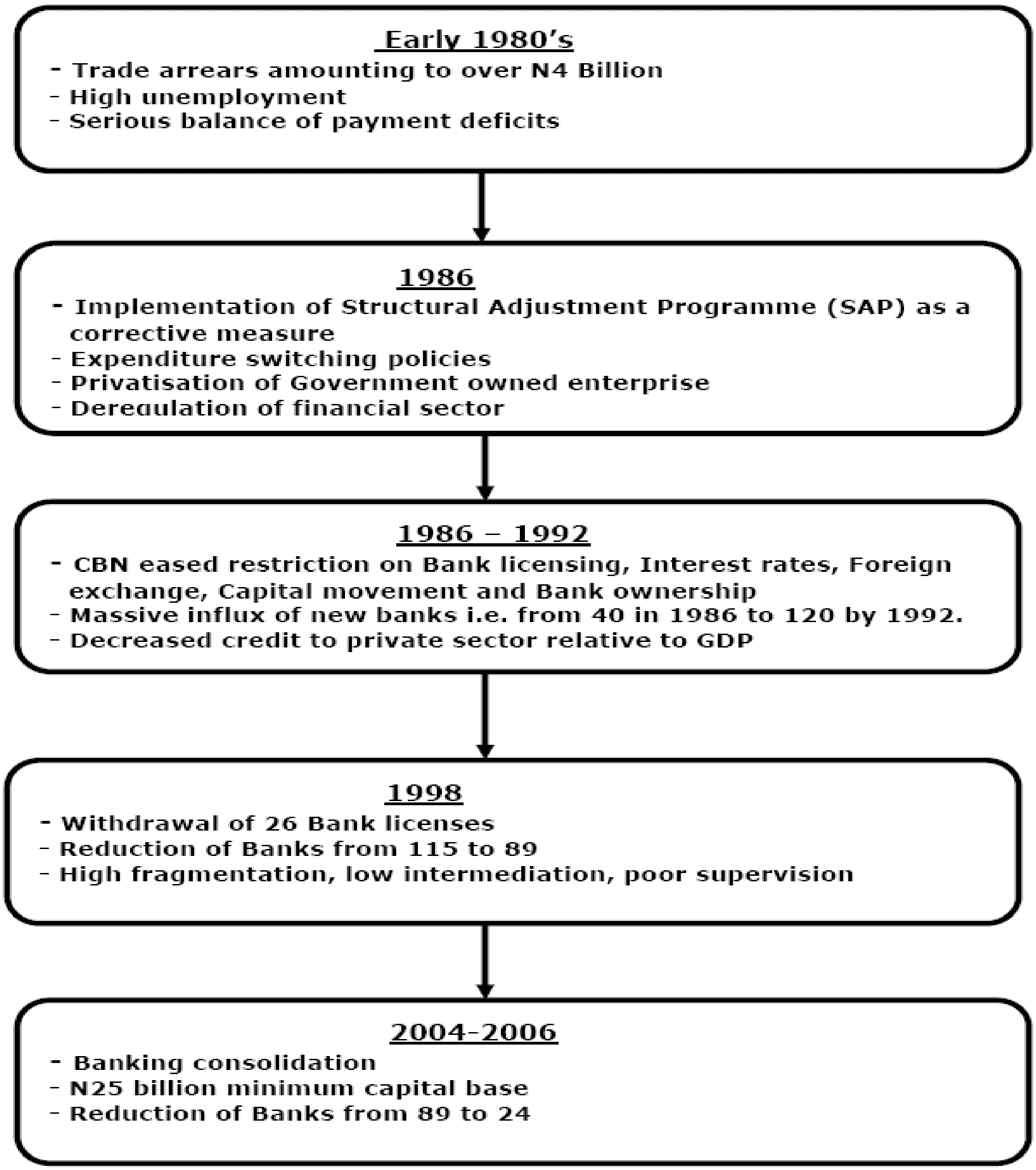
The lessons highlighted above are important for authorities involved in implementing banking consolidation in Nigeria. The ability to adapt these lessons will help in the successful implementation of consolidation, as parallels (section 2.4) can be drawn from the context of banking crises experienced in Malaysia, Indonesia and Nigeria.

Furthermore, Table 2.3 shows that increased capital requirement, legal modes for consolidation, creation of asset management companies, provision of timeframes for consolidation, deposit insurance guarantees, and communication were lessons directly applied by authorities in Nigeria. Some other lessons such as the framework for restructuring and human capital requirements were modified. The next section examines the banking consolidation in Nigeria.

2.3 Banking Consolidation in Nigeria

Nigeria experienced major debt and unemployment crises in the 1980s. By 1983, Nigeria's short-term trade arrears amounting to over N4 billion had accumulated, while unemployment was aggravated and serious balance of payments deficits incurred, these events were serious enough to precipitate an IMF intervention. As a result, Olukoshi (1998) believes the IMF presented the Structural Adjustment Programme (SAP) with its market orientation, as inevitable and having no alternative. Obadan and Ekuehare (1989) state that SAP was implemented in 1986 and designed to fit the standard IMF-World Bank structural adjustment package. SAP was expected to effectively alter and restructure the consumption and production patterns of the Nigerian economy, eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer goods. To achieve economic efficiency and long-term growth, the programme will promote stabilisation policies designed to restore balance of payments equilibrium and price stability. Figure 2.3 shows a timeline of events leading to banking consolidation in Nigeria.

Figure 2.3: Timeline of Events Leading to Banking Consolidation in Nigeria



Source: Author Generated (Based on a synthesis of: Gbosi 1996; Lewis and Stein 1997; Olukoshi 1998; Hesse 2007)

According to Olukoshi (1998) the IMF through SAP, deployed expenditure switching policies, as well as using the private sector as the engine for growth. The IMF encouraged commercialisation, privatisation of government owned enterprise and deregulation of the financial sector.

Thus, the Central Bank of Nigeria eased restrictions on bank licensing, interest rates, foreign exchange, capital movement and bank ownership. These opportunities led to a massive influx of new entrants as the number of banks tripled from 40 in 1986 to 120 by 1992 (Lewis and Stein 1997). This raises questions about the capacity in the banking sector to provide management of appropriate calibre, the ability of existing regulatory frameworks to cope with this growth and issues of too many banks chasing the same business. Lewis and Stein (1997) believe the original expansion of the banking activities was driven by two parallel elements in the SAP: the abolition of import licensing and the movement towards a floating exchange rate. They note that the end of direct administrative rationing of foreign exchange and the simultaneous withdrawal of subsidized commodities from domestic markets, abruptly curtailed access to leading sources of commercial rent. Partial compensation emerged through opportunities in the growing multi-tiered foreign exchange market, where currency trading, financing and arbitrage promised substantial gains in Nigeria. This study notes that these partial compensation opportunities led Nigerian banks to move focus away from their primary function of intermediation, with significant effects on the availability of credit.

Beck et al. (2005) state that the financial sector boom, was however, accompanied by financial disintermediation. Deposits in financial institutions and credit to the private sector, both relative to GDP, decreased between 1987 and 1993 (Gbosi 1996). The increasing number of banks and human capital in the financial sector was thus channelled into arbitrage and rent-seeking activity rather than financial intermediation. As a consequence the banking sector suffered deep financial distress as half the licensed banks were insolvent, the extent of non-performing loans became evident, thus placing two-thirds of assets and close to 75% of deposits at risk (Beck et al.

2005). Lewis and Stein (1997) note that during 1992-1993, the Nigerian Deposit Insurance Corporation (established 1988) announced that 24 banks were insolvent and 26 in serious trouble; these 50 banks had two-thirds of total banking assets and three-quarters of deposits in Nigeria's financial system. As a result the Nigerian authorities established some prudential guidelines and a moratorium on new bank licenses.

Hesse (2007) reports that 26 bank licenses were revoked in 1998, reducing the total number of banks from 115 to 89. Even though the macroeconomic environment improved with civilian government rule after 1999, the Nigerian financial system was still characterised by very high fragmentation, low intermediation, poor supervision and weak regulatory controls. Furthermore, poor shareholding practices and marginalisation of shareholders in corporate democracy, reduced the level of shareholders influence in corporate decision-making process (Amao and Amaeshi 2008). The appointment in May 2004 of Prof Charles Soludo as Nigeria's Central Bank Governor marked a major turning point in the financial sector reforms. As a proactive response to the weakening of the banking system, Soludo (2007) suggested the Nigerian financial system was characterised by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a financial reform. Ajayi (1992) asserts that, in the oil boom years a lot of capital did leave Nigeria as petrodollar created the opportunity for outflow of capital which was not re-invested in the economy. Therefore, banking consolidation will help reduce if not totally eliminate capital flight, through the restoration of confidence in the Nigerian financial systems, provision of profitable investment opportunities and economic growth.

2.3.1 Drivers for Banking Consolidation in Nigeria

Ajayi (2005) believes that the banking consolidation in Nigeria, implemented through government regulation was influenced by three generic factors driving consolidation globally. These factors are the economics of scale and scope, potential for risk diversification as well as bank management personal incentives (Ajayi 2005). The findings are similar to the global factors driving consolidation identified by Kwan (2004). Thus, the need for growth in market share and the desire to invest excess capital propels potential acquirers, while lack of management succession, inability to keep pace with change, regulatory pressures and perceived opportunity to cash out at a high price could lead potential sellers to sell. Aside from the findings identified by Ajayi (2005) and Kwan (2004), other factors leading to banking consolidation in Nigeria are discussed below.

As a result of liberalising the Nigerian economy, most public enterprises, trade and exchange systems were restructured. The Structural Adjustment Programme implemented by the IMF attempted to restore normality to economic activities by correcting the imbalances in the payment system (Gbosi 1996). The National Centre for Economic Management and Administration (2004) notes that the performance of the economic reform programmes was disappointing, as SAP policies were misguided and incoherent in its implementation leading to uncoordinated expansion of the banking industry. The CBN aimed to reposition the banking industry to effectively play their financial intermediation role by implementing the banking consolidation.

Imala (2005) notes that the average capital base of Nigerian banks is US$ 10 million, which is very low compared to banks in other developing countries like Malaysia where the capital base of the smallest bank is US$ 526 million. The aggregate capitalisation of the Nigerian banking system at N311 billion (US$2.4 billion) is grossly low in relation to the size of the Nigerian economy. The 89 banks in Nigeria as at the end of May 2005, had a total of 3,382 branches whereas the 8 banks in South Korea had about 4,500 branches. Imala (2005) suggests that the top 10 banks in Nigeria control 50.8% of the aggregate assets; 51.7% of total deposits and 45% of the aggregate credits. Thus there was the need to implement banking consolidation to correct these short falls. There might also be certain underlying factors such as differences in the standards of living, or differences in the propensity to save, or cultural issues that can not be addressed by banking consolidation, in the countries identified (compared) above. However, this study will not focus on the multi-facet ways in which an economy grows.

A detailed analysis of the condition of individual banks in Nigeria as at December, 2004, showed that no bank was rated very sound. The rating of licensed banks using the Capital, Asset quality, Management, Earnings, and Liquidity (CAMEL) parameters, revealed that only 10 were adjudged sound, with 51 satisfactory, 16 marginal and 10 unsound (Imala 2005). Corporate governance in most Nigerian banks was characterised by non-compliance with regulatory requirements, inaccurate reporting, and gross insider abuse which lead to high levels of non-performing loans. This was primarily because of a combination of weak regulatory systems and bad bank management behaviour. Imala (2005) highlighted the negative capital adequacy ratios of some banks (most banks in this category were liquidated after the consolidation process), completely eroded shareholders' funds caused by operational losses, over-dependence on public sector deposits, and the neglect of small and medium scale private savers caused most banks to be insolvent. One could conclude that, there was the need to consolidate the banking industry and restore efficiency, competition, earn depositor and investor trust, and develop a reliable banking system which will facilitate economic growth.

The limited development of information technology infrastructure in the Nigerian banking industry, was a major factor driving banking consolidation in Nigeria. Ezeoha (2005) highlighted a survey by the CBN in September 2002, on the extent of e-banking adoption by Nigerian banks. The CBN found that of the 89 licensed banks in the country, only 17 were offering internet banking, 24 were offering basic telephone banking, 7 had ATM (Automated Teller Machines) services while 13 of the banks were offering other forms of e-banking. This implies that as of then, 19.1% of the banks were offering internet banking, signifying that internet banking was yet to take centre stage despite its widely acclaimed benefits against the traditional branch banking practice (Ezeoha 2005). The results in Nigeria is also significantly low in comparison to Malaysia, where in the same period Sulaiman et al. (2005) note that all major local banks provided e-banking services. Thus the development of minimum efficiency scale in IT infrastructure in banking through banking consolidation; is envisaged to bring tremendous improvement in terms of policy formulation and legal framework design. Ayo and Babajide (2006) suggest that increased development in IT infrastructure would enhance e-commerce participation by Nigerian banks. Furthermore, the factors identified above indicate that developments in IT infrastructure are enablers to banking consolidation in Nigeria.

2.3.2 Policy Instruments/Objectives for Consolidation in Nigeria

The very nature of banking and the great adverse effects on the economy of bank failures created public policy concerns in Nigeria. This explains why amongst other reasons banks in Nigeria are more rigorously regulated than other industries (CBN 2008). Claessens and Klingebiel (1999 p. 2) note that "the framework for financial services provision in a country includes laws governing financial institutions, the deposit insurance law (if an explicit deposit insurance scheme exists), securities markets' laws and regulations, and other regulations and agreements, including those of an international nature". These laws and regulations define the role and activities of deposit-taking financial institutions (banks) relative to non-bank financial institutions, influence the degree of competition in the financial systems (through the setting of minimum capital requirements, and the definition of degrees and modes of permissible entry), define in a significant way the incentive framework under which financial intermediation takes place, and provide for the necessary formal enforcement and exit rules. Ultimately, this framework and the way it is enforced determines to a large degree the structure, stability and efficiency of a country's financial system (Claessens and

Klingebiel 1999). In Nigeria, the framework for financial intermediation is determined by the CBN. Thus, the CBN was tasked with the formal enforcement of policy instruments and objectives required for banking consolidation (CBN 2005).

The financial sector reform in Nigeria was embedded in the National Economic Empowerment and Development Strategy (NEEDS) prepared in 2003 (Soludo 2006). According to Balogun (2007), the policy thrust of the NEEDS document on financial sector reform aimed to build and foster a competitive and healthy financial system to support development and to avoid systemic distress. This is to be achieved by deepening the financial system in terms of asset volume and instrument diversity, a drastic reduction and ultimate elimination of government deficits by the financial systems in order to free up resources for lending to the private sector. Furthermore, a review of the capitalisation of financial institutions through the development of a structure of financial sector incentives that would support real sector financing.

In line with provisions of the NEEDS document, Hesse (2007) notes that the CBN decreed on July 6, 2004 that banks had to increase their minimum capital requirement from N2 billion to N25 billion and consolidate their operations through mergers and acquisition by the end of 2005. Imala (2005) highlights the following as objectives of the banking sector reforms:

- Requirement that the minimum capitalisation for banks should be N25 billion with full compliance before end-December 2005.
- Phased withdrawal of public sector funds from banks, starting July 2004.
- Consolidation of banking institutions through mergers and acquisitions.
- Adoption of a risk focused and rule based regulatory framework.

- Adoption of zero tolerance in the regulatory framework, especially in the area of data/information reporting. All returns by banks must now be signed by the Managing Directors of banks.
- The automation process for rendition of return by banks and other financial institution through the electronic Financial Analysis and Surveillance System (e-FASS).
- Establishment of a hotline, confidential internet address (Governor@cenbank.org) for all Nigerians wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or the financial system. Only the Governor has access to this address.
- Strict enforcement of the contingency planning framework for systemic banking distress.
- The establishment of an Asset Management Company as an important element of distress resolution.
- Promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques and the law relating to the vicarious liability of the Board of banks in cases of failings by the banks.
- Revision and updating of relevant laws and drafting of new ones relating to effective operations of the banking systems.
- Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures.
- Rehabilitation and effective management of the Mint to meet the security printing needs of Nigeria.

(Comparative analysis of the objectives deployed by consolidating authorities in Nigeria, Malaysia and Indonesia, and its relevance in the context of this study are examined in section 2.4.)

The primary research questions of this study focus on two of these objectives: (i) Requirement that the minimum capitalisation for banks should be N25 billion with full compliance before end-December 2005, and (ii) Consolidation of the banking institutions through mergers and acquisitions. The focus on these two objectives is justified because the CBN particularly expected increased capital requirements of N25 billion and its effects on bank structure to stimulate growth in the Nigerian economy (CBN 2005). Therefore this study examines change management practices of senior managers in consolidating banks, and the effects of these changes on credit availability to the private sector in Nigeria.

2.2.3 Nature of Banking Consolidation in Nigeria

In order to achieve and set the pace for the consolidation of banks in Nigeria, an unassisted resolutions approach was deployed, as the CBN approved a set of guidelines and incentives (CBN 2005). The guidelines stated that the only legal modes of consolidation allowed are mergers and outright acquisition/takeover. Mere group arrangements were not accepted for the purpose of meeting the stipulated N25 billion capitalization requirement for banks. Therefore, all banks that have other banks as subsidiaries or have common ownership were encouraged to merge. Foreign banks were not allowed to merge with or acquire Nigerian banks; however they were encouraged to provide the stipulated N25 billion minimum capital base requirement (Soludo 2004). CBN (2005) further states that several options open to Nigerian banks to meet the stipulated minimum capital base requirement include:

- To approach the capital market for funds through an Initial Public Offer (IPO), Private placement or Rights Issue, funds from strategic investors.
- To consolidate through a merger with like-minded and synergy-producing banks (no further definition was provided to explain what this meant in practice).
- To acquire another bank or be available for acquisition.

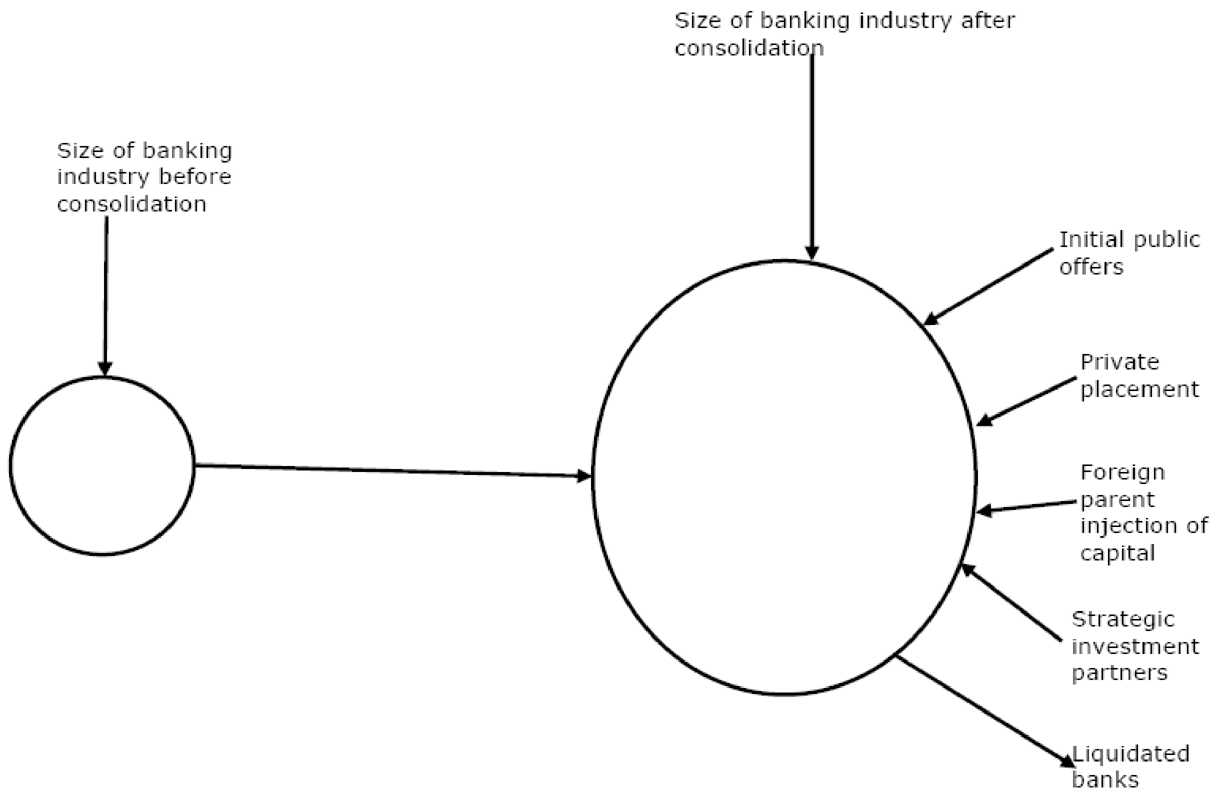
- To close shop and surrender the banking licence.

However the CBN anticipated some likely problems that may be encountered in the consolidation process. These problems included doubts that the Nigerian capital market has the depth, breadth and resilience to absorb the many bank issues that have emerged from the market, as the lack of adequate absorptive capacity of the capital market may be a constraint for banks wishing to raise capital from the market. Thus the CBN provided some incentives for banks that consolidate and/or are able to achieve the set minimum capital base within the stipulated period. These include:

- Authorization to deal in foreign exchange.
- Prospects of managing parts of Nigeria's external reserves, subject to prevailing guidelines.
- Tax incentives in the areas of capital allowances, company income tax, stamp duties, etc.
- Reduction in transaction costs with the CBN.
- Provision of technical assistance by the CBN.

The CBN through a press release on the 3rd of January 2006 (see Appendix 1), reported the close of the first phase of the banking consolidation program on 31st December 2005, has resulted in the shrinkage of the number of banks from 89 to 25 through mergers/acquisition involving 76 banks which altogether accounted for 93.5% of the deposit share of the market (Table 2.4). Figure 2.4 reflects the size of the Nigerian banking industry before and after consolidation.

Figure 2.4: Size of Nigerian Banking Industry Before and After Consolidation



Source: Author Generated

The capital market received a boost with a total of N406 billion raised and N360 billion accepted by the CBN including foreign capital inflow of US $654 million and £161,933 (CBN 2006). The 13 banks that were unable to meet the end-December 2005 deadline, accounted for only 6.5% of the deposit share in the industry. The Nigerian Deposit Insurance Corporation (NDIC) was directed to obtain court approval to commence the process of liquidation of the affected banks (CBN 2006). The Nigerian banking industry witnessed further shrinkage from 25 to 24 banks on the 31st of March 2008. Standard Bank (2008) confirmed the successful conclusion of the merger of Stanbic Bank Nigeria Limited (a member of The Standard Bank Group of South Africa Limited) and IBTC Bank PLC, in which Standard Bank had in August 2007 secured 50.1% shareholding of IBTC Chartered. Table 2.4 shows the list of CBN approved banks in Nigeria.

Table 2.4: Component Members of Consolidated Banks

	Name of Banks	**Consolidating Institutions**	**New capital Base in Billions of Naira**	**New Capital base in Millions of Dollars (At $1=N130)**
1	Access Bank Plc	Marina Bank	28	215,384,615.4
		Capital Bank		
		Access Bank		
2	Afribank Plc	Afribank Plc	29	223,076,923.1
		Afrimerchant Bank		
3	Diamond Bank	Diamond Bank	33.25	255,769,230.8
		Lion Bank		
		African International Bank (AIB)		
4	EcoBank	Alone	25	192,307,692.3
5	Equitorial Bank Plc	Equatorial Trust Bank	26.5	203,846,153.8
		Devcom Bank		
6	First City Monument Bank Plc	First City Monument Bank	30	230,769,230.8
		Cooperative Development Bank		
		Nig-American Bank		
		Midas Bank		
7	Fidelity Bank Plc	Fidelity Bank Plc	29	223,076,923.1
		FSB International Bank		
		Manny Bank		
8	First Bank of Nigeria Plc	First Bank of Nigeria	44.62	343,230,769.2
		FBN Merchant Bank		
		MBC International Bank		
9	First Inland Bank Plc	First Atlantic Bank	28	215,384,615.4
		Inland Bank		
		International Merchant Bank		
		Nigerian Universal Bank		
10	Guaranty Trust Bank Plc	Alone	34	261,538,461.5
11	Intercontinental Bank Plc	Intercontinental Bank	51.7	397,692,307.7
		Global Bank		
		Gateway Bank		

	Name of Banks	Consolidating Institutions	New capital Base in Billions of Naira	New Capital base in Millions of Dollars (At $1=N130)
		Equity Bank		
12	Nigerian International Bank	Alone	25	192,307,692.3
13	Oceanic Bank	Oceanic Bank	31.1	239,230,769.2
		International Trust Bank		
14	Platinum-Habib Bank Plc	Platinum Bank	26	200,000,000
		Habib Bank		
15	Skye Bank Plc	Prudent Bank	37	284,615,384.6
		Bond Bank		
		EIB		
		Reliance Bank		
		Cooperative Bank		
16	Spring Bank Plc	Citizens Bank	25	192,307,692.3
		ACB International		
		Guardian Express Bank		
		Omega Bank		
		Transinternational Bank		
		Fountain Trust Bank		
17	Stanbic IBTC Bank Plc	Stanbic Bank Limited	60	461,538,461.5
		IBTC		
		Chartered Bank		
		Regent Bank		
18	Standard Chartered Bank Limited	Alone	26	200,000,000
19	Sterling Bank Plc	Trust Bank of Africa	25	192,307,692.3
		NBM Bank		
		Magnum Bank		
		NAL Bank		
		INMB		
20	United Bank for Africa Plc	United Bank for Africa	50	384,615,384.6
		Standard Trust Bank		
		CTB		
21	Union Bank Plc	Union Bank of Nigeria	58	446,153,846.2
		Union Merchant Bank		
		Broad Bank		
		Universal Trust Bank		
22	Unity Bank Plc	Intercity Bank	30	230,769,230.8
		First Interstate Bank		
		Tropical Commercial Bank		

	Name of Banks	Consolidating Institutions	New capital Base in Billions of Naira	New Capital base in Millions of Dollars (At $1=N130)
		Centre Point Bank		
		Bank of the North		
		New African Bank		
		Societe Bancaire		
		Pacific Bank		
		New Nigerian Bank		
23	Wema Bank Plc	Wema Bank	26.2	201,538,461.5
		Lead Bank		
		National Bank of Nigeria		
24	Zenith Bank Plc	Alone	38	292,307,692.3

Source: Central Bank of Nigeria (2008)

IMF (2008) suggests that the approved banks can be divided into four groups for analytical purposes. Group 1 (First Bank, Guaranty Trust Bank, Union Bank, Intercontinental Bank, Oceanic Bank and Zenith Bank) comprises the first generation banks, which were the largest traditional banks that achieved the capital threshold mostly on their own and may have also consolidated long established affiliates and acquired one or two smaller banks. Thus, this group have significant advantages in terms of franchise and a large resource base. Group 2 (Access Bank, Diamond Bank, EcoBank, Equitorial Bank, Fidelity Bank, Platinum-Habib Bank and Wema Bank) constitutes banks that achieved the capital threshold by merging through voluntary partnerships. Group 3 (First City Monument Bank, First Inland Bank, Skye Bank, Spring Bank, Sterling Bank and Unity Bank) comprises banks that achieved the capital threshold through four or more banks partnering out of necessity. While Group 4 (Nigerian International Bank, Stanbic IBTC Bank and Standard Chartered Bank) is made up of banks with majority or wholly foreign ownership.

However, for the purpose of this study three categories of banks are deployed. These categories are highlighted in Table 2.5 below.

Table 2.5: Three Categories Banks in Nigeria

Stand Alone Banks	Common Ownership Banks	Common Interests Banks
1) EcoBank 2) Guaranty Trust Bank Plc 3) Nigerian International Bank 4) Standard Chartered Bank 5) Zenith Bank Plc	1)AfriBank Plc 2) Equitorial Bank Plc 3) Intercontinental Bank Plc.	1) Access Bank Plc 2) Diamond Bank 3) First City Monument Bank Plc 4) Fidelity Bank Plc 5) First Bank of Nigeria Plc 6) First Inland Bank Plc 7) Oceanic Bank 8) Platinum-Habib Bank Plc 9) Skye Bank Plc 10)Spring Bank Plc 11)Stanbic IBTC Bank Plc 12)Sterling Bank Plc 13)United Bank for Africa Plc 14)Union Bank Plc 15)Unity Bank Plc 16)Wema Bank Plc

Source: Central Bank of Nigeria (2008)

Table 2.5 shows that the Stand alone group comprise of 5 banks, the Common ownership group comprise of 3 banks and the Common interest group comprise of 16 banks and these form the three main categories of banks used for this study. In their quest to unify banks (Groups with common ownership, and common interests), managers try to achieve strategic and cultural fit aside just bringing these institutions together. Hill and Brown (2007) suggest that there are two dimensions in determining strategic fit for organisations and these are: “External strategic fit” and “Internal strategic fit”. “External strategic fit” exists when the actions and interests of all company employees are focused on key goals. This involves the consistency between the competitive configuration in the market and the operations processes and infrastructure in the business. “Internal strategic fit” exists when employees from different levels and functions within an organisation agree on what is most important for the organisation to succeed. This involves the consistency between the operations strategy and the overall business strategy, consistency with the other functions in the company, and consistency between the constituent elements and processes of the operations system. In the case of Nigerian banks, the proactive measures of managers in the CBN proved that adjustments were inevitable. These adjustments led to the formation of different banking groups.

In summary, the nature of the Nigerian banking consolidation examined in this section reveals some situational challenges faced by banks and senior managers directly involved in the consolidation process. These include effective management of change (planned change), and subsequently the need to find strategic and cultural fit in mergers and acquisitions. These subject areas are vital elements in the drive to restructure the Nigerian banking industry and will inform the selection of relevant change management literature for this study. Parallels of banking consolidation drawn from the Malaysian, Indonesian and Nigerian experience are examined in the next section.

2.4 Parallels drawn from the Malaysian, Indonesian and Nigerian Experience

This section examines parallels in the experiences of Malaysia, Indonesia and Nigeria, with the aim of highlighting perceived similarities (basis for policy transfers) and differences in these countries (Casey and Dostal 2008).

Malaysia, Indonesia and Nigeria incurred serious balance of payment deficits in the early 1980s, as the dramatic drop in oil price prompted authorities to change their development strategies. Governments could no longer provide recourses to subsidise interest rates, re-finance credit and fund other liquidity support incentives. Therefore the need arose to lift the barriers to entry and encourage banks to mobilise deposits, hence reduce their reliance on government, as balance of payment shortfalls had to be financed by foreign short-term capital loans.

Authorities in these countries turned to the IMF for help. The IMF for its part insisted on the implementation of a standard Structural Adjustment Programme (SAP) under its guidance as a requirement for short-term capital loans, as the need to follow through on difficult structural reforms were critical to restoring the long-term health of these economies. However, the introduction of structural reforms encouraged the rapid growth of banks, branches and aggressive tapping in the deposit market as result of lifting the barriers to entry. It was also evident in Malaysia and Indonesia as in Nigeria that banks started lending money without sound credit analysis. The lack of credit analysis and constant violation of statutory lending limits led to high numbers of non-performing loans (NPLs). The need to address these issues encouraged authorities to deploy consolidation as a corrective measure. Consolidation was also expected to achieve various objectives reflective of prevailing economic conditions; this is shown in the Table 2.6, 2.7 and 2.8.

Table 2.6: Comparative Analysis of Drivers in the Malaysian, Indonesian and Nigerian banking consolidation.

Parameters	Malaysia	Indonesia	Nigeria
Drivers for Banking Consolidation	Financial deregulation through SAP lead to systemic crisis and exposed the high level of non-performing loans in banks. Unable to defend peg as result of banking crisis, thus the currency collapsed. Economics of scale, diversification of credit risk, emphasis on shareholder value and developments in Electronic Banking.	Improper sequencing of SAP policies, caused an influx of banks and increase in problem loans. Capital flight and currency collapse as result of systemic crisis. Diversification of credit risk, economics of scale, emphasis on shareholder value and developments in Electronic Banking.	SAP guidelines eased restrictions on bank licensing, abolished import licensing and moved towards a floating exchange rate. These lead to an influx of banks and put two-thirds of assets and close to 75% of deposits at risk. Very low capital base, dependence on public sector deposits, gross insider abuse and high levels of non-performing loans. Globalisation, economics of scale, potentials for risk diversification, shareholder value and developments in Electronic Banking.

Source: Author Generated. (Based on a synthesis of: Hawkins and Mihaljek 2001; Montinola 2003; Bank Negara Malaysia 2003; Bank Indonesia 2004; Ajayi 2005; Imala 2005; Ezeoha 2005; CBN 2005; Ayo and Babajide 2006; Soludo 2006; CBN 2008)

The implementation of the standard IMF structural adjustment programme (SAP) as a corrective measure in the countries under review, resulted is serious systemic crisis. Other issues leading to banking consolidation include the inability to defend a currency peg in Malaysia and Indonesia, and the very low capital base of Nigerian banks. The forces of globalisation, the potential for risk diversification, economics of scale and developments in electronic banking were key drivers and enablers of banking consolidation across these countries.

Table 2.7: Comparative Analysis of Objectives in the Malaysian, Indonesian and Nigerian banking consolidation.

Parameters	**Malaysia**	**Indonesia**	**Nigeria**
Objectives of Banking Consolidation	Reduction in the number of domestic banks through mergers and acquisition. Banking groups to achieve sufficient size with minimum shareholders' fund of RM2 billion and asset base of at least RM25 billion. To improve efficiency and profitability, and the rationalization of branches and employees to minimize disruption in banking services.	Robust structure for domestic banking system and an increase in the percentage of statutory reserves in Rupiah, from 5% to a progressive varied percentage level based on total bank assets. Effective system for bank regulation and supervision in line with international standard. Competitive banking industry resilient in the face of risk. Ensure good corporate governance for internal strengthening of banks and infrastructural support to create a healthy banking	Consolidation of banking institution through mergers and acquisition and an increase in minimum capital requirement from N2 billion to N25 billion. Risk focused and rule based regulatory framework and an automated process for rendition of returns by banks (e-FASS). Withdrawal of public sector funds from banks. Updating relevant laws relating to effective operations of the banking systems and a Financial Intelligence Unit (FIU) to enforce anti-money

Parameters	Malaysia	Indonesia	Nigeria
		industry.	laundering and other economic crime measures.

Source: Author Generated. (Based on a synthesis of: Lindgren et al. 1999; Hui and Chee 2003; Bank Negara Malaysia 2003; Bank Indonesia 2004; Goeltom 2005; Imala 2005; CBN 2005; Soludo 2006; CBN 2008)

Table 2.7 shows that all three countries aimed to reduce the number of banks through mergers and acquisitions, and increase the minimum capital base for the emergent banks or banking groups. Secondly, all three countries aimed to improve the efficiency, competition and profitability of the banking industry by proposing the implementation of stringent supervisory and regulatory reforms. The emphasis in Indonesia to improve its banking infrastructure is reflective of the severity of distress suffered by Indonesian banks in the wake of the 1997 Asian financial crisis. This was however different in Malaysia as the impact of the Asian financial crisis was better managed and Nigeria where the banking reforms was a pre-emptive measure to avoid financial meltdown (BNM 2002; CBN 2006). Another objective which specifically applied to the case for banking consolidation in Nigeria was the phased withdrawal of public sector funds from the Nigerian banking industry. This was because of the very high dependence on public sector funds by Nigerian banks. This situation did not apply in Malaysia or Indonesia as dependence on public sector fund was not as high as in Nigeria or did not pose as much a problem. The authorities in Nigeria also expected to fight money laundering and economic crime with the establishment of a Financial Intelligence Unit (FIU) as millions of dollars had been laundered through the banking system, thus undermining the credibility of the Nigerian banking system (CBN 2006).

Table 2.8: Comparative Analysis of Policy Instruments in the Malaysian, Indonesian and Nigerian banking consolidation.

Parameters	Malaysia	Indonesia	Nigeria
Policy Instruments for Banking Consolidation	Payment System Act 2003 provided a comprehensive legal framework to protect the payment systems from disruptions that may affect financial stability. Banks to achieve sufficient size with minimum shareholders' fund of RM2 billion and asset base of at least RM25 billion by merging or acquisition. Implementation of a Deposit Insurance System and the establishment of Asset management companies acquire and mange non-performing loans. Consolidated Supervision of Financial Conglomerates and multi-pronged risk based strategies which involved on-site examination and off-site	Government Blanket Guarantee (based on Presidential Decree no. 26/1998). Self-recapitalisation by bank owners alone or with new investors; or joint recapitalisation between bank owners, investors and Government. Based on the Banking Law (1998), Article 37 authorises BI to resolve a problem bank, while Article 37A grants wider authority to IBRA to restructure insolvent banks Creation of a Financial Service Supervisory Agency (FSSA) and transfer of bank supervision to the agency. Risk-based and Consolidated supervision. Replacement of the government	CBN/BOFIA Act Amendment Bill improved the autonomy of the CBN in its monetary policy decisions. Legal modes for consolidation allowed: are mergers and outright acquisition/takeovers, while minimum capitalisation base for banks is set at N25 billion. CBN/NDIC adopted the bank resolution option known as Purchase and Assumption. Consolidated supervision of banks was developed to complement risk-based supervision and implemented on on-site and off-site bases. Establishment of an asset management company for distress resolution. New code of corporate governance

Parameters	Malaysia	Indonesia	Nigeria
	surveillance.	blanket guarantee with a deposit insurance scheme.	

Source: Author Generated. (Based on a synthesis of: Lindgren et al. 1999; Batunangga 2002; Hui and Chee 2003; Bank Negara Malaysia 2003; Bank Indonesia 2004; Goeltom 2005; Ajayi 2005; Imala 2005; Ezeoha 2005; CBN 2005; Soludo 2006; Ezeoha 2007; CBN 2008)

Analysis of Table 2.8 also suggests that policy instruments applied by the countries under review were influenced by their economic situations which necessitated banking consolidation. For example the authorities in Indonesia applied a blanket guarantee as part of its banking recovery plan, because the effects of the Asian financial crises were severe in Indonesia. While a deposit insurance system was put in place in Malaysia and Nigeria, with the reasons being that the effects of the Asian financial crises were less severe in Malaysia and the Nigerian authorities implemented banking consolidation as a pre-emptive measure. However, the blanket guarantee in Indonesia was later replaced by a deposit insurance system. This action, Batunanggar (2002) argues is justified as a blanket guarantee is required at the outset of the crisis when bank closures occur and political/social conditions are not stable. Batunanggar (2002) also suggests that in the long run it is quite likely that the blanket guarantee with inherent moral hazards could make future banking crises more likely. Therefore, a blanket guarantee should be replaced with a deposit insurance scheme once the banking system has been stabilised.

The policies in Malaysia and Nigeria for managing non-performing loans were also similar, as asset management companies were set up to acquire and manage non-performing loans from banks (The Asset Management Corporation of Nigeria Bill was signed into law on the 19th of July 2010). The situation was a little different in Indonesia because the Indonesian Bank Restructuring Agency (IBRA) an agency under the Ministry of Finance with the authority to restructure insolvent banks, also engaged in restructuring non-performing loans. There are also a wide range of similarities in the policy instruments used to consolidate the banking industries in Malaysia, Indonesia and Nigeria. These similarities include mergers and acquisition as the only legal modes for banking consolidation, increase in capital base requirement for banks and banking groups, the implementation of risk-based and consolidated supervision, and the enforcement of codes of corporate governance particularly in Nigeria. In order to examine these parallels in more detail, measures used to foster coordination and cooperation, regulation, surveillance, crisis management and credit risk management are highlighted.

2.4.1 Coordination and Cooperation

Batunanggar (2002) notes that authorities in Indonesia achieved coordination and cooperation with related institutions especially the Ministry of Finance, IBRA, the supervisory authority and Deposit Insurance Agency by clearly defining roles and responsibilities for each institution. In the case of Nigeria, the consolidation of the banking system threw up new challenges, particularly the imperative of seamless integration of people, processes and systems, corporate governance and the supervision of emergent financial conglomerates (CBN 2006). To address these concerns, the CBN adopted risk-based and consolidated supervision techniques as the major tool for banking supervision (CBN 2006). Collaboration was intensified locally between the CBN, Ministry of Finance, Securities and Exchange Commission, Corporate Affairs Commission, Federal Inland Revenue Service and all other relevant agencies while international development partners such as Office of the Superintendent of Financial Institutions (OSFI), Financial Service Authority (FSA) and the Federal Reserve System were encouraged to help Nigeria build the needed supervisory capacity (CBN 2006). The persistent threat of money laundering in the Nigerian financial system has necessitated the CBN to collaborate with various law enforcement agencies, these include National Drug Law Enforcement Agency (NDLEA), Economic and Financial

Crimes Commission (EFCC), Nigerian Financial Intelligence Unit (NFIU) and the Nigeria police, to address this menace (CBN 2006).

A consultative committee on banking sector reforms monitored the implementation of banking reform programme. The membership of the committee chaired by the Governor of the CBN, included representatives of the Presidency, the Minister of Finance, Minister of Justice, Director-General of Securities and Exchange Commission, Director-General of Nigerian Stock Exchange, Registrar-General of Corporate Affairs Commission and the Managing Director of the Nigerian Deposit Insurance Corporation (NDIC). CBN (2006) states that a CBN/NDIC committee on supervision was also established to foster cooperation among regulatory and supervisory agencies.

2.4.2 Regulation

BNM (2003 p. 117) define regulation as the “balance between allowing group synergy and efficiency, and ensuring that the activities of the financial conglomerates do not introduce excessive risks to the financial system”. As a solid basis for promoting financial stability, the authorities in Indonesia and Malaysia provided a comprehensive formal regulatory framework and a proper financial architecture to foster market discipline (Batunanggar 2002). With the banking consolidation in Nigeria and the need for a regulatory framework that supports a safe, sound and stable banking system, the CBN took some proactive measures. CBN (2006) states that the CBN issued a code of corporate governance on April 1, 2006. The CBN suggests that a weak regulatory framework, thus the non-adherence to sound corporate governance principles was a major cause for the failure of the 13 banks, whose licenses were revoked by the CBN in January, 2006. Therefore, to ensure regulatory attention and strict compliance, the CBN put the following measures in place:

- Making compliance with the provisions of the code mandatory.

- Banks were required to forward monthly returns to enable CBN to determine, from time to time, the level of compliance.
- On-site visits were undertaken by examiners to verify banks level of compliance.
- Sanctions which may include monetary penalties, non participation in certain operations and suspension of a bank's license could be imposed for non-compliance with the provisions of the code.
- The CBN in conjunction with the Financial Institute Training Centre (FITC), organised a training programme for non-executive directors of banks to enable them appreciate their oversight responsibilities and equip them with basic knowledge of financial control and risk management.

2.4.3 Surveillance

Klein (2005) and Claessens and Klingebiel (1999) found that there is less clarity on a preferred institutional design for supervisory functions, as cross-country experience shows that countries have adopted different institutional structures depending on the objectives of regulations and the type of regulatory approach taken. In Nigeria however, the CBN deployed a consolidated supervision framework, to strengthen bank supervision (CBN 2007). Bank of England (1998) (in CBN 2007) defines consolidated supervision as a comprehensive approach to banking supervision which seeks to evaluate the strength of an entire group to which a bank belongs, taking into account all the risks which may affect the bank, regardless of whether such risks are carried in the books of the bank or related entities.

Based on the FSS framework Batunanggar (2002) identified attempts by Indonesia to meet international surveillance and supervision standards, particularly the Basel Core Principle for Effective Banking Supervision. In the case of Indonesia, Batunanggar (2002) suggested that this will be achieved by adopting a clear responsibility for supervision within the Board of Governors, a uniform supervision standard for all public and private banks, risk based consolidated supervision, placing an on-site supervision team in each of the systemically important banks and the transfer of banking supervision into a new established Financial Supervisory Authority (FSA). However, in Nigeria the main agency of government for the surveillance of the financial system is the CBN, which was empowered by CBN Act no.24 of 1991 and Banks and Other Financial Institutions Act (BOFIA) no.25 of the same year (Ezeoha 2007). The CBN as the apex of the financial system maintains supervisory control while the Nigerian Deposit Insurance Corporation protects deposits and help to promote confidence in the banking system through the deposit insurance scheme.

With the implementation of banking consolidation in 2005, it became imperative that the CBN needed to embrace international best practice as regards the supervision of banks. CBN (2007) states that the CBN in conjunction with the NDIC developed a framework for the consolidated supervision of banks in Nigeria, to complement the risk-supervision policy earlier released in 2005. The framework suggested that consolidated supervision provides a useful basis for effective banking supervision, but should not be regarded as an alternative to the normal supervision of individual banks. Rather, it should be seen as complementing the supervision of banks on a solo basis. To further strengthen this initiative IMF (2008) found that the CBN assigned each bank to an experienced supervisory team who would be responsible for overseeing that bank. This model (on-site and off-site supervision) has been found to be effective in other jurisdictions and would be relevant to Nigeria given that some supervision groups are in Lagos while others are in Abuja (CBN 2007). The live run of the electronic Financial Analysis and Surveillance System (eFASS) commenced on October 3, 2006, with the daily online submission of bank reports, the upgrade of eFASS in the month of October, 2006 marked the beginning of the submission of monthly returns and consequently returns from banks were no longer received through the Banking Analysis System (BAS) with effect from October 2006

(CBN 2007). The increased data gathering capacity provided by eFASS, enhanced the ability of the CBN to monitor bank activities.

2.4.4 Crisis Management

The use of the lender of last resort and blanket guarantee policies in Indonesia is reflective of the level of systemic crisis faced by the banking industry. Batunanggar (2002) found that the authorities in Indonesia implemented the lender of last resort and deposit insurance policies in a bid to manage the banking crisis. The situation was however different in Nigeria, as the banking consolidation carried out by the CBN was pre-emptive and intended to avert crisis in the Nigerian banking industry. Thus the CBN provides temporary accommodation to banks in the performance of its function as lender of last resort.

BNM (2002) defines deposit insurance as an explicit guarantee on insured deposits up to a specified amount in the event that a deposit-taking institution that is a member of the deposit insurance system is unable to meet its obligation to depositors. CBN (2008) reports that the NDIC promptly filed the necessary applications whereby it sought the order of the federal high court to commence the winding up process of the 14 failed banks by taking over ownership of their assets and liabilities in accordance with the law. In an effort to ensure that depositors have seamless access to their funds, the CBN and NDIC adopted the bank resolution option known as Purchase and Assumption. This arrangement allows a healthy bank to assume the private deposit liabilities and purchase some of the good assets of a failed bank, while the shortfall is financed by the CBN on behalf of the Treasury.

2.4.5 Credit Risk Management

Following the bank restructuring programme in Indonesia, Batunanggar (2002) suggests that the banking system performance improved as indicated by an increase in profit, capital and deposits. However, the banking system is still vulnerable and its capacity to support economic growth remains constrained by poor capitalisation and continued high credit risk in the economy. The main problems facing the Indonesia banking industry include: (i) high credit risk indicated by continued high level of non-performing loans (by value); (ii) slow progress in loan and corporate restructuring and; (iii) slow credit growth due to unfavourable economic condition. Soludo (2006 p. 3) defines credit risk as "the risk that an issuer of debt securities or a borrower may default on interest and or principal payments or become bankrupt. If either event occurs, the investor stands to lose part or all of the investment". CBN (2008) notes that the decision to establish a Credit Bureau in Nigeria featured in the Presidential Budget Speech of 1990. Thereafter, it was given legal backing by the CBN Act No.24 of 1991 [sections 28 and 52] as amended. The enabling legislation empowered the CBN to obtain from all banks, returns on all credit with a minimum outstanding balance of N100,000.00 (now N1,000,000.00 and above of principal and interest), for compilation and dissemination by way of status report to any interested parties (operators or regulators).

CBN (2008) points out that with the banking reforms in place, the Credit Risk Management System (CRMS) is presently web-enabled, thus allowing banks and other stakeholders to dial directly into the CRMS database for the purpose of rendering the statutory returns or conducting status enquiry on borrowers. Banks are also required to update the CRMS database on a monthly basis as well as make status enquires on any intending borrower to determine their eligibility or otherwise (Banks are penalized for non-compliance with the provisions of the Act). The CRMS was migrated to the eFASS with effect from August 22, 2006, and thereafter eFASS/CRMS went live on August 28, 2006 (CBN 2006). The adoption of improved credit risk management parameters are justified, as CBN (2008) notes that banks in Nigeria raised over N350 billion from the capital market and Foreign Direct

Investment inflow of $652 million. Thus the total capitalization of banks is almost N1 trillion compared to less than N300 billion pre 2004.

Through an examination of drivers, objectives, and policy instruments, this section provides a comparative analysis of banking consolidation in Malaysia, Indonesia and Nigeria. This also highlights the degree to which events in these countries are similar or different and provides a clearer understanding of the situational challenges faced by consolidating authorities and therefore helps explain the imperative of undertaking a study of banking consolidation.

2.5 Conclusion

This chapter reviewed the literature on banking consolidation in Malaysia, Indonesia and Nigeria. The pressures for globalisation, the need to achieve economies of scale, potential for risk diversification, increased emphasis on shareholder value and developments in electronic banking emerged as major drivers and enablers for consolidation. Whilst the Asian crisis of 1997 triggered reforms in Malaysia and Indonesia, it was the proactive measures of the CBN that led to banking consolidation in Nigeria.

These countries aimed to reduce the number of banks through mergers and acquisitions, and increase the minimum capital base for the emergent banks or banking groups. Secondly, all three countries aimed to improve the efficiency, competition and profitability of the banking industry by proposing the implementation of stringent supervisory and regulatory reforms. It is expected that capital injection will address the problem of weak capitalisation, and liquidity from the new investment into the banking industry will induce interest rates to fall, improve overall liquidity in the system and increase lending to the private sector.

Academic commentators such as Katib and Mathews (2000), Okuda and Hashimoto (2004), Sufian (2005), Collier et al. (2006), Goeltom (2005), Batunanggar (2002), Iman and Hartono (2007), Majid (2007), and Hall

(2005) have deployed a range of analytical tools to analyse the impact of the post-Asian financial sector crises and banking consolidation in Malaysia and Indonesia. The above review of literature on the Nigerian banking consolidation has highlighted some situational challenges faced by consolidating banks and their senior managers. These include the effective management of change (planned change) and the need to find strategic and cultural fit in mergers and acquisitions. Following on from this, is the CBN's expected economic benefits from banking consolidation, which forms the basis on which this study examines the availability of credit to the private sector before and after consolidation. The relevance of these subject areas present dimensions of context, content and process of change in banking. These dimensions and their application in the context of the Nigerian banking consolidation is used as a structuring device, and helps inform the selection of topics to be examined in the next literature review chapter.

Chapter 3: Review of Change Management Literature

3.0 Introduction

Much of the literature reviewed in chapter 2 highlights the use of banking consolidation to achieve financial efficiency and stability in emerging economies. Particularly, the drivers, objectives and policy instruments for banking consolidation in Nigeria, Malaysia and Indonesia were discussed. The literature also identified the effective management of change (planned change) and the need to find strategic and cultural fit as the greatest challenges to banking stability in these countries. Secondly, the implied reasoning from the literature reviewed in chapter 2 presents dimensions of context, content and process as critical in the banking transformation process, thus these dimensions are deployed as an organising framework in this chapter. Furthermore, the Central Bank of Nigeria expected the increased bank capital base to lead to economic benefits in Nigerian, and thus justifies this study's focus on the availability of credit post consolidation. These subject areas were vital elements in the drive to restructure the Nigerian banking industry.

Therefore, this chapter will examine the change management literature to identify aspects of the literature required to analyse the actions or inactions of managers in the Nigerian banking industry. The overlap of strategy and organisational culture in mergers and acquisitions encompasses a host of pressures which ultimately influence the performance of these banks. The review presented in this study fully recognises the importance of organisational culture and the influence of commercial pressures in shaping strategic development. Literature is also examined to identify appropriate tools for examining the effects of consolidation on credit availability.

3.1 Review of the Change Management Literature

Beugelsdijk et al. (2002) state that the intention of any organisational change is to move the organisation from its current state to a more desirable state. Hayes (2007 p. 17) defines change management as an “alignment between existing organisational components in order to do things better and improve the efficiency of the organisation”. Mabey and Mayon-White (1993) argue that change occurs, when managers determine that the configuration of the current state is not effective and as a result they reshape the organisation. According to Dawson (1994) change management is linked to developments in markets, work organisation, systems of management controls and the shifting nature of organisational boundaries and relationships. Gilgeous (1997 p. 3) suggests that change is “a response to some significant threat or opportunity arising outside the organisation.” However, change management is the process of continually reorganising the structure and goals of the organisation and its employees to meet political, economic, social, legal and technological demands. It is also possible that pressure from a combination of these demands could force an organisation to effect change. In the case of Nigeria, the proactive measure of the CBN forced banks (senior managers) to embark on organisational change or lose their operating license.

The CBN’s consolidation drive created an imperative for change in the Nigerian banking industry. Schmidt and Radaelli (2004) note that policy change itself generally follows from the discourse representing those pressures of economic imperative for change. They further state that the change imperative presents situations which require action to be taken urgently. Graetz (2000) believes that, other forces which would normally influence the change situation are drivers. Drivers impact the way business is done in organisations, however organisation would require enablers to help facilitate necessary changes (Graetz 2000). For the purpose of this study, the imperative, drivers and enablers for change in the Nigerian banking industry are highlighted in section 2.3.

The framework outlined by O’Connor (1993) indicates that there are three basic varieties of change: “Routine”, “Improvement” and “Innovative”.

“Routine” change is planned and built into company procedures. These changes are regular and provide a systemic aspect to work-flow and production, it is appropriate when organisations are merely responding to outcomes of previous iterations of a routine. “Improvement” refers to change which adds benefit or value to what the company already does. These changes build on existing procedures and activities rather than challenge them. Improvements best serve organisations in particular circumstances were internal or external forces advocate minor changes to existing practice. The “Innovative” kind of change basically alters the way in which the company does business. It requires staff to rethink the way in which they behave and to alter long-standing work patterns. In most circumstances organisations tend to alter long-standing work patterns in a crisis situation which necessitates new thinking and generation of ideas. The innovative change approach identified by O’Connor (1993), highlights the kind of change implemented in the Nigerian banking industry (section 2.2.3). The process of consolidation necessitated senior bank managers to alter the way banking was done and in order to explore this phenomenon; this study (through semi-structured face-to-face interviews) will probe industry actors on the level of alteration of work patterns required to implement banking consolidation.

Stace and Dunphy (2001) suggest change can be transformations in form of development, task-focused, charismatic and turnarounds. Kanter et al. (1992) argue that change can be achieved by either a bold stroke approach leading to rapid overall change or a long march approach leading to transformation over an extended period of time. Pettigrew et al. (1992) recognise that the kind of change embarked on by organisations is reflective of the scale and importance of the changes required. They argue that spans of small-scale operational changes may be relatively unimportant, while major strategic and structural changes may be of more importance to the organisation. Secondly, the urgency of change required will influence what approach managers apply in implementing change. The views of these authors are similar, as they all suggest that the change situation determines the appropriateness of a chosen approach. In Nigeria, the CBN provided an 18 months window for all banks to consolidate, and this window should significantly impact on the approach deployed by banks to achieve the CBN's requirements.

Kotter and Schlesinger (1979) argue that people and departments naturally aim to prevent an alteration in the status quo. They describe "Parochial self-interest", "Misunderstanding and lack of trust", "Different assessments", and "Low tolerance for change" as the four basic reasons why people resist change. Kotter and Schlesinger (1979) identify six methods which managers can apply in dealing with resistance to change and these are: Education and communication, Participation and involvement, Facilitation and support, Negotiation and agreement, Manipulation and co-optation and Explicit and implicit coercion. In order to effectively employ these methods, managers must be sensitive of their strengths and limitations, and appraise the situation realistically so as to implement change in a manner that is internally consistent and able to achieve fit with key situational variables. These methods can be deployed to examine events at the bank level; however this study does not have access to observe teams or individuals in the banks under review.

Johnson et al. (2008) developed the cultural web and identified key elements of behaviour, when attempts are made to change organisations. These are: "Paradigms", "Symbols", "Power Structures", "Organisational Structures", "Control Systems", "Rituals and Routines", and "Stories". "Paradigms" are the collective experience applied to a situation to make sense of it and inform a likely course of action. "Symbols" are objects, events, acts or people that convey, maintain or create meaning over and above their functional purpose. "Power Structures" suggests that the most powerful groupings within an organisation are likely to be closely associated with core assumptions and beliefs. "Organisational Structure" is likely to reflect and show important roles and relationships. “Control Systems” present measurements and reward systems that emphasise what is important to monitor in the organisation. “Rituals and Routines” identify the way things are done on a day-to-day basis, and presents activities or events that emphasis what is especially important in the culture. “Stories” are told by members of an organisation to each other, to outsiders, to new recruits, and so on, and may act to embed the present in its organisational history and also flag up important events and personalities (Johnson et al. 2008). This framework presents an effective tool for assessing the behaviour of people in a change situation; however elements such as rituals and routines, stories, symbols, and control systems are not the core focus of this study. Thus, this framework is not appropriate for the kind of analysis required here.

Peters and Waterman (1982) developed McKinsey’s 7-S contingency framework and identified seven areas which organisations must pay attention to if they must succeed in the business arena. These are: “Shared values”, “Strategy”, “Structure”, “Systems”, “Style”, “Staff”, and “Skill”. They further state that “Strategy” defines the plan or course of action for the allocation of scarce resources in order to achieve specific goals. “Structure” refers to the main features of the organisation chart and how the various parts of an organisation are linked. “Systems” means the organisation’s formalised procedures and processes. “Staff” is the composition of the workforce, and has to do with recruiting, motivating, rewards, and education. “Style” refers to management style and has to do with how the manager manages employees. “Shared values” are the guiding concepts and meanings that infuse the organisation’s members. “Skills” are the distinctive capabilities possessed by individuals, groups and the organisation as a whole. The McKinsey’s 7-S framework provides a greater picture of the inter-connected aspects of the change management activities examined in this study, and therefore will be deployed to analyse actions or inactions of senior managers in the Nigerian banking industry.

3.1.1 Planned and Emergent Approach to Organisational Change

There is considerable disagreement in the change management literature as regards the most appropriate approach to changing organisations (Bamford 2006). However, the planned change approach is well developed and understood, and is supported by a coherent body of literature, methods and techniques. The planned approach to organisational change is principally based on the work of Lewin (1951). He asserted that any organisational change process can be conceived of as a movement in the equilibrium position towards a desired or newly established position. Mabey and Mayon-White (1993) and King and Anderson (1995) advocate that Lewin's (1951) model for change implementation remains one of the simplest representations of the change process. First it states that old patterns must be unfrozen by creating awareness for the need for change and thus dissatisfaction of the current state (could be done through surveys and feedbacks). Secondly, changes should be made where necessary by methods such as retraining, structural alteration to jobs, team building, participative decision making and organisational design. Thirdly, there should be refreezing to help reinforce the new patterns and implement new system controls. The author argues that the planned change approach is more robust than its detractors acknowledge, as most change initiatives involve some of the basic principles of Lewin's (1951) model. However, the inflexibility of this approach is a major weakness and its appropriateness is questioned because business environments and the pace of change are increasingly uncertain. In order to address these concerns, the action research model which could sometimes be used along side planned change is reviewed.

French and Bell (1999) state that another model used along side the planned approach to change is Action Research. This model is credited to two principal founders namely John Collier and Kurt Lewin. Lewin (in Bruce and Wyman, 1998 p. 13) believes that "applying action research to an organizational setting calls for the joining of organizational members and internal or external practitioners in a continuous collaborative process of reconnaissance, fact finding, planning, action, and evaluation". French and Bell (1999) argue that Action research attempts to meet the dual goals of making action more effective and building a body of scientific knowledge around that action. Action research stresses that for change to be effective; it must take place at group level, and must be a participative and collaborative process which involves all concerned. Thus change interventions should concentrate on factors such as group norms, roles, interactions and socialization processes to create 'disequilibrium' and change (Burnes 2004; Schein 1988). In effect the action research approach is used when managers have time and resourses to conduct a research and engage all stakeholders and participants. Unfortunately the pace of change may not afford managers the time and resourses to conduct action research and engage all stakeholders and participants as prescribed by this model. The action research model is not appropriate for this study, because the phenomenon of banking consolidation is analysed as an "event" over an 18 month window (July 2004-December 2006). Furthermore, this study does not require any intervention to drive change on the part of the researcher, nor did the researcher have access to observe senior bank managers at work (implementing banking consolidation).

The emergent approach clearly differs from Lewin's (1951) planned change model of 'unfreezing', 'moving' and 'refreezing'. This school of thought argues that pre-planned change ignores the increasingly dynamic and complex nature of the environment and the need for employee flexibility and continuous structural adaptation. This approach further stresses that the nature of change is unpredictable and unfolds through the interplay of multiple variables within an organisation (Burnes 2004). Leifer (in Nelson, 2003 p. 19) regards change as "normal and simply a natural response to environment and internal conditions. He argues change is consistent with open systems in which learning occurs and goes on to describe the stable state as a myth". Dawson (1994) argues that the continuing and dynamic nature of change in today's business world makes it impossible to implement a planned process for 'freezing' changed behaviours.

Proponents of emergent change assume that the environment organisations operate in is uncertain, and these uncertainties make planned change inappropriate. Beer and Nohria (2000) suggest that emergent change tends to be valued more highly when inertia is seen as a peripheral rather than as a central issue in organisational effectiveness; when the foundations of change are seen to consist of direction, updating and dialogue rather than of programmatic directives; and when sensitivity to ongoing processes of change leads people to favour intervention strategies of rebalancing rather than strategies of unfreezing. Beer (1987) argues that it is important for organisations to effect a complementary shift in the softer elements of management, relationships, style, values, and culture. This Implies that organisations should gear its structures, systems, style, staff, skills, and shared values towards flexibility and not stability. The elements identified here, highlight key components of the analysis required to examine change management practices of senior bank managers in Nigeria.

Burnes (1988), Pettigrew (1988), and Whipp and Clark (1986) support the combination of strategy and change, with strategic change regarded as a continuous process. Thus, the emergent approach proposes the extensive understanding of strategy, structure, systems, people, style and culture and how these can function either as source of inertia that can block change or as levers to encourage an effective change process. Burnes (2004) suggests the emergent approach is more suitable for the turbulent environment in which modern firms now operate, because unlike the planned approach it recognises the need for organisations to align their internal practices and behaviours with changing external conditions.

A combination of the planned and emergent approach based on the merits and demerits earlier highlighted, allows for change to be planned and continually improved on as the situation arises. The merits of the combined approach when necessary, is its ability to effect change based on the prevailing situation inside and outside an organisation. The combined method is appropriate for the kind of research required in this study.

Wilson (1992) notes that organisational theories have long recognised the topic of change as an important sub-discipline in its own right and approaches to change permeate virtually every aspect of organisational behaviour and organisational analysis. O'Connor (1993), Burnes (2004), Stace and Dunphy (2001), Kanter et al. (1992) and Pettigrew et al. (1992) fail to adequately discuss the commercial implications of the kind of change embarked on by organisations. This is a significant flaw as these frameworks ignore the general competitive environment which ultimately influence organisations to either incrementally or rapidly implement change. Thus, these authors have produced generic frameworks that are independent of their contexts. In this study, this weakness is addressed by examining the context of banking consolidation (commercial implications) and its effects on the management of the change process.

In summary, a combination of the planned and emergent approach is deployed in this study. The planned approach examines actions of senior managers in relation to the CBN's 18 months window for consolidation, while the emergent approach examines the implementation of continuous change in the structures, systems, style, staff, skills, and shared values in Nigerian banks in response to issues emerging as a result of consolidation. The method proposed by Burnes (1988), Pettigrew (1988), and Whipp and Clark (1986) which supports the combination of the planned and emergent approach, and which allows change to be planned and continually improved provides an appropriate method for examining the phenomenon of banking consolidation in Nigeria and will be used for the analysis in this study. The process of organisational change is discussed in the next section.

3.2 Process of Organisational Change

The act of managing the relationships between the firm and different stakeholders, in order to enhance the effectiveness of the firm's decisions and strategies is an important aspect of organisational change processes (Amaeshi and Crane 2006). The frameworks presented by French and Bell (1999) and Hayes (2007) significantly overlap. French and Bell (1999) identify three basic components of all organisational development programs. These are: "Diagnosis", "Action" and "Program management". The "Diagnosis" component represents a continuous collection of data about the total system, its subunits, its process, and its culture. The "Action" component consists of all the activities and interventions designed to improve the organisation's functioning. The "Program management" component encompasses all interventions all activities designed to ensure success of the program. While Hayes (2007) proposes a six step change process and these are: "Step 1: Recognition", "Step 2: Start of the change process", "Step 3: Diagnosis (reviewing the present state and identifying the preferred future state)", "Step 4: Prepare and plan for implementation", "Step 5: Implement change", and "Step 6: Review and consolidate". In formulating these frameworks French and Bell (1999) and Hayes (2007) utilises the general principles of Lewin's (1951) planned change model. These frameworks appear appealing and present change as a linear process, but they fail to fully present the change process in practice as change is rarely a movement from one steady state to another. Secondly the commercial forces driving change in the business environment often present new pressures for change even before the completion of an intervention.

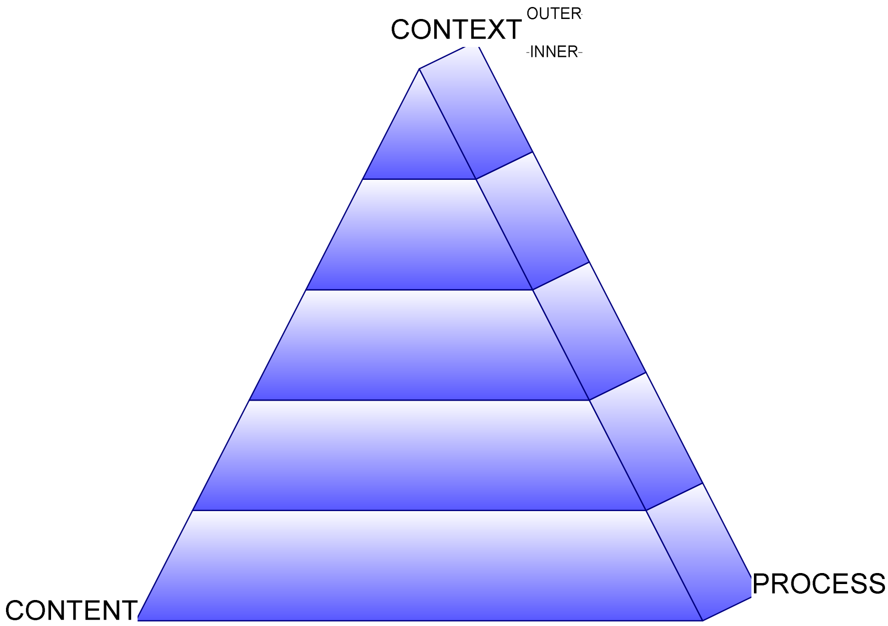
Kotter (1998) has played an important role in shaping the change management literature and he puts forward eight guidelines in implementing successful change. These are: "Establishing a sense of urgency", "Forming a powerful guiding coalition", "Creating a vision", "Communicating the vision", "Empowering others to act on the vision", "Planning for and creating short-term wins", "Consolidating improvements and producing still more change" and “Institutionalising new approaches”. Kotter (1998) believes that change involves numerous phases which together usually take time and critical mistakes in any of these phases can have a devastating impact, slowing momentum and negating previous gains. Beer et al’s. (1990) study report that one third of resource-intensive change initiatives actually made situations worse. They argue that most change programs fail because they are guided by a theory of change that is fundamentally flawed, thus the place to begin organisational change is with the knowledge and attitudes of individuals.

Taylor (1994) provided a framework that suggests the change process can be implemented while employees conduct their “business as usual”. To achieve this he outlines two approaches, first is the need to simplify and make major improvements to cross functional processes, and secondly to re-engineer a vision-led approach to key processes. The analysis presented by Taylor (1994) is based on the assumption that improvements in the business as usual approach will lead to 10%-20% increase in efficiency, while simplification is providing 100% improvements and re-engineering 1000% improvements. There is a possibility here, that this approach could reduce resistance to change within organisations. Unfortunately, Taylor (1994) fails to adequately discuss other contextual issues that could influence this approach, thus assuming change to be a linear process.

Balogun and Hope-Hailey (2004) use a diagnostic framework, known as the change “Kaleidoscope” to help with the process of organisational response to triggers for change. They identify the “organisational strategic change context”, “change contextual features” and “design choices” as determinants of how an organisation will respond to a trigger for change. The “organisational strategic change context” refers to the broader strategic analysis conducted to determine why the organisation should change and what it should change to. The “change contextual features” are aspects of the organisation to do with its culture, competences and current situation, which change agents should consider before selecting the change approach. The "design choices" are the range of options a change agent needs to choose from when selecting an appropriate change approach. Balogun and Hope-Hailey (2004) state that these features will constantly shift according to the organisation being analysed, as the Kaleidoscope for an organisation will also change through time in response to earlier change interventions put in place.

This study suggests that the most developed discussion of the change management process is presented by Pettigrew (1988). Pettigrew (1988) states that the change process involves not only the content of a chosen strategy or the analytical process which reveals various content alternatives, but also the management of the change process, and the contexts in which it occurs. Thus, the "why" of change is derived from an analysis of inner and outer context, the "what" of change is encapsulated under content, and the "how" of change can be understood from an analysis of the process. Pettigrew's (1988) framework suggests that two aspects of "context" are considered: the inner and outer context of the firm. Inner context refers to the structure, corporate culture and political context within the firm through which ideas for change have to proceed. Outer context refers to the economic, business, political and societal formations in which firms must operate. The "content" basically describes the strategy's central objectives; the source of the strategy; and the extent to which the strategy anticipates the means of implementation. The "process" of change refers to the actions, reactions and interactions from various interested parties as they seek to move the firm from its present state to a future state. These broad classes are presented in figure 3.1.

Figure 3.1: Three broad Classes of the Change Process

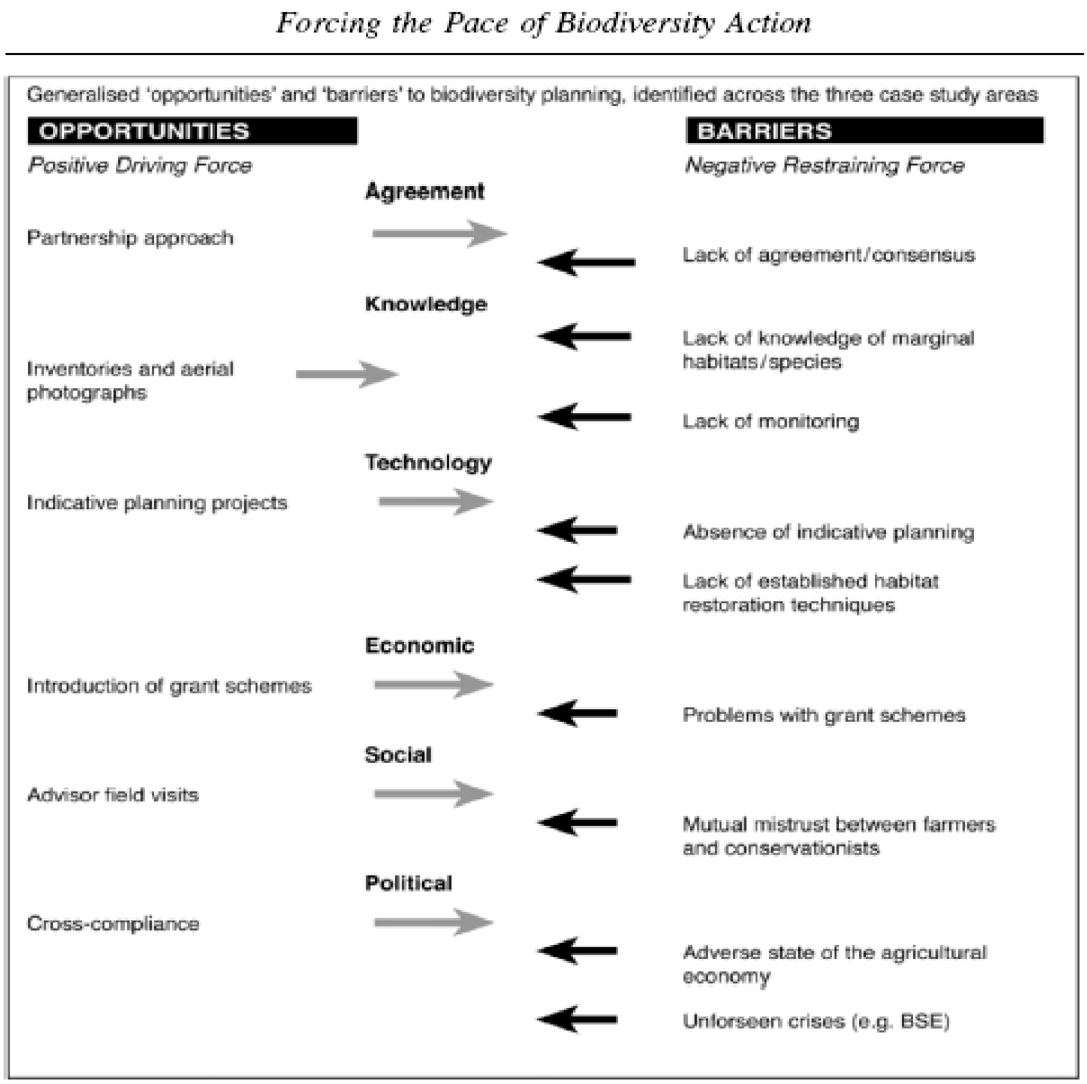


Source: Pettigrew (1988)

Porter (1980), Hofer and Schendel (1978), French and Bell (1999), Hayes (2007) and Caves (1980) approach change from the process and outer context link but ignore the inner context of change in organisations, thus suggesting the change process is externally driven and rational. These scholars de-emphasise the explanatory role of inner context variables and the analytical exploration of alternative content areas for strategic change. The main weakness with the change management literature is its failure to address the fundamental gap between these two schools of taught.

This weakness is addressed by integrating Lewin's (1951) force field analysis with the framework developed by Pettigrew (1988). The integration is particularly important because the force field analysis makes it possible to appreciate process-inner context of change in organisations. The force field analysis is derived from Lewin's (1951) field theory, which states that stability within organisations is dynamic thus opposing and countervailing forces continuously operate to produce a stable environment. Dent and Goldberg (1999), Paton and McCalman (2000), Hayes (2007), Burnes (2004), Grundy (1993), Carnall (1999), and Bruce and Wyman (1998) define force field analysis as a tool that brings to bare the underlying forces which may pull a particular change forward or prevent the change process. Paton and McCalman (2000) note that force field analysis is a positioning tool and assists in answering questions such as: what forces are at play and what is their likely magnitude? Who is for the change and who is against? The aim is to determine the nature and magnitude of the forces acting upon the change environment. Figure 3.2 exemplifies and summarises the range of implementation issues for a Biodiversity Action.

Figure 3.2: Generalised force field showing principal opportunities and barriers.

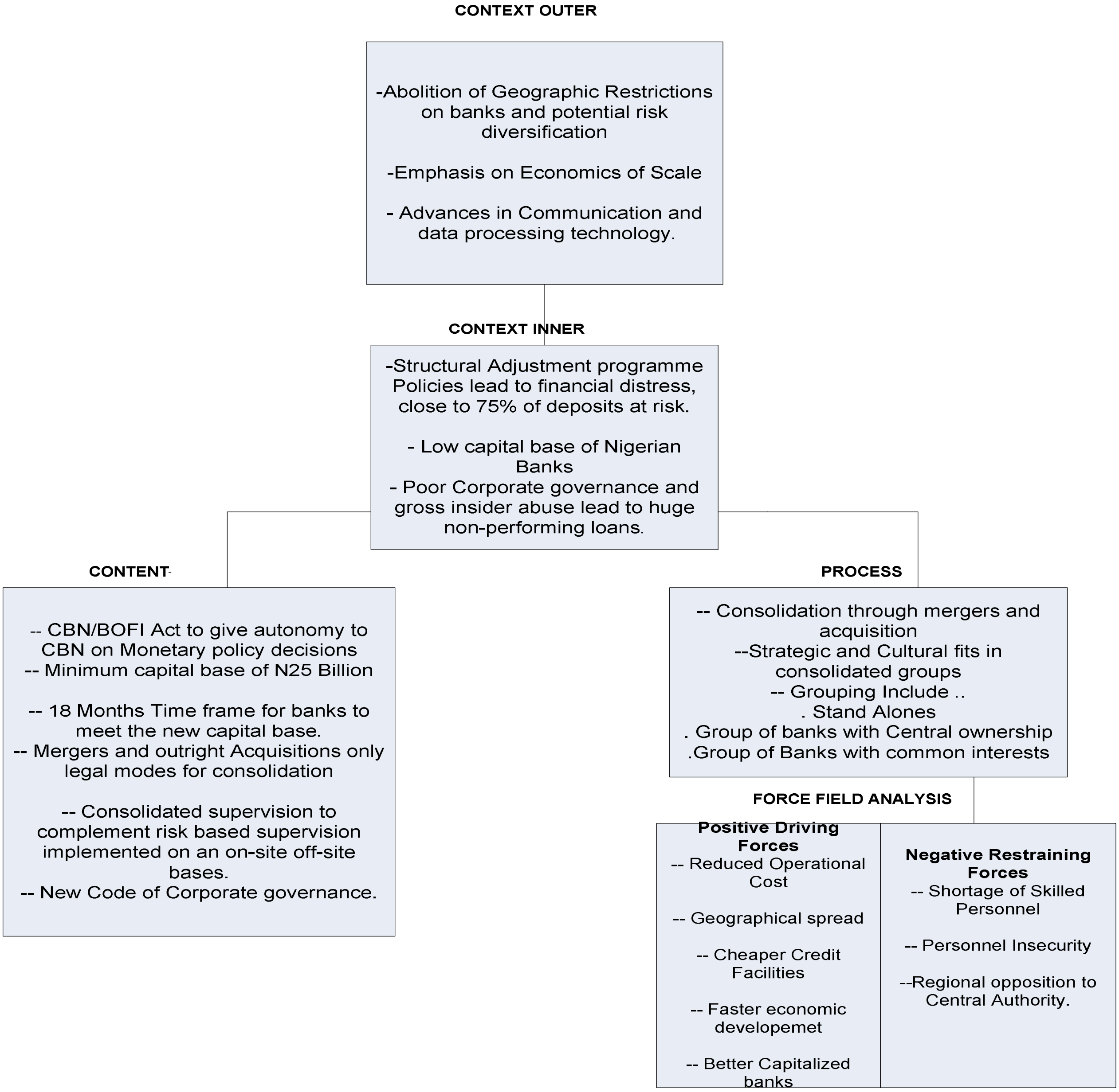


Source: Watts and Selman (2004 p. 17).

Figure 3.2 shows the force field analysis of a biodiversity action and acts as a positioning tool. The opportunities for the biodiversity planning (forces working for change) are represented on the left side of the diagram, these are: partnership approach, inventories and aerial photographs, indicative planning projects, introduction of grants schemes, advisor field visits and cross-compliance. While the barriers to the biodiversity planning (forces working against change) are represented on the right side of the diagram, these are: lack of agreement/consensus, lack of knowledge of marginal habitats/species, lack of monitoring, absence of indicative planning, lack of established habitat restoration techniques, problems with grant schemes, mutual mistrust between farmers and conservationists, adverse state of the agricultural economy, and unforeseen crises. These differing forces all fall into broad subject areas of agreement, knowledge, technology, economic, social, and political issues. The force field analysis presents managers with a clear description of what forces within and outside the organisation will positively drive the change process, and identifies forces that will negatively restrain change. Thus, managers are able to proactively address these negative restraining forces.

Bargal and Schmid (1993) identify three levels which the force field analysis must focus, these are: “Individual”, “Group” and “Organisational” levels. They argue that while each level is significant to appraise and strategies for organisational change, the assessment must be integrative thus incorporating data related to all three. Bargal and Schmid (1993) found that organisational behaviour is influenced by a disparate and complex set of variables. These variables include the effects of organisational structure, the dynamics of social problems or service need, the political preference of various participants, the impact of technology on the organisation and its service, the economics of agency funding and the regulatory environment within which it is located. These highly differing orders of concern must all be incorporated into a valid assessment of change feasibility and strategy. This implies that, the force field analysis presents managers with a clear and practical assessment of the opportunities and barriers associated with the process of organisational change. Figure 3.3 summarises an integration of Pettigrew’s (1988) three broad lenses and Lewin’s (1951) force field theory as a criteria for evaluating the banking consolidation in Nigeria.

Figure 3.3: Three broad Lenses of the Change Process in the Nigerian banking industry.



Source: Adapted from Pettigrew (1988), and Lewin (1951) and utilising data developed from analysis presented in chapter 2

The integration of Pettigrew's (1988) three broad lenses and Lewin's (1951) force field theory, provide an evaluation framework that help address the weakness identified in the literature reviewed above. Figure 3.3 presents industry level data from the review of literature in chapter 2, and helps direct data collection and analysis in this study. Hence, this framework will guide the collection of data and analysis in the subsequent chapters. The next section will discuss these three broad lenses of the change process in the context of Nigeria's experience.

3.2.1 Inner and Outer Context

Triggers for organisational change could be externally or internally generated depending on the nature of change. This section will look at "why" the Central Bank of Nigeria (CBN) consolidated the Nigerian banking industry, thus highlighting the events that influenced this decision. Pettigrew (1985) (in McCalman and Paton 1992 p. 6) argues that "changes within an organisation take place both in response to business and economic events and to processes of management perception, choice and action". Change could also be triggered where the organisation itself tries to go ahead of the issues by being proactive (McCalman and Paton 1992). Below are some of the possible triggers:

- Government legislation
- Advances in process or product technology
- Changing customer requirements, expectations or taste
- Competitor or supply chain activities
- General economic or social pressures
- Acquisition or merger
- Unpredictable environmental catastrophes.

The triggers for organisational change outlined by Sadler (1996) follows a study of 178 organisations and suggest that financial loss, new chief executive officer, proactive-ness and staff utilization could also cause change in organisations.

In Nigeria, the proactive measures by the CBN to enhance financial sector stability and the emergence of a well capitalized banking industry triggered changes in the banking sector. As identified in section 2.3, the actions of the CBN were influenced by global events such as: the abolition of geographic restrictions on banks and the potentials for risk diversification, emphasis on economics of scale, and advances in communication and data processing technology. Secondly, the Nigerian banking industry was in a poor state: as Structural Adjustment Policies (SAP) implemented by the IMF in 1986 led to deep financial distress and close to 75% of deposits at risk, low capital base of Nigerian banks, poor corporate governance and gross insider abuse resulting in huge numbers of non-performing loans.

Paton and McCalman (2000 p. 32) state that “The way in which a ‘trigger’ impacts upon a situation will, to a certain extent , depend upon its source, as well as its nature”. They argue that the Tropics test provides an analytical framework and a means for managers to efficiently and effectively enter the change situation. In applying the Tropics test managers should consider the following factors. These are: “Time scale”, “Resources”, “Objective”, “Perceptions”, “Interest”, “Control”, and “Source”. Table 3.1 illustrates the use of Tropics.

Table 3.1: The TROPICS Test

Tropics Factor	Clearly Defined	Ill Defined	Solution Methodology (tendency towards)
Time Scales	Short to medium term (A)	Medium to long term (B)	A= Hard B= Soft
Resources	Clearly defined and reasonably fixed (A)	Unclear and variable (B)	A= Hard B= Soft
Objectives	Objective and quantifiable (A)	Subjective and visionary (B)	A= Hard B= Soft
Perceptions	Shared by those affected (A)	Creates conflict of interest (B)	A= Hard B= Soft
Interests	Limited and well	Widespread and ill	A= Hard

	defined (A)	defined (B)	B= Soft
Controls	Within the managing group (A)	Shared outwith the group (B)	A= Hard B= Soft
Source	Originates internally (A)	Originates externally (B)	A= Hard B= Soft

Source: Paton and McCalman (2000 p. 24)

The Tropics test presents an effective analytical framework with which to consider the change situation faced by managers in the Nigerian banking industry. The CBN clearly spelt out the “Time scale” and “Objectives”, they also indicated what kind of “Resources” to be used by banks for the consolidation, all stake holders “Interest” were addressed and “Control” strengthened through consolidated supervision of banks. The Tropics test can be applied as an early warning device to access both the impact and the magnitude of the impending change, and therefore the complexities/difficulties in trying to manage the change.

Paton and McCalman (2000) further state that the nature of change influences our reaction to it. When a change is of a purely technical nature, such as a machine or component upgrade, the expectation would be that existing system-based knowledge would be applied in a mechanistic manner to implement change. A purely technical problem will be placed at the extreme “hard” end of the change spectrum. While the extreme “soft” change situations are at the other end of the spectrum. In these situations the objectives and time scales might be unclear, the affected environment will be highly dynamic and difficult to specify, with exceptionally subjective performance measures. Typically this kind of change involves personal relationships and emotional responses (Paton and McCalman 2000). However, in practice it is uncommon that organisations will be faced with a purely “hard” or “soft” change situation, as the majority of change situations managers are called upon to address involve an interface of the “hard” and “soft” spectrum. This is particularly true in the case of Nigeria, as mergers and acquisitions brought about by forced change by the CBN resulted in some degree of “hard” and “soft” change spectrum. The “hard” spectrum involves the unification of bank’s systems and technology, while the “soft” spectrum involves managers establishing the rational for change and the ability to influence employees to follow.

In summary, the tropics test presents a useful tool for examining the change situation faced by industry actors, aspects of this model is used to analyse the response of senior managers directly involved in the Nigerian banking consolidation. Furthermore, the phenomenon of banking consolidation requires senior managers to deploy the hard and soft change spectrums, and the ability to effectively manage these spectrums is an important aspect of this study.

3.3 Content

To address the structural and operational weaknesses of the Nigerian banking industry, the CBN implemented a number of policy changes. This section will highlight “what” key policy instruments were used by the CBN as it went about consolidating the banking industry.

Soludo (2006) stated that the financial sector reforms will be embedded in the National Economic Empowerment and Development Strategy (NEEDS) prepared in 2003. Figure 3.3 shows that the CBN/Banks and Other Financial Institutions (BOFI) Act which gave autonomy to CBN on monetary policy decisions, a new minimum capital base of N25 billion, an 18 months time frame given to banks to meet the new capital base, mergers and outright acquisition as the legal mode for consolidation, consolidated supervision to complement risk based supervision implemented on an on-site off-site bases, and a new code of corporate governance were the key policy instruments used by the CBN to implement the banking consolidation.

Policy instruments are a means by which governments effect their policies. Poole (1970) defines policy instruments as controlled variables which can be set to achieve practical purposes. Howlett and Ramesh (1993) state that the literature is shaped by the theoretical debates between neoclassical and welfare economists on the proper role of the state in the economy, even though both prefer market based instruments leading to relative efficiency of the market over state allocation of society's scarce resources. Welfare economists argue that numerous market failures exist, a condition which necessitates government intervention. While the neoclassical theorists tend to argue that the market only fails to provide pure public goods, warranting only limited intervention by a government in their provision (Howlett and Ramesh 1993). However, recent events in international financial markets leading to a global credit crunch favours arguments presented by welfare economists. It is not the intention of this study to join the debate, as the focus here is on the effects of consolidation on credit availability to the private sector.

3.4 Process

This section provides an analysis of "how" the banking consolidation was achieved and highlights various activities of banks in a bid to meet the new industry requirements set by the CBN.

Policy instruments deployed by the CBN for banking consolidation allowed banks to come together only through mergers and acquisitions. This primary growth strategy is expected to transform regional banks into national banks or even in some cases international banks. It provides a platform where organisations are able to deploy resources, usually through combination or integration, using inter or intra-organisational processes to achieve desired objectives. Thus, making it possible for firms to explore their competitive advantages and achieve scope in the exploration of its core competence. Successful mergers and acquisitions require managers with experience and ability to acquire information and then make effective planning for transitions (Lin et al. 2006). Lin et al. (2006) argue that a major reason for the failure of mergers and acquisitions is the lack of adequate preparation of the personnel involved and a failure to provide training which fosters self-awareness, cultural sensitivity, and the spirit of cooperation.

During the late 1980's Burnes (1988), Pettigrew (1988), and Whipp and Clark (1986) started to combine strategy and change. They argued that strategic change involved aligning and realigning an organisation to its changing environment. Mintzberg and Quinn (1998 p. 3) define strategy as "the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole". Johnson (1987) states that strategy can exist at a number of different levels in an organisation, however issues that have to be dealt with in managing the strategy of an organisation are of a different nature from many of the day-to-day activities of managing. He argues that these differences include a higher degree of uncertainty, the likely demand for an integrated approach, and decisions concerned with change. Thus, implementing strategic decisions is therefore also likely to involve the persuasion and organisation of people to change from what they are used to doing. Bowman (1976) notes that strategy must guide the continuing stream of decisions, determining the organisation's environmental domains, essentially its product markets, the nature of its interactions with these domains, and the internal adjustments suggested by these choices. Johnson (1987) believes it is unlikely that managers will foresee a future in which there is no change and therefore they will have to consider how their organisations should adjust to such change.

Stoney (2001) notes that the once ubiquitous principles and practices incorporated in scientific management has been forcefully challenged by a new stream of writers, from a critical labour process perspective. Stoney's (2001) examination of managerial initiatives such as Total Quality Management, Business Process Reengineering, and Just-in-time Management found these writers to conclude that scientific management is not a failed system replaced by more sophisticated behavioural theories, but a set of guiding principles which continue to inform and influence the role and function of modern management. Mintzberg and Waters (1985), Knights and Morgan (1991), Pettigrew et al. (1992), Hardy (1995), Alvesson and Willmott (1995), Barry and Elmes (1997), and Thomas (1998) have from a broadly sociological perspective attempted to incorporate sociological ideals such as power and politics into the conceptualisation and implementation of strategic management.

Mintzberg et al. (1998) outline ten schools of thought in the strategic management literature. These ten schools fall in three groupings as highlighted in Table 3.2:

Table 3.2: Ten Schools of thought in the Strategic Management Literature

Prescriptive	**Process of Strategy Formulation**	**Integrative**
1) The Design school 2) The Planning school 3) The Positioning school	4) The Entrepreneurial school 5) The Cognitive school 6) The Learning school 7) The Power school 8) The Cultural school 9) The Environmental school	10) The Configuration school

Source: Mintzberg et al. (1998)

The first three schools are prescriptive in nature and more concerned with how strategies should be formulated than with how they necessarily do form. The six schools that follow consider specific aspects of the process of strategy formation, and have been less concerned with prescribing ideal strategic behaviour than with describing how strategies do, in fact, get made. The final group contains one school and people in this school seek to be integrative, they cluster the various elements of the strategy making process, the content of strategies, organisational structures and their contexts into distinct stages or episodes. Unfortunately, Mintzberg et al's. (1998) idea of the 10 schools of strategic thought offers little attention to organisational or executive knowledge. They suggest that the focus is on content, on what should be known rather than the manner of knowing it. The significance of this argument to forced change as implemented in Nigeria by the CBN, is the possibility of less resistance to change brought about by an understanding of its necessity. Spender and Grant (1996) believe that this issue reflects the growing belief that responding to the changes we see going on around us means bringing a better understanding of managerial and organisational knowledge and learning into a central place in the field's analyses and theories.

The purely systemic process of strategic management and planning must develop methods to deal with the uncertainties of management information. Thus, managers involved in the process of strategic planning must consider the uncertainties in the organisational environment, its internal process, the relationship between them, and prepare for relevant probabilities. Grinyer and Spender (1979) suggest that managers can justify their reasoning and those judgments that are not publicly justifiable only in terms of patterns of belief about their situation and its potentialities. They note that the industry's pattern of managerial beliefs is called a "Recipe", and if this recipe for action can be made explicit, management has a way of evaluating its own judgments and beliefs against a wider pattern judged reasonable by others in the industry. Webster (1969) approaches the process of knowledge and managerial judgement differently by suggesting that socialisation is restricted to a particular company's pattern of beliefs, and notes that companies are less likely to socialize into an industry wide pattern of beliefs. In the case of this study, the recipe is created by the CBN (the imperative of N25 billion minimum capital requirement) and senior bank managers are expected to evaluate available options of going solo, merging or acquiring other banks.

Behery and Paton (2008) define cultural fit as the extent to which units within an organisation share common values. It is important however to note that difficulties could emerge in a merger and acquisition as to what culture to adopt for the union. Cooke and Szumal (1993) and Cooke and Rousseau (1988) suggest that managers must have a two-dimensional focus. First is "Direction"; this involves the specific styles of thinking, behaving, and feeling adopted in order to fit into and to succeed in an organisation. The second is "Intensity"; this involves the extent to which members of an organisation prefer one particular system to another and the degree to which there is preference consensus. This consensus could be based on the culture of the dominant organisation in the union or a fusion of the cultures of the organisations in the union.

Paton and McCalman (2000) emphasize the importance of culture as it relates to the creative management of change. They note that every enterprise, public or private, will possess a unique cultural blueprint, which dictates how it interacts with its environment and manages its people. Beeby and Simpson (1995 p. 21) define organisational culture as "the patterns of meaning and understanding, anchored in core values, that are shared by members of an organization or management team". Bate et al. (2000) argue that culture is a process as opposed to a set of variables. They suggest that the process of developing a culture comprises four linked sub processes. These are: Manifestation: these are assumptions manifested in beliefs and values, Realisation: these are values materialised into artifacts, Symbolization: these are artifacts acquiring surplus meaning and coming to stand for something more than they actually are, and Interpretation: this involves acting back upon and changing the initial assumptions. Based on these sub processes Bate et al. (2000) define culture and cultural change as any ongoing changes in assumptions, values, artifacts, or symbols resulting from the interaction of these four characteristics. To understand the nature of change and the situation that a plausible implementation strategy will develop, Paton and McCalman (2000) note that the “Recipe” is made up of two categories of ingredients. The first is tangible. It involves dress codes, control mechanisms, communication systems and so on. The second “Recipe” is intangible. It involves informal values systems, the politics of power, and the symbols of success.

Hofstede (2000 p. 11) argues that “societal norms have led to the development and pattern maintenance of institutions in society with particular structures and ways of functioning”. Therefore it is expected that managers of the three categories of banks which emerged after the Nigerian banking consolidation faced varying structural issues. Ideally stand alone banks, would not encounter the same structural and cultural pressures with banks in groups with central ownership or groups with common interests. The same applies to the pressures for strategic fit, as expected stand alone banks and banks in groups with central ownership are better placed to find strategic fit than banks in groups with common interests.

In summary, authors in this section start to combine strategy and change in the process of transforming organisations. They further suggest that culture is a critical component of any change process, and thus emphasize cultural fit as an essential feature of any merger or acquisition. The measures used by senior bank mangers to achieve cultural fit in consolidating banks, is an important part of the analysis in this study.

3.5 Force Field Analysis

The force field analysis presented in figure 3.3 identifies reduction in operational cost, cheaper credit facilities, faster economic development, better capitalized banks, and geographic spread as positive forces for the Nigerian banking consolidation. While personnel insecurity (fear of losing jobs), regional opposition to central authority, and shortage of skilled personnel are forces that oppose the consolidation of banks. Balogun and Hope-Hailey (2004) argue that the success of the change program is based on a key pivotal figure, who should be aware and responsive to forces in favour or against change. In a merger and acquisition this figure (Leader) may be the Chief Executive Officer (CEO), the Managing Director (MD), or another senior manager acting as the internal change agent. Eccles (2002) notes that managers must transform their companies and themselves, as radical change, risky and prone to failure though it may be, is their only hope. He suggests that in a turbulent world the pressure of competition and rapid technological change demand nothing less.

The force field analysis is deployed in this study to examine forces for and against the changes required to implement banking consolidation in Nigeria. The next section presents a critical review of methods and techniques for analysing consolidation.

3.6 Review of Methods and Techniques for Analysing Consolidation

Academic studies follow one of two approaches to evaluate and estimate the significance of banking consolidation. Pilloff and Santomero (1997) note that the first approach compares the pre-consolidation and post-consolidation performance of institutions using accounting data to determine whether consolidation leads to changes in reported cost, revenue or profit figures. They argue that this is a fairly straightforward approach as accounting performance can be directly measured and the data used are both easily obtained and well understood. However, there could be several drawbacks to this approach, as accounting data designed to measure actual performance may be inaccurate in an economic sense or other events may have occurred during the period investigated which may more accurately account for the observable performance changes. In this study, the drawbacks of this approach is compensated for, by collecting primary data (face-to-face interviews) from senior managers directly involved in the Nigerian banking consolidation.

The second approach used by academic researchers for evaluating banking consolidation is the stock market reaction to merger announcements. Pilloff and Santomero (1997) found that proponents of this approach believe the stock market reaction more accurately conveys the implied value of merging two independent entities. In essence, they argue that accounting data are unreliable and the market's reaction is likely to be a better indicator of the real economic effects of the announced deal. However, Grinyer et al. (1998) argue that the stock market approach could lead to managerial short-termism, whereby managers seek short-term gains (reference to considerations of short-term accounting profits) in a way that constrained commitments to revenue investments. The stock market reaction approach is not deployed in this study, as it does not relate to credit availability to the private sector. Most recently, a third approach has emerged in the literature which incorporates and extends these two basic methods of analysis. This approach does not only analyse the relationship between consolidation activities with changes in accounting figures and stock market returns, but go a step further to measure the correlation between changes in accounting data and abnormal returns (Pilloff and Santomero 1997). Karceski et al. (2005), Spindt and Tarhan (1993), Kahn et al. (2000), and Berger et al. (1998) are some of the most prominent authors on the effects of banking consolidation in the financial sector.

Karceski et al. (2005) estimated the impact of banking consolidation on borrower welfare by analysing the share price reactions of publicly traded borrowers in Norway to the announcement that their banks are merging. Secondly, their study looked at how bank mergers influence the switching behaviour of borrowers and relate borrower propensities to terminate a bank relationship to their announcement-day abnormal returns. Karceski et al. (2005) found that borrowers of target banks lose about 0.8% in equity value, while borrowers of acquiring banks earn positive abnormal returns, suggesting that borrower welfare is influenced by a strategic focus favouring acquiring borrowers. Also large merger-induced increases in relationship termination rates are associated with less negative abnormal returns, suggesting that firms with low switching costs switch banks, while similar firms with high switching costs are locked into their current relationship. This study's focus is on the supply side and not the demand side of credit, and therefore Karceski et al's. (2005) method of analysis is not appropriate for the kind of analysis required here.

Spindt and Tarhan (1993) used non-parametric tests to compare the performance changes of merged banks with a group of matched pairs. Their result from a sample of 192 commercial bank mergers completed in 1986, indicate that mergers led to operational improvements which could be attributed to economies of scale. The study suggests that scale economics exists for institutions holding less than $100 million in assets. Unfortunately, it is not clear if their findings are relevant to large mergers clearly a typical characteristic transforming the banking industry. Scale efficiency is highlighted in section 2.3.1 as an important driver of the Nigerian banking consolidation, however the focus of this study is on credit availability to the private sector.

A critical review of the experiences of Malaysia, Indonesia and Nigeria (Chapter 2) suggests that credit risk and availability pose great challenges to bank management in developing economies. This study draws some parallels and highlights lessons for authorities in Nigeria from the experiences of Malaysia and Indonesia. Thus, the methods used by academic commentators to evaluate the effects of banking consolidation in Malaysia and Indonesia are of particular interest to this study. Sufian (2004), Collier et al. (2006), Zeithaml et al. (1996), Iman and Hartono (2007), Majid (2007), and Hall (2005) are the most cited academic commentators who analysed the performance of the banking consolidation implemented in Malaysia and Indonesia.

Sufian (2004) utilises the non-parametric frontier approach DEA (Data Envelopment Analysis) to analyse the technical and scale efficiency of domestic Malaysian commercial banks during the merger year, pre and post merger period. He assesses the performance of Malaysian banks by measuring efficiency to see how banks are doing relative to industry benchmarks. Collier et al. (2006), unlike Sufian (2004), presented the DuPont formula to show that the return on equity model disaggregates performance into three components namely: net profit margin, total asset turnover, and the equity multiplier. Thus the DuPont system of financial analysis provides a means for Malaysian banks to monitor performance through the planning period and post-audit planning process. This study does not deploy the non-parametric frontier approach DEA, as the focus here is on credit availability and not scale efficiency.

Zeithaml et al. (1996) argue that customer service quality in service industries such as banks and insurance is vital in determining the standards expected in the industry. They utilise a framework built around the SERVQUAL methodology to study behavioural consequences and to mediate between service quality and the financial gains or losses from the retention or defection.

Majid (2007) employs a battery of times-series techniques based on the Autoregressive Distributed Lag (ARDL) model, to examine the short and long-run relationship between financial development and economic growth during the post-1997 financial crisis in Indonesia. He argues that the ARDL model is particularly useful as it allow for interferences on long-run estimates and takes a sufficient number of lags to capture the data generating process in a general-to-specific modelling framework. This approach is similar to that of Hall (2005). Hall (2005) adopts the FMP (Fries, Mella-Barral and Perraudin 1997) model to calculate the authorities' liabilities arising from the provision of depositor protection in form of deposit insurance in Indonesia. The main determinants of the value of the government's liabilities are shown to be the volatility parameter of the banks' risky loan. The FMP model balances the lump-sum bankruptcy costs against the cost of monitoring to keep a bank operating as a going concern. Unfortunately, Majid (2007), and Hall (2005) do not highlight the extent to which various static and dynamic effects may interact to reach new equilibriums.

Despite the analytical value of models used by these academic commentators in evaluating the Malaysian and Indonesian experience. They fail to adequately discuss the effects of banking consolidation on credit availability in these countries. The significance of increased credit to the Nigerian private sector, is emphasised by the CBN as a key objective of the banking consolidation (CBN 2005), and thus justifies the focus of this study.

The framework developed by Berger et al. (1998) in a study of mergers and acquisitions (M&As) in the great majority of United States banking institutions from the late 1970s to the early 1990s, uses ordinary least squares regression (OLS) based on bank Gross Total Assets (GTA) and Commercial and industrial lending (C&I) to measure four effects of banking consolidation on credit, and these are: "The Static effect", "The Restructuring effect", "The Direct effect" and "The External effect". "The Static effect" is the change in lending propensities which results from simply combining the balance sheets of the participating banks into a larger pro-forma institution with combined characteristics. "The Restructuring effect" identifies the change in lending that follows from decisions to restructure the institution in terms of its size, financial characteristics, and local market competitive position. "The Direct effect" captures the change in lending propensities that are attributable to a direct change in lending focus above and beyond the changes associated with the static aggregation of banking assets in the merger and acquisition and the restructuring of the size, financial characteristics, and competitive position that follow the merger and acquisition. "The External effect" captures the dynamic response to merger and acquisition of other lenders in the same local market. Berger et al's.

(1998) framework is appealing since it recognises the influence of the general and competitive environment on credit; in addition a more detailed examination of tools, data sets and time frames used in analysing the different effects highlighted above is presented in section 4.5, 4.6 and 4.7 respectively.

With a sample size of 22,642 commercial banking transactions over the period January 1, 1991 to March 30, 1999, Garmaise and Moskowitz (2006) adapted Berger et al's. (1998) framework to examine the real and social effects of credit market competition resulting from bank mergers and acquisitions in the United Sates (U.S.). Garmaise and Moskowitz (2006) deployed ordinary least squares regression (OLS) and Herfindahl concentration index to test the static effect of these mergers and acquisitions. They found that credit market imperfections can have important spill over effects on both economic and social outcomes, and that in evaluating the impact of bank mergers and acquisitions, regulators would do well to consider not only the present bank concentration of potentially affected markets, but also the social fragility of these markets. Furthermore, Garmaise and Moskowitz (2006) note that the Berger et al. (1998) framework presents an effective method for examining bank lending before and after banks engage in mergers and acquisitions. The effects of banking consolidation on credit availability to the Nigerian economy is an important aspect of this study, while the impact of social, regulatory and infrastructural issues on credit is acknowledged.

The usefulness of Berger et al's. (1998) framework for examining the effects of bank mergers and acquisitions (M&As) on credit availability is further reflected in the studies of Carow et al. (2006), and Patti and Gobbi (2007). Carow et al. (2006) applied the cumulative abnormal returns (CAR) model, to estimate whether M&A announcements affect the value of intangible customer relationships at target and acquiring banks. Using data for the ten largest domestic U.S. bank M&As between 1991 and 2001, their findings indicate that increased bargaining power of megabanks adversely affects loan customers of the acquired bank. Patti and Gobbi (2007) deployed a regression model and Herfindahl index of loan market concentration to test the impact of bank M&As on outstanding credit, credit lines, and the sensitivity of investment to cash flow using a large sample of Italian corporate borrowers over the period 1990 to 1999. They note that bank M&As have an adverse effect on credit, particularly when the M&A is followed by relationship termination. These authors use Berger et al's. (1998) framework to benchmark their analysis of bank lending resulting from M&As. For example: the framework is drawn on by Carow et al. (2006) to show that firm size is among the best proxies for customer bargaining power, while Patti and Gobbi (2007) use the framework to benchmark their findings that short-run shocks due to consolidation tend to be absorbed at the market level after some time. Furthermore, Carow et al. (2006), and Patti and Gobbi (2007) note that the Berger et al. (1998) framework provides a robust method for analysing the effects of banking consolidation on credit availability. A key focus of this study, is to examine the effects of banking consolidation on credit availability to the Nigerian private sector.

In summary, the Berger et al. (1998) framework recognises the influence of the general and competitive environment on credit and its availability, and thus provides an appropriate method for the kind of analysis required in this study. This framework will guide the approach to data collection and its analysis, thus secondary data is first collected and analysed and then used to inform the primary data collection process. The secondary and primary data collected are later deployed to analyse the static effect, the restructuring effect, the direct effect and the external effect of banking consolidation on credit availability to the private sector in Nigeria. The next section presents the conclusions drawn from this chapter.

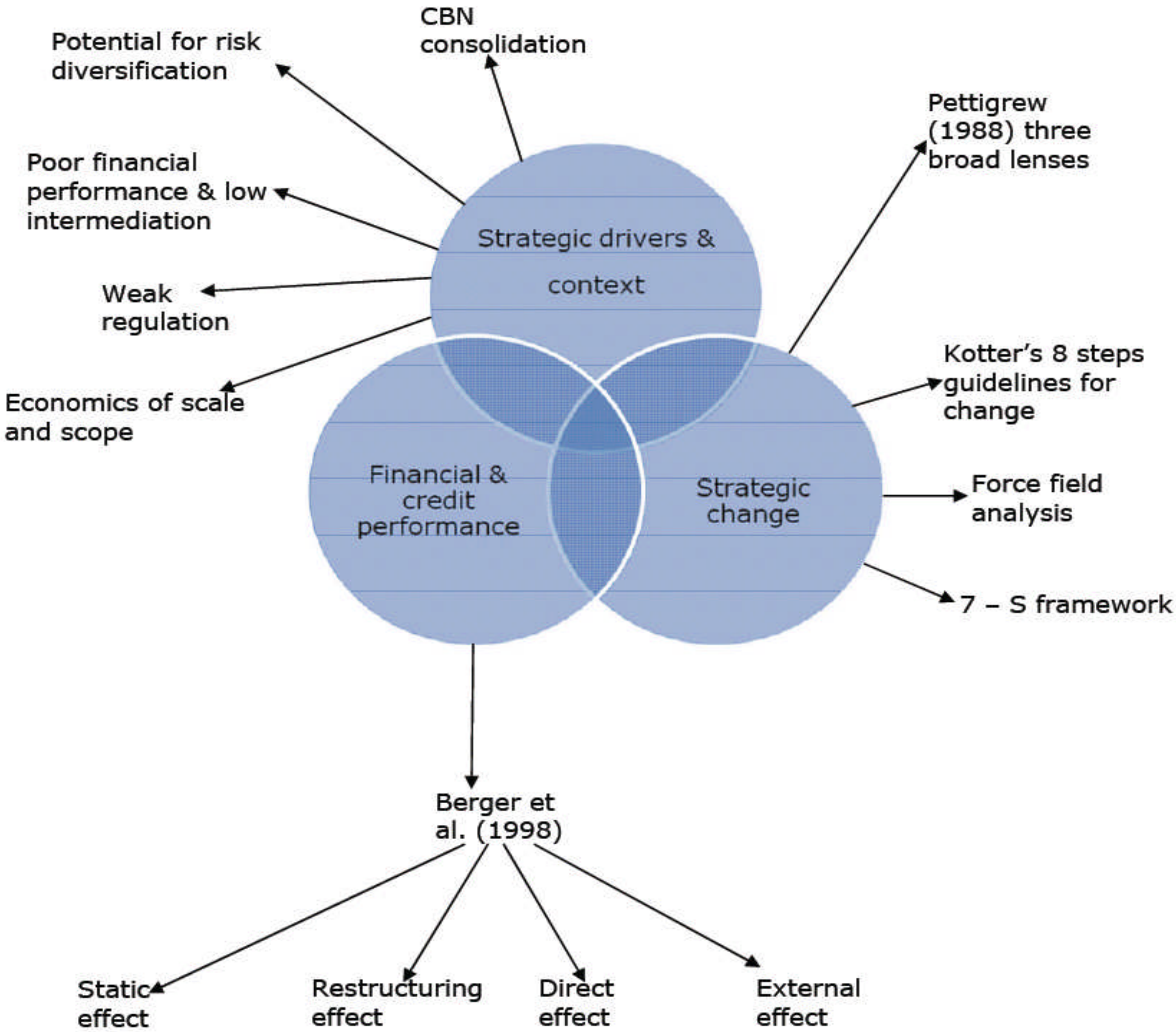
3.7 Conclusion

This chapter critically examined the change management and financial analysis literature. It is evident in the literature that there are significant differences on how to approach organisational change, while strategy and organisational culture continue to influence its implementation. Much of the change management literature reviewed presents three broad themes, these are: Triggers for change, Readiness for change, and Implementing change. In the case of this study, the triggers for change are examined in chapter 2, while the readiness for change is mapped out through a critical review of different models in this chapter. This also presents the theoretical underpinning for the implementation of change, and will be utilised to structure the analysis in chapter 5. Thus there is the need to develop a broad framework in which the change process can focus on outer context but still bring process-inner context into the picture. This weakness is addressed by integrating Lewin's (1951) force field analysis with the framework developed by Pettigrew (1988). This conceptual framework helps present a reflective evaluation of the situation in the Nigerian banking industry. The principal elements of this proposed framework will ensure that managers do not see change as a completely linear process, but a process more reflective of external and internal pressures.

The critical review of literature in this chapter, also informs the evaluation and benchmarking of actions or inactions of managers in the Nigerian banking industry, as one of the primary research questions of this study is to examine the change management practices of managers in the Nigerian banking industry. In order to address this question, managers who were directly involved in implementing consolidation will be interviewed.

Furthermore, tools previously used to analyse the effects of banking consolidation on National economies are reviewed to identify the most appropriate methods for examining credit availability pre and post consolidation. Figure 3.4 shows a synthesis of findings in chapter 2 and 3.

Figure 3.4: Synthesis of Findings in Chapter 2 and 3.



Source: Author Generated (Adapted from: Lewin 1951; Peters and Waterman 1982; Pettigrew 1988; Berger et al. 1998; Kotter 1998; CBN 2005)

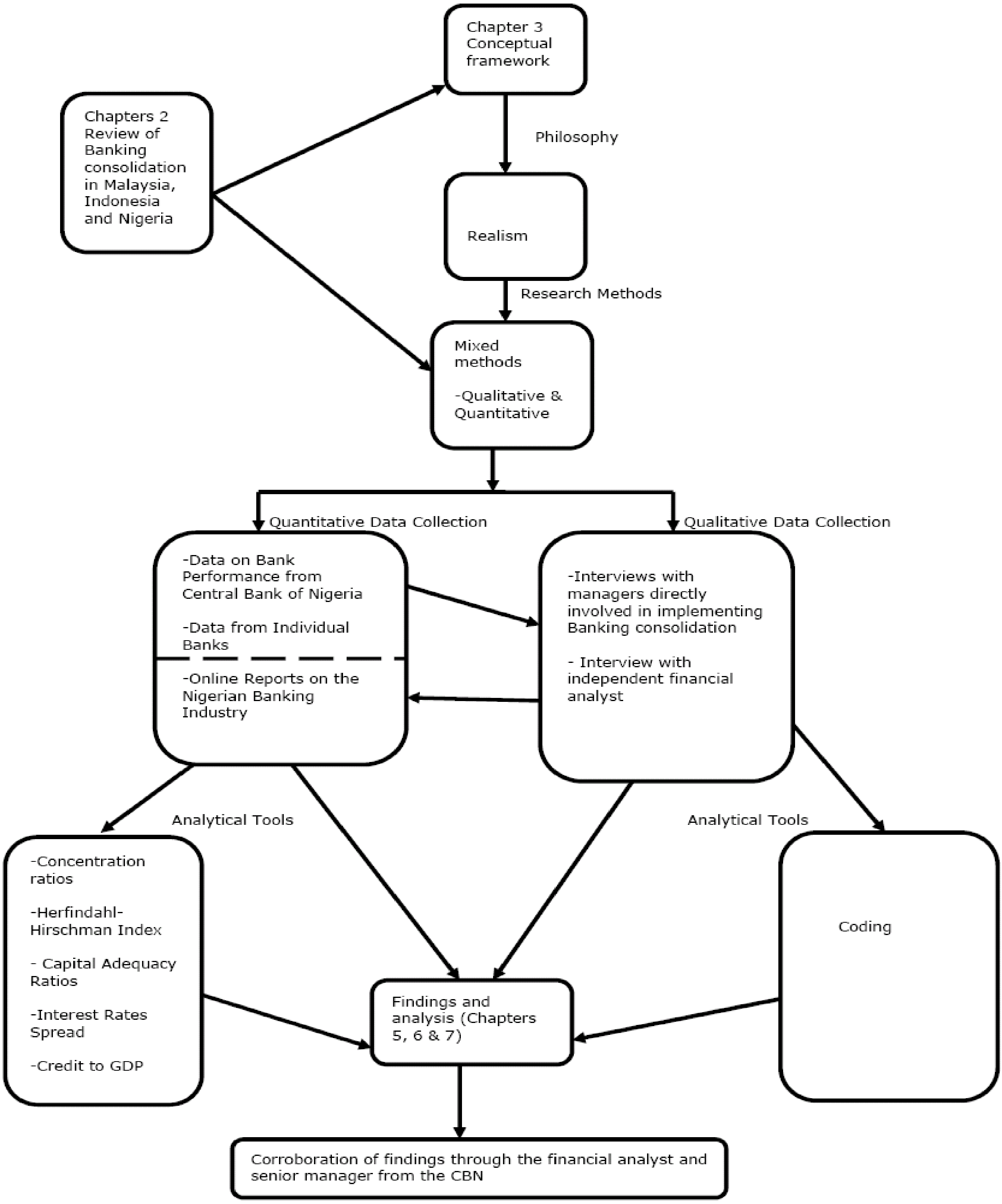
Figure 3.4 provides a framework that examines required changes in banking consolidation and its effects on credit to the private sector. These together form the primary research questions in this study and will thus guide the approach used for data collection and analysis. The next chapter presents the methods of data collection and analysis of change management practices of senior managers, and the effects of banking consolidation on the availability of credit to the private sector in Nigeria.

Chapter 4: Research Methodology

4.0 Introduction

Through a critical review of literature in chapter 3, this study suggests Pettigrew's (1988) three broad lenses and the credit analysis approach used by Berger et al. (1998) as key frameworks for examining change management practices of consolidating banks in Nigeria and its effects on credit availability to the private sector. The synthesis of findings in chapter 2 and 3, presents a conceptual framework (figure 3.4) which guides the approach used for data collection and analysis. This chapter provides an overview of the research methodology and methods deployed in this study. It examines different theoretical perspectives, explains the choice of methodologies adopted and builds an appropriate research design for data collection and analysis. Figure 4.1 shows a flow diagram of research methods deployed.

Figure 4.1: Flow Diagram of Research Methods



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The chapter starts with a broad examination of theoretical perspectives, to identify dominant disciplines in the field of research that most appropriately address the research questions. It then explores methodologies, theories and models, and presents a detailed account of the methods deployed within the chosen methodological stance. Finally research instruments for data collection and tools used to examine specific research questions are clarified.

4.1 Methodology

Donaldson (2005) notes that methodologies clarify ways or procedures used to explore and analyse a particular problem. In academia and particularly for social sciences there is a wide range of philosophies dealing with how best to represent reality. It is important to investigate these philosophies, as it helps the researcher to understand established principles which underpin the way the social world is constructed. Easterby-Smith et al. (1991) suggest three reasons why an understanding of philosophical issues is beneficial. First, it helps establish the research design, what data to collect from where, and how that data can be interpreted to provide good answers to the research questions. Second, it highlights the practical limitations of particular approaches. Third, it can enable researchers to develop designs which are outside their experiences.

Positivism, Interpretivisim and Realism are some of the most common philosophical stances in social science. Easterby-Smith et al. (1991 p. 22) state that “the key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition”. According to this school of thought, social science and organisational research can match the achievements of natural science in explanation, prediction, and control only by applying the methods of natural science (Lee 1991). Marsh and Stocker (2002) argue that positivists are concerned with establishing causal relationships between social phenomena to detect the regularities in nature, and therefore propose generalisation. Their claims are based on two assumptions: (i) reality is external and objective, and (ii) knowledge is only significant if it is based on observation of external reality (Easterby-Smith et al. 1991).

The empirical methods of natural science which underpin the purely positivist enquiry suggests the use of procedures as those associated with mathematical analysis, hypothesis testing, inferential statistics, and quasi-experimental design. Gill and Johnson (2002) note that it is frequently advocated that the positivist researcher will likely use a highly structured methodology in order to facilitate replication. This implies that, in the positivist epistemology, knowledge may be based on observation which could confirm or discard theories.

In contrast, interpretivism arose from the criticism of the positivist approach to research. Ritchie and Lewis (2003) suggest that interpretists believe the methods of the natural sciences are not appropriate because the social world is not governed by law-like regularities but is mediated through meaning and human agency. Delanty (2005) argues that the real strength of the social sciences is not in predictive or explanatory theory but in reflexive understanding, which is the weakness of the natural sciences. Consequently the social researcher is concerned to explore and understand the social world, as social science occupies an interpretative space in society (Ritchie and Lewis 2003; Delanty 2005).

Though critics of this approach (positivists) argue that the interpretist merely offers subjective judgement about the world and as such there are no bases on which to judge or validate their claims. Bevir and Rhodes (2002) state that the interpretive epistemology is developed on two main premises. These are: (i) people act on their beliefs and preferences, and (ii) we cannot presume objective facts, such as race, social class or institutional position by looking at people's belief and preferences. In accepting these intersubjectively created meanings as an integral part of the subject matter, Lee (1991) claims that the social scientist must collect facts and data describing not only the purely objective, publicly observable aspects of human behaviour, but also the subjective meaning this behaviour has for human subjects themselves.

However the argument presented by realists tends to bridge the gap between positivism and interpretivisim (Sayer 2000). Sayer (2000) notes that the defining feature of realism is the belief that there is a world existing independently of our knowledge, while the independence of objects from knowledge immediately undermines any complacent assumptions about the relationship between them and renders it problematic. Realists state that not all social phenomena and the relationships between them are directly observable. Thus they acknowledge two points: (i) while social phenomena exist independently of our interpretation of them, and (ii) our interpretation/understanding of them affects outcomes. Therefore we need to identify and understand both the external reality and the social construction of that realty, if we are to explain the relationships between social phenomena.

In applying this realist fundamental doctrine to the philosophy of science, Bhaskar (1975) argues that reality exists in three overlapping domains: (i) the “Empirical” are experiences or observed events, (ii) the “Actual” are events whether observed or not, and (iii) the “Real” are those underlying tendencies or mechanisms which may in a given situation give rise to events or lie dormant, being cancelled by other forces. Therefore the social world, like the natural world is real and we need not treat social facts as having an existence independent of our consciousness of them. Contemporary realism has been significantly influenced by the interpretist critiques who opine that there are no structures that are independent of social action and no objective basis on which to observe the actions or infer the deep structures (Marsh and Stoker 2002). The interpretist critiques fail to acknowledge that knowledge and social phenomena are socially constructed, but this does not mean external phenomena cannot influence our interpretation.

By implication, the realist school of thought necessitates an integration of the positivist and interpretist ideology. It is expected that, the construction of a positivist understanding without the aid of a careful interpretation of the subjective meanings would be a methodological error. To avoid this, the researcher simply makes sure that subjective meanings have been built into the positivist understanding, which would then serve as the point of comparison for judging the subjective meaning contained in the positivist understanding (Lee 1991).

For example, Marsh and Stocker (2002 p. 31) state that “realists might use quantitative methods to identify which financial markets are ‘globalised’. However, they would also want to analyse qualitatively how globalisation is perceived, or discursively constructed, by governments, because the realist argument would be that both the ‘reality’ and the discursive construction affect what government does in response to global pressures”. Their view is that reality exists externally to organisational actors, whether or not it is directly observable and that the consciousness of managers determines their response to that reality. The approach deployed by Marsh and Stocker (2002), seems to be the most appropriate for studying a complex phenomenon such as banking consolidation, where the application of a multi-level analysis is required to understand the interplay of forces within the Central Bank of Nigeria (CBN), the Nigerian banking industry, the different categories of banks, and individual banks in Nigeria. Figure 4.2 identifies different levels of banking activities examined in this study.

Figure 4.2: Different Levels of Banking Activity

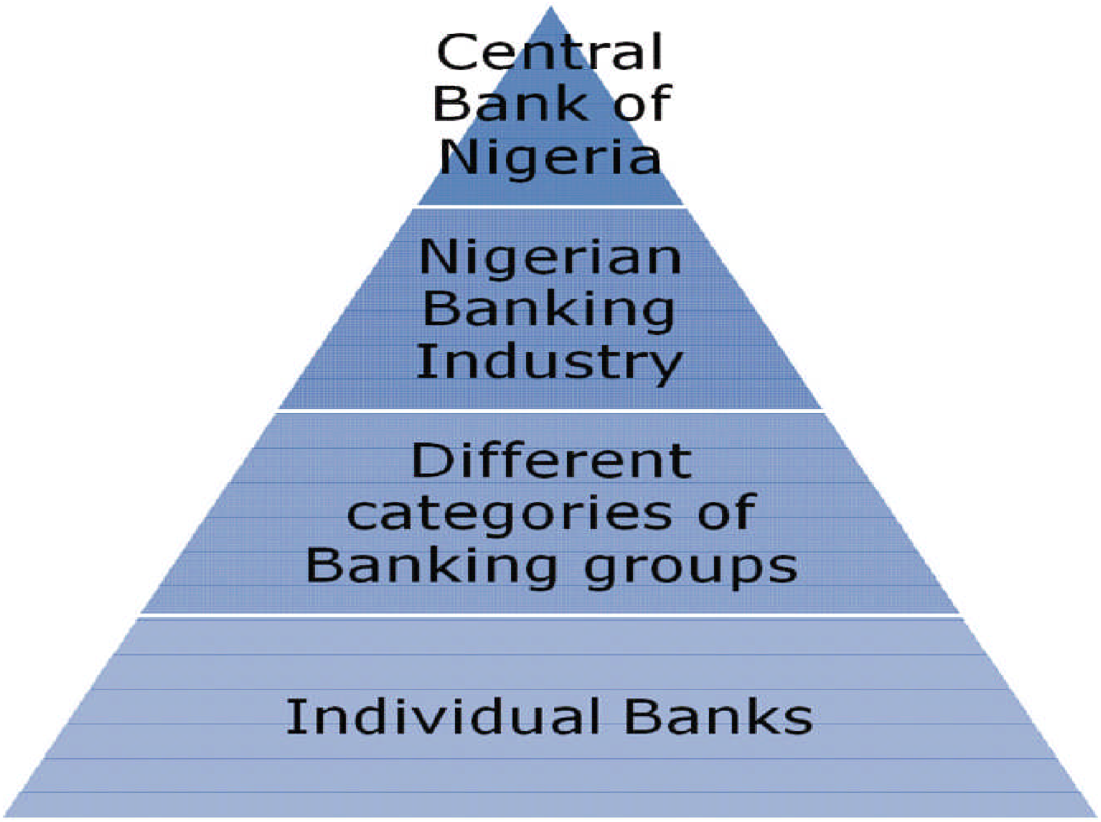

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Figure 4.2 shows the different levels of data collection and analysis required to understand the phenomenon of banking consolidation in Nigeria. Thus, quantitative tools are used to examine figures of bank performance in the banking industry as a whole, while qualitative techniques are deployed at the level of individual banks to explain the complex factors influencing these results and the bank's response to them. This imply that the purely objective or subjective extremes will not be adequate for studying the financial performance of Nigerian banks and the accounts of managers on the response to changes in their business environment. Therefore, the acknowledgment in the realist school of the utility of both qualitative and quantitative data (Marsh and Stocker 2002), presents an ideal methodology for examining all aspects of the research questions arising from the consolidation of the Nigerian banking industry.

4.2 Research Methods

Ritchie and Lewis (2003 p. 3) believe that qualitative research is a "naturalistic, interpretative approach concerned with understanding the meaning which people attach to phenomena (actions, decisions, beliefs, values etc.) within their social worlds". Qualitative research through learning about social and material circumstances, entails an in-depth and interpreted understanding of the social world of research participants.

Bouma and Atkinson (1995) note that qualitative research can be described as any social science research that produces results that are not obtained by statistical procedures or other methods of quantification. They state that it can refer to research about people's lives, their stories, and behaviour, and it can also be used to examine organisations, relationships, and social movements. Some of the data may be quantified, but the analysis is qualitative. Research done in this way produces descriptive data such as people's own spoken or written words or observable behaviour (Bouma and Atkinson 1995). The qualitative approach will be effective for analysing lived experiences of senior managers involved in implementing consolidation in the Nigerian banking industry.

The quantitative approach is at the other extreme, it involves meaning derived from numbers and collection of results in a numerical and standardised form (Saunders et al. 2003). Black (1999) states that quantitative research emphasizes the collection of considerable data from representative samples of a large population for a few variables. Therefore it describes tendencies derived from most common or only typical outcomes.

Sapsford and Jupp (1996) argue that quantitative research is designed to obtain answers to the researcher's questions; it does not yield an understanding of people's lives in depth nor, generally leave space for them to indicate what they regard as the important questions. Furthermore, they suggest that quantitative methods typically isolate variables for study, independent of the context in which they make sense and the sense which is made of them in that context. Therefore, concepts, environments, social interactions are all simplified by methods which lift them out of their context, stripping them of the very complexity that characterises them in the real world. The quantitative approach will be effective for analysing directly observable events or experiences in the Nigerian banking industry.

The theoretical perspectives reviewed in the previous section, indicate that the mixed method is best suited to examine the complex phenomena of banking consolidation in Nigeria. Tashakkori and Teddlie (1998), McConney et al. (2002), Yauch and Steudel (2003), Bryman (2006), Greene (2008), Vitale et al. (2008) believe the mixed methods approach is sought when practical demands of contexts call for:

- Both generality and particularity,
- Defensible patterns of recurring regularity as well as insight into variation,
- Results that convey magnitude and dimensionality, and
- Results that portray contextual stories about lived experiences.

In the context of this study, all of the dimensions identified above apply. The conventional logic is that different methods are combined to provide complementary insights into the same empirical phenomenon with the aim of enhancing the validity of representations (Modell 2009). This also highlights the concept of triangulation discussed later in this section.

Miles and Huberman (1994) offer a list of reasons to combine methods, these are: (i) Quantitative data can help with the qualitative side of a study during design by finding a representative sample and locating deviant cases. (ii)

Quantitative data can help during data collection by supplying background data, getting missed information, and helping avoid elite bias (talking only to high-status respondents). (iii) During analysis quantitative data can help by showing the generality of specific observations, correcting monolithic judgments about a case, and verifying or casting new light on qualitative findings. Understanding the phenomena of banking consolidation requires examining generality and analysing deviant cases through accounts of industry actors, therefore this study will utilise both qualitative and quantitative data.

Creswell (2003) states that four decisions go into selecting a mixed methods strategy of inquiry, and these are: (i) What is the implementation sequence of the quantitative and qualitative data collection in the proposed study? (ii) What priority will be given to the quantitative and qualitative data collection and analysis? (iii) At what stage in the research project will the quantitative and qualitative data and findings be integrated? (iv) Will an overall theoretical perspective be used in the study? These four decisions are considered below:

(i) What is the implementation sequence of the quantitative and qualitative data collection in the proposed study? Collection of data will be carried out using sequential triangulation. Modell (2009) notes that sequential triangulation is used if the results of one method are essential for planning the next method. For this study, quantitative data is collected first, the intent is to analyse directly observable events so as to inform aspects of qualitative data collection. Triangulation is also achieved by interviewing more than one senior manager in a couple of banks (Guaranty Trust Bank; Bank PHB) and an independent financial analyst. Thus, these managers are able to provide a corroboration of findings (data triangulation) in their banks, while the independent financial analyst presents an external expert witness opinion of events in the Nigerian banking industry, on which this study is able to cross-check the findings and analysis of secondary and primary data collected. The effectiveness of triangulation rests on the premise that the weakness in each single method will be compensated by the counter-balancing strengths of another (Jick 1979).

(ii) What priority will be given to the quantitative and qualitative data collection and analysis? Robson (2002) suggests fixed design research (quantitative approach) is more effective at getting at structural aspects of social life, while flexible design research (qualitative approach) is more effective in dealing with processes, and combining them allows both aspects to be covered. In this study, priority is given to a combination of the fixed design research made up of secondary data on bank performance and flexible design research made up of primary data (face-to-face interviews) from senior managers involved in implementing consolidation. These designs are deployed to complement each other and analysed using a varied range of analytical tools examined in sections 4.6 and 4.7. As the complex nature of banking consolidation requires the collection and analysis of both quantitative and qualitative data guided by the three broad lenses framework identified in figure 3.3.

(iii) At what stage in the research project will the quantitative and qualitative data and findings be integrated? Integration of qualitative and quantitative data will occur at the interpretation stage. Results from qualitative themes or codes will be compared with quantitative numbers. In chapter 5, results and analysis of qualitative data is presented, while chapter 6 shows the results and analysis from quantitative data. Findings from both chapters are later integrated in chapter 7.

(iv) Will an overall theoretical perspective be used in the study? Realism (Lee 1991) is the theoretical perspective guiding the entire design of this study. The justification for this approach has been highlighted in section 4.1.

4.3 Research Design and Methods

This section builds on the initial choices in research methods to develop details of the research design and methods. This choice of design and methods presents a logical sequence that connects empirical data to the study's research questions and ultimately to its conclusions. Glaser and Strauss (1967) note that this connecting process requires a defined purpose, which in turn leads to the generation of hypotheses. Hypotheses are useful in the comparison of differences and similarities among groups, through evidence enough only to establish a suggestion and not an excessive piling up of evidence to establish a proof (Glaser and Strauss 1967). Characteristically, hypotheses are tested against some alternative, and could be expressed in statistical terms or comparable figures. However, it is never actually proven statistically that a hypothesis is right, but can only be rejected or not be rejected (Sapsford and Jupp 1996).

Easterby-Smith et al. (1991), Yin (2003) identify surveys, experiments, action research, histories, analysis of archival information, case studies and ethnographies as accepted ways of researching organisational processes. The case study strategy is chosen for the purpose of this research because of its focus on understanding the complex dynamics present within organisations and the context in which management behaviour takes place. Child and Smith (1987) for example, opine that the dynamic complexity of organisational change and plurality of possible perspectives from which to study the phenomenon make the case study approach suitable. Other parameters presented in this section include procedures for data collection and analysis.

4.3.1 The Case Study Research

Case study research consists of a detailed investigation of individuals or groups, or one or more organisations, with the aim of providing an analysis of the context and process involved in the phenomenon being investigated (Cassel and Symon 2004). Yin (2003) defines case study research as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident, necessitating the use of multiple sources of evidence. Morris and Wood (1991) (in Saunders et al. 2003) believe that the case study strategy is of particular interest if and when it's necessary to gain a rich understanding of the context of the research and the process being enacted.

Stake (1995) identified three different types of case study: these are the "Intrinsic case study", "Instrumental case study" and "Collective case study". The "Intrinsic case study" where the focus is on its particularity and ordinariness, and no attempt is made to generalise beyond the single case or even to build theories. The "Instrumental case study" is a case examined mainly to provide insight into an issue or to revise a generalisation. Although the case selected is studied in depth, the main focus is on something else. The "Collective case study" involves the study of a number of cases in order to investigate a general phenomenon. The collective case study approach will be implemented in this study, because of the multi-level analysis required to understand the activities of the CBN, the Nigerian banking industry, different categories of Nigeria banks and individual banks. These different levels present case studies, and the collective case study approach makes it possible to study a number of cases in order to understand a phenomenon.

Yin (2003) outlined five important components of a case study research design, considered below.

(i) The study's questions: the primary research questions developed in the previous chapters, are broadly concerned with exploring and understanding why and how the CBN consolidated the Nigerian banking industry and the response of banks to the CBN's consolidation drive. The case study approach is suitable for answering these types of questions (Yin 2003).

(ii) The study's propositions, if any: Yin (2003) states that propositions direct attention to something that should be examined within the scope of the study. Without such propositions, an investigator might be tempted to cover everything, which is impossible to do. Here, the purpose is to examine the change management practices of senior bank managers and the effects of banking consolidation on the availability of credit in Nigeria.

(iii) The study's unit(s) of analysis: Lofland and Lofland (1995) presents a list of possible units of sociological analysis these include: groups, organisations, settlements, practices, episodes, encounters, roles, relationships, lifestyles and worlds. As a general guide, a tentative definition of the unit of analysis is related to the way a researcher defines the initial research questions (Yin 2003). Here, the focus for analysis is on secondary data of bank performance in the Nigerian banking industry and primary data (interviews) from managers directly involved in consolidation activities in Nigerian banks. At various stages of this study, different levels of analysis are presented to help examine and understand the activities of the CBN, the

Nigerian banking industry, categories of banks (sub-groups), and individual banks.

(iv) The logic linking the data to the proposition: This involves the relationship between data collected and the research proposition. It is the process of analysing collected data to test the study's proposition. Here, patterns between the banking consolidations in Nigeria, Malaysia and Indonesia will be sought and a range of parameters developed to characterize how change was managed in these case studies with particular emphasis on the lessons for Nigeria. The primary focus for data collection and analysis is on the change management practices of managers in Nigerian banks and the effects of consolidation on credit availability. Yin (2003) believes pattern matching is a promising approach for case studies, where several pieces of information from the same case may be related to some theoretical proposition.

(v) The criteria for interpreting the findings: There are well established tests of statistical significance for interpreting quantitative data. As tests for instance, are able to conclude that the occurrence of two or more variables is unlikely to have happened by chance or that it may have arisen because of an inherent correlational relationship between the variables (Field 2005). Yin (2003) notes that there are no precise criteria for interpreting qualitative data, however different patterns are used in contrast and findings interpreted in terms of comparing at least two rival propositions. The mixed method (qualitative and quantitative) used for this research implies that the criteria for interpreting quantitative findings will be clearly stated, but the same may not apply to qualitative findings. Nevertheless, Kidder and Judd (1986) outline four criteria for judging the quality of any empirical social research and these are: "Construct validity", "Internal validity", "External validity", and "Reliability". "Construct validity" involves establishing correct operational measures for the concepts being studied. In this study, mixed methods and the collective case study approach are applied to understand the different levels of analysis required (appropriateness of mixed methods is discussed in section 4.2). "Internal validity" (for explanatory or causal studies only) involves establishing a casual relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. In this study, the phenomenon of banking consolidation is examined to establish its effects on credit availability to the private sector. "External validity" involves establishing the domain to which a study's findings can be generalized. In this study, secondary data from all Nigerian banks were collected and analysed, and competent senior managers involved in banking consolidation were interviewed. "Reliability" involves demonstrating that the operations of a study such as the data collection procedures can be repeated, with the same results. Data for this study was collected from authoritative sources which include: the CBN, individual banks, online reports, news paper publications and semi-structured interviews.

4.4 Data Collection Methods

Data collection methods are structured processes for obtaining information about selected characteristics or variables in a target population (Frey and Oishi 1995). Documented reviews and semi-structured interviews form the main sources of data for this research.

The first phase consists of quantitative data collection through documented reviews of secondary sources. Sapsford and Jupp (1996) note that secondary sources are those that relate to the period studied but are brought into being at some time after it, or otherwise removed from the actual event. Particularly, authoritative archival data from the central banks of Nigeria, Malaysia, and Indonesia, journal articles, web sites, newspaper reports, and bank publications will be reviewed. Robson (2002) argues that there are clear advantages and disadvantages associated with such data. The advantages include the possibility to tap into extensive data sets, often drawn from large representative samples, well beyond the resources of the individual researcher. However, the disadvantages flow from the fact that even those surveys carried out for research purposes are unlikely to be directly addressing the question the researcher is interested in. To address this disadvantage, the focus of data collected is on this study's research questions and are from multiple sources to corroborate information gathered. Further critical engagement is achieved through primary questions (senior bank managers) to substantiate findings.

The second phase consists of qualitative data collection through semi-structured interviews with industry executives and bank managers who were directly involved in the consolidation process. Carter and Little (2007) note that in qualitative data collection the researcher inquires through observation, participant observation, shadowing, semi-structured interviews, unstructured interviews, focus groups, diary studies about phenomena as they occur in context and relies on the analysis of those textual data to understand the meaning of human action. Table 4.1 presents an examination of these methods and their application in the context of this study.

Table 4.1: Methods for Qualitative Data Collection

Methods for Qualitative (Primary) Data Collection	Application in the Context of this Study
Observation	This research is carried out in Aberdeen, and the researcher did not have access to physically observe senior bank managers in Nigeria.
Participant Observation	This method was not deployed as the researcher was not part of the team implementing consolidation in any of the Nigerian banks.
Shadowing	This method was not used as the researcher did not have access to shadow senior bank managers implementing consolidation in any of the Nigerian banks.
Semi-Structured Interviews	This method was deployed because it was appropriate for examining the lived experience of senior bank managers in Nigeria. Thus, face-to-face interviews were conducted in Lagos, the commercial capital of Nigeria.
Unstructured Interviews	The need to structure the interviews meant that unstructured interviews were not appropriate for this study.
Focus Groups	This method was not used because of the difficulty of getting senior bank managers to participate in a focus group discussion.
Diary Studies	None of the senior bank managers interviewed had a diary report of their experiences during the consolidation process.

Source: Author Generated

The use of semi-structured interviews is appropriate for understanding the experiences of senior managers in the Nigerian banking industry. Collis and Hussey (2009) define interviews as a method of collecting data in which selected participants are asked questions in order to find out what they do, think or feel. Literarily, an interview is a conversation usually between two people: in which one person-the interviewer-seeks responses for a particular purpose from the other person-the interviewee (Gillham 2000). Kvale (1996 p. 1) states that "The qualitative research interview attempts to understand the world from the subjects' point of view, to unfold the meaning of peoples' experiences, to uncover their lived world prior to scientific explanations". Thus, the sensitivity of the interview and its closeness to the subjects' lived world can lead to knowledge that can be used to enhance the human condition and enhance the investigated subject (Kvale 1996). The competence of managers interviewed in this study is discussed in section 4.4.1.

In conducting qualitative research interviews, four main stages are recommended by Gillham (2000): "Introductory Phase": This is not just a matter of what you say in an introductory way at the beginning of the interview. It starts in advance of the actual interview. For this study, a letter of introduction and invitation were sent in advance to all prospective interviewees (Appendix 2). "The Opening Development of the Interview": It is expected that the purpose of the interview and research be explained to the interviewee. In this study, the introductory letter sent to all participating senior bank managers and presented in Appendix 2, clearly explained the purpose of the interview to all interviewees. "The Central Core of the Interview": The question order should display some sort of logic (chronological, thematic) so that one question could be seen as following on from the previous one. In this study, a chronological and thematic flow is achieved by first focusing on bank change management techniques and then on-to the effects of these changes on credit availability to the private sector (Table 4.2). "Bringing the Interview to a Close": There are two main elements to closure: pulling together the content (cognitive) and the more obvious social element. In this study, interviews were brought to a close by pulling the content together and examining the most obvious social elements affecting credit availability in the foreseeable future (Q14 in Table 4.2). Gillham (2000) notes that the first and last stages though important are most often neglected, because they are not centrally what the interview is all about. But attention to them helps get the interview content into shape and this is particularly true of the introductory phase where the purpose is explained to the interviewee.

The semi-structured interview approach is to be used in this study because it allows for matters discussed, to change from one interview to the next as different aspects of a topic are revealed. May (1997 p. 111) believes the semi-structured interview enables "the interviewer to have more latitude to probe beyond the answers and thus enter into a dialogue with the interviewee". The process of open discovery is the strength of such interviews, although emphasis and balance of the emerging issues may depend on the order in which participants are interviewed (Collis and Hussey 2009). Key areas covered in the interview were developed from the research framework discussed in chapter 3. Questions addressed broad topics such as: (i) the primary drivers of banking consolidation in Nigeria and the response of Nigerian banks (Q1-2 in Table 4.2), (ii) the process of design and implementation of consolidation in Nigerian banks (Q3-5 in Table 4.2), (iii) the performance of the CBN's policy instruments (Q6-14 in Table 4.2), and (iv) the impact and effects of banking consolidation on the Nigerian economy (Q6-14 in Table 4.2).

The first stage of data collected in this phase was carried out through semi-structured face-to-face interviews. This involved significant travel costs and planning. Telephone interviews were used in the second stage of this phase for respondents who were not available for face-to-face interviews or to follow up on emergent issues which necessitate further clarification.

Furthermore, this study's findings are corroborated through telephone interviews with the respected independent financial analyst and a senior manager in the CBN (section 7.4).

Table 4.2 shows interview questions, the rationale why these questions were asked, and sources from the review of literature that underpins these questions. It is also important to note that these questions were developed after an initial analysis of secondary quantitative data had been undertaken.

Table 4.2: Question for Primary Data Collection in the Nigerian Banking Industry.

Questions	**Rationale for Questions**	**Source of Questions from Review of Literature**
Q1: What was the initial response of your bank, to the Central Bank of Nigeria's consolidation drive?	An examination of the varied response to consolidation by individual banks, as a determinant of bank preparedness.	Ajasa et al. (2007) notes that resistant banks were characterised by low capital base and came together in a bid to raise the mandated N25 billion by the end of December 2005.
Q2: What options did you have as a bank to meet the new requirements?	To identify what options were readily available to individual banks, based on their capabilities and capacity.	The CBN's guidelines for consolidation stated that the only legal modes of consolidation allowed are going solo, mergers and outright acquisition/takeover. It further stated that mere group arrangements were not acceptable for meeting the N25 billion capital base (Ezeoha 2007).
Q3: What were the key steps used, and in what sequence were they implemented.	To highlight the content and process of change deployed by individual banks to meet the requirements for consolidation.	McKinsey's 7-S framework proposed by Peters and Waterman (1982), and Kotter's (1998) eight guidelines for implementing successful

Questions	Rationale for Questions	Source of Questions from Review of Literature
		change are deployed respectively to achieve a robust analysis of the content and process of change.
Q4: From my understanding of implementing change, there could be positive factors that drive the change process. What positive factors influenced the change process for your bank?	To highlight factors perceived by managers to have a positive influence on the change process.	Balogun and Hope-Hailey (2004) argue that the success of the change programme is based on a key pivotal figure, who should be aware and responsive to forces in favour or against change.
Q5: People naturally tend to resist changing old patterns. What sort of challenges did you face while trying to implement these changes in your bank?	To highlight factors perceived by managers to have a negative influence on the change process.	Balogun and Hope-Hailey (2004) argue that the success of the change programme is based on a key pivotal figure, who should be aware and responsive to forces in favour or against change.
Q6: The concentration ratios of the Nigerian banking industry shows that, top 10 banks have increased in size by assets, deposits and extended loans. How has this changed your bank's risk management and other operational activities?	To examine if changes in size as a result of consolidation, has a positive or negative effect on risk management and operational activities in Nigerian banks.	The Static effect is the change in lending propensities which results from simply combining the balance sheets of the participating banks into a larger pro-forma institution with combined characteristics (Berger et al. 1998).
Q7: My preliminary research shows that the banking industry remained competitive before and after consolidation. What is your observation in this regard?	To identify the perceived effects of consolidation on competition in the Nigerian banking industry.	Banking competition impacts on economic development, as a higher degree of competition is expected to provide welfare gains by reducing cost inefficiencies, lowering monopoly rents, favouring the reduction of

Questions	Rationale for Questions	Source of Questions from Review of Literature
		loan rates thereby accelerating investment and growth (Pruteanu-Podpiera et al. 2007).
Q8: Do you think this degree of competition will have a positive or negative effect on availability of credit to the Nigerian economy.	To examine if the level of competition impacts on credit availability to the private sector in Nigeria.	Banking consolidation is expected to drive down cost structures of banks, improve banks' efficiency and encourage competition with the goals of lowering interest rates and providing cheap credit to the economy (CBN 2005).
Q9: What are the key factors that affect your propensity to lend?	To see if lending decisions in Nigerian banks, are influenced by increased capital adequacy ratios.	Capital provides banks with cushion against losses that result from borrower default or changes in asset prices. Thus, adequate capital ratios are necessary for stability and provide an incentive for bank managers to lend (Singer 2004).
Q10: My analysis shows a slight reduction in the spread between deposit and lending rates in Nigeria. What specifically do you think has influenced this?	To see if managers attribute the reduction in spread between deposit and lending rates to consolidation/competition.	The problem of low domestic savings and high bank lending rates in the Nigerian banking system, had reduced access to relatively cheap and stable funds that could provide a reliable source of credit to the productive sector at affordable rates of interest (Soludo 2004).
Q11: My findings confirm there has been increased credit to the private sector after the consolidation. What specifically do you think	To identify what features of banking consolidation, characterise increased credit to private sector in Nigeria.	The Static effect is the change in lending propensities which results from simply combining the balance sheets of the participating banks into a

Questions	Rationale for Questions	Source of Questions from Review of Literature
has influenced this?		larger pro-forma institution with combined characteristics (Berger et al. 1998).
Q12: What have been the most prominent effects of restructuring on your bank's risk diversification and lending policies?	To examine the change in focus by banks as a result of consolidation and its effect on their lending portfolios.	The restructuring effect identifies the change in lending that follows from decisions to restructure the institution in terms of its size, financial characteristics and local market competitive position (Berger et al. 1998).
Q13: How would you characterise the key drivers of lending performance in the newly consolidated banking sector?	To highlight the difference in lending policies in newly formed big banks from the traditional big banks	The Direct effect captures the change in lending propensities that are attributable to a direct change in lending focus above and beyond the changes associated with the static aggregation of banking assets in the merger and acquisition and the restructuring of the size, financial characteristics, and competitive position that follow the merger and acquisition (Berger et al. 1998).
Q14: What do you think are the key challenges in credit performance of your bank in the next 18 months?	To capture the reaction of other lenders to the changes in the competitive conditions created by consolidation.	The external effect captures the dynamic response to merger and acquisition of other lenders in the same local market (Berger et al. 1998).

Source: Author Generated

Questions 1-5 aim to critically examine the change management practices of managers in Nigerian banks, while questions 6-14 explore the effects of consolidation on the availability of credit to the private sector. The questions presented above are designed to address the specific research questions of this study. All participants interviewed were senior bank managers directly involved and competent enough to discuss their bank's strategic and operational response to the changes required to implement consolidation. To address all ethical issues resulting from this study, participants were guaranteed anonymity and non-inclusion of commercially sensitive information (Appendix 3).

4.4.1 Selection of Samples and Size

Sapsford and Jupp (1996) define a sample as a set of elements selected in some way from a population. They suggest that the aim of sampling is to save time and effort, but also to obtain consistent and unbiased estimates of the population status in terms of whatever is being researched. There are different forms of sampling, such as; simple random, systematic, stratified random, cluster, and multi-stage (Sapsford and Jupp 1996). In case study research, samples are normally purposive. This means that samples are selected based on respondents whom it is believed can give information about the topic under investigation (Yin 2003). Purposive sampling is selected for this study because it is most appropriate for the kind of research embanked on. Thus, senior managers selected for interviews were directly involved in implementing banking consolidation in Nigeria.

To address the likely issues resulting from generalisation, this study attempted to collect relevant archival samples from all banks in Nigeria, through a mixture of sources which include: the CBN (in some cases individual bank records were not readily available), individual banks, online reports, and other publications on the Nigerian banking industry. Secondly, the selection of participants for the interview process was designed to represent the three categories of banks in Nigeria as identified in Table 2.4.

Particularly, the focus was on industry experts, bank managers and employees who were directly involved with the banking consolidation in Nigeria. Table 4.3 shows categories of participating banks and their strategies.

Table 4.3: Categories of Consolidating Banks in Nigeria

Categories of Participating Banks	Strategies
Stand-Alone Banks Guaranty Trust Bank Plc Standard Chartered Bank	Banks in this category had the capacity to raise the CBN's mandated N25 billion on their own, and as a result opted to stand alone. These set of banks also wanted to avoid the difficult process of finding strategic and cultural fit, necessary in a merger situation. There are a total of 5 banks in this category, and 2 banks representing 40% of banks in this category participated in the interviews.
Common Ownership Banks Intercontinental Bank Plc AfriBank Plc	This category is made up of different banks with the same ownership structure. To meet the CBN's mandated N25 billion, the owners of these banks merged the different entities. There are a total of 3 banks in this category, and 2 banks representing 67% of banks in this category participated in the interviews.
Common Interest Banks Diamond Bank First City Monument Bank Plc Bank PHB Plc Unity Bank Plc United Bank of Africa Plc First Bank of Nigeria Plc FIN Bank Plc	Banks in this category were completely independent entities, but all came together to meet the CBN's mandated N25 billion. In these mergers or acquisitions, the size of banks determined power distribution. There are a total of 16 banks in this category, and 7 banks representing 44% of banks in this category participated in the interviews.

Source: Author Generated

The three categories highlighted in Table 4.3 provide a representative sample of all banks and banking groups involved in the consolidation process in Nigeria. In all three categories, at least two banks which represent a typical bank (i.e. organisational structure, size, and banking activities) in that category, participated in the interviews. A letter inviting participation was sent to all banks in the Nigerian banking industry; however only eleven banks agreed to have their senior employees interviewed. All senior managers invited were competent enough to handle questions on their bank's strategic and operational response to the CBN's consolidation drive. Detailed information about the process of gaining access, selecting respondents, conducting interviews, and the context under which interviews were carried out is provided in Appendix 3. The next section presents the process of analysing collected samples for this research.

4.5 Data Analysis

Sapsford and Jupp (1996) note that the preparation stage of an analysis involves devising a good form in which to reproduce the data so that they (i) provide a fair summary of what has been studied and (ii) can be analysed readily to answer the researcher's questions. Keywords which arise from these objectives are: error reduction/minimization, data representation, and data reduction. This section aims to highlight methods used to critically examine the practices of senior managers in consolidating banks and to develop hypotheses on the effects of consolidation on credit availability to the private sector in Nigeria.

In order to examine the practices of managers in consolidating banks, Pettigrew's (1988) three broad lenses of "Context", "Content" and "Process", are used to structure the findings arising from the series of in-depth interviews (Q1-5 in Table 4.2; sample transcript Appendix 4). The focus for this analysis is to set the argument to address these three aspects of change as it applies to the Nigerian banking industry. To achieve a detailed and robust analysis McKinsey's 7-S framework proposed by Peters and Waterman

(1982), Kotter's (1998) eight guidelines for implementing successful change and Lewin's (1951) force field analysis, all of which were reviewed in chapter 3 are deployed.

This study will also adapt the framework developed by Berger et al. (1998), to explore the effects of consolidation on credit availability to the private sector in Nigeria (Q6-14 in Table 4.2; sample transcript Appendix 4). Berger et al. (1998) identified the following criteria that seem to permeate existing debates, these are: "The Static effect" is the change in lending propensities which results from simply combining the balance sheets of the participating banks into a larger pro-forma institution with combined characteristics. "The Restructuring effect" identifies the change in lending that follows from decisions to restructure the institution in terms of its size, financial characteristics, and local market competitive position. "The Direct effect" captures the change in lending propensities that are attributable to a direct change in lending focus above and beyond the changes associated with the static aggregation of banking assets in the merger and acquisition and the restructuring of the size, financial characteristics, and competitive position that follow the merger and acquisition. "The External effect" captures the dynamic response to merger and acquisition of other lenders in the same local market.

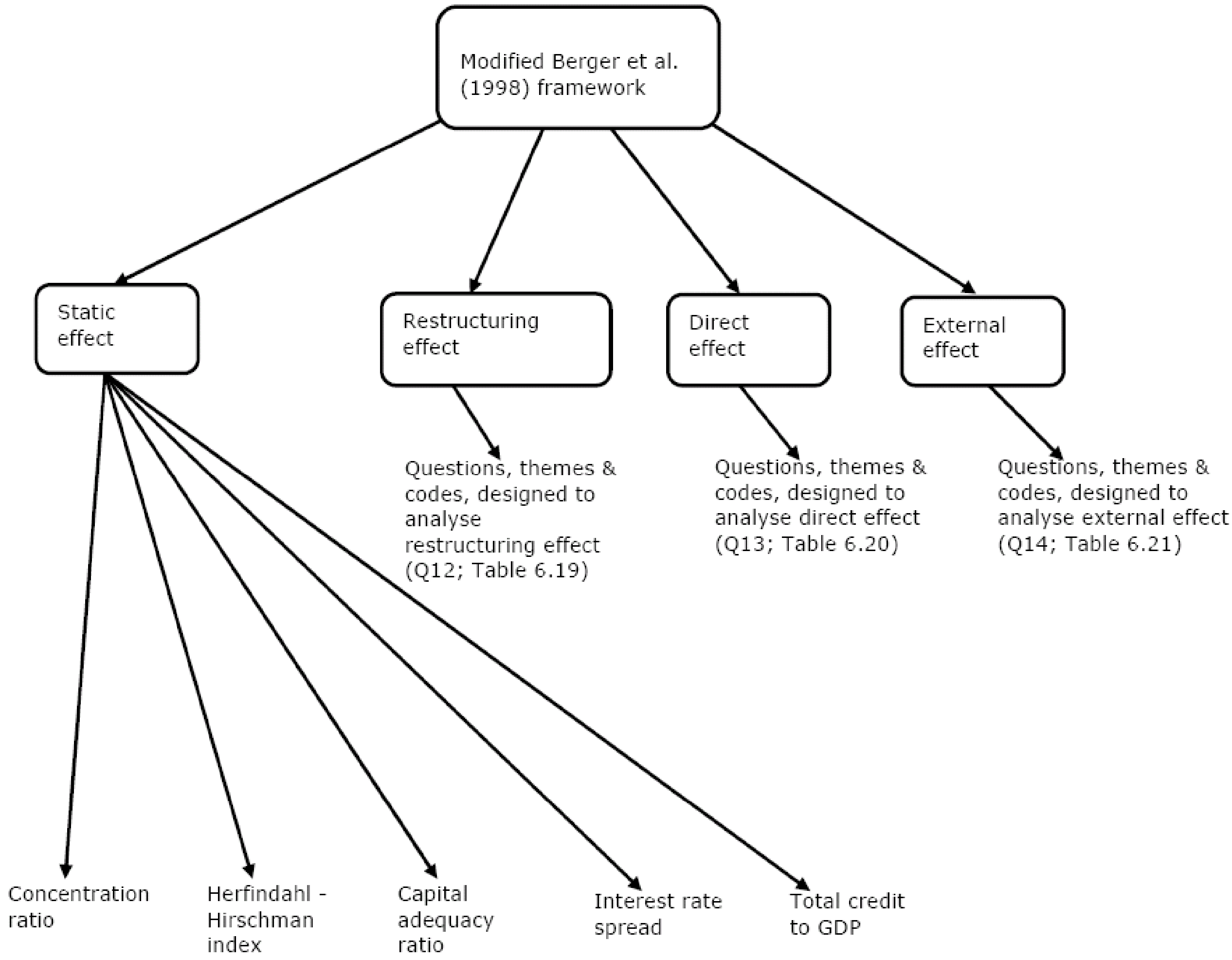
Berger et al. (1998) use ordinary least squares regression (OLS) and data sets (Gross Total Assets (GTA); Commercial and Industrial lending) of bank mergers and acquisitions (M&As) in the United States from the late 1970s to the early 1990s to test for four effects highlighted above. To maintain uniformity, these tests are conducted 1 to 3 years before and after M&As. Berger et al. (1998) used data on loan proportions such as: proportion of GTA lent to small business, proportion of GTA lent to medium businesses, and proportion of GTA lent to large business for each bank, to test if these loan proportions have changed after M&As. These tests were based on large lists of explanatory variables. The explanatory variables deployed include: log of bank GTA, bank size variables, bank equity to GTA ratio, bank loan loss reserve to total loan ratio, bank other real estate owned to total loan ratio, bank non-performing loans to total loan ratio, purchased funds to GTA ratio, bank financial variables, Herfindahl index for local market, bank's share of market deposits, bank comp position variables, weighted average proportions of past M&A variables, plus 16 dummy variables. Berger et al's. (1998) main equations of the model (MEM) are of the form:

$$\begin{aligned} \mathbf{ln}(\mathbf{P}_{it}\ /\ (\mathbf{1-P}_{it})) \\ = \mathbf{f}_i(&\mathbf{BANK\ AND\ ORG\ SIZE}_{t-1,}\ \mathbf{BANK\ AND\ ORG\ FINANCIAL}_{t-1,} \\ &\mathbf{BANK\ AND\ ORG\ COMP\ POSITION}_{t-1,}\ \mathbf{ORG\ COMPLEXITY}_{t-1,} \\ &\mathbf{PAST\ M\&A}_{t-1,t-2,t-3,}\ \mathbf{MARKET\ PAST\ M\&A}_{t-1,t-2,t-3,}\ \mathbf{TIME}_{t-1,} \\ &\mathbf{ENVIRONMENT}_{t-1}) \end{aligned}$$

Berger et al. (1998) note that the ORG SIZE variables replicate the BANK SIZE variables, except that they are based on organisation GTA, which includes all the banking assets in the organisation. The BANK AND ORG FINANCIAL variables measure the equity position and condition of the loan portfolio at the bank and organisation level. The COMP POSITION variables are the Herfindahl index and market shares of the bank and organisation. The ORG COMPLEXITY variables control for the organisational structure of the institution, which may affect small business lending. The PAST M&A variables account for the bank's M&A activity in the past three years and are used for measuring the direct effect of M&As. The MARKET PAST M&A variables are the weighted averages of the PAST M&A variables of all the banks. The remaining variables control for differences in time period and economic environment of the bank (Berger et al. 1998). The data are annual and all of the right-hand side variables are lagged at least one year relative to the lending proportions on the left-hand side to eliminate endogenous feedback effects (except for the time and environmental variables). Thus lending decisions in one year are functions of the bank and organisation size, financial condition, M&A activity, etc. in the previous year or years. All of the right-hand side variables except for the M&A variables are stock figures as of year-end t-1 and occur before the lending on the left-hand side, which is a flow that occurs throughout year t (Berger et al. 1998).

This study does not have access to the kind of individual bank data required to conduct tests based on the original Berger et al. (1998) framework presented above. For example: data on dependent variables such as: proportion of GTA lent to small business, proportion of GTA lent to medium businesses, and proportion of GTA lent to large business for Nigerian banks was not accessible. Of all the explanatory variables used, this study can only access bank GTA, bank equity to GTA ratio, Herfindahl index for local market, and bank's share of market deposits. As a result, this study is not able to deploy the ordinary least squares regression (OLS) approach. However, aggregate data on bank performance before and after consolidation is used, with appropriate substitute tools which measure the same effects as proposed by Berger et al. (1998). Figure 4.3 presents the modified Berger et al. (1998) framework, deployed for the analysis in this study.

Figure 4.3: Modified Berger et al. (1998) Framework used for Analysis in this Study



Source: Author Generated (Adapted from Berger et al. 1998)

“The Static effect” is analysed by calculating the concentration ratio, Herfindahl-Hirschman Index, analysing capital adequacy ratios, spreads in interest rates and changes in aggregate bank credit to the private sector of Nigerian banks. While the “The Restructuring effect”, “The Direct effect” and “The External effect” will be examined using coded data from semi structured interviews with senior bank managers. Each set of hypotheses is considered separately and its evaluation developed from a modified version of the Berger et al. (1998) framework.

To further determine the validity of the modified Berger et al. (1998) framework for decision making and understanding the health of the banking industry in terms of credit availability, corroborative telephone interviews are conducted with a senior manager in the CBN and the respected independent financial analyst (section 7.4). The next section examines the methods used for analysis in this study.

4.6 Analysis of Secondary Data

This section highlights the method used by Berger et al. (1998) to test the static effect, and then goes to present the modified approach deployed in this study to test for the static effect in the case of the Nigerian banking industry.

4.6.1 Measurement of the Static Effect (Berger et al. 1998)

$$\mathbf{SE} = P^{PF}_{it} - \frac{GTA_A}{GTA_{A+B}} \cdot P^{A}_{it} - \frac{GTA_B}{GTA_{A+B}} P^{B}_{it}, \quad i = 1, 2, 3$$

In measuring the static effect (SE), Berger et al. (1998) considered the simple example of bank A with an asset of $600 million merging with bank B with an asset of $400 million. They assumed that organisational size equals bank size, hence the pro-forma bank size (P^{PF}_{it}) has bank and organisational size of $1 billion: financial ratios, past M&A and market M&A activity numbers that are weighted averages of the year-end t-1 figures for A (weight =0.6) and B (weight =0.4); and competitive position, organisational complexity, and environmental variables that depict the consolidated institution.

$$\textbf{Static Effect} = P^{PF}_{it} - 0.6\, P^{A}_{it} - 0.4\, P^{B}_{it} \quad i=1, 2, 3$$

These values are substituted to yield the proportion of assets predicted to be invested in loans to borrower size category i during year t for the pro-forma bank. To measure the static effect, Berger et al. (1998) substitute the weighted average of the predicted values of proportions of GTA that banks would lend to borrower category i during year t if they had not been merged.

4.6.2 Measurement of the Static Effect (Modified Approach used in this study)

Concentration ratio, Herfindahl-Hirschman Index, capital adequacy ratios, interest rate spread and total credit to GDP are deployed to test the static effect of banking consolidation on credit availability by combining the balance sheets of Nigerian banks. Through the combined characteristics of all banks in the Nigerian banking industry, these tools test the pre and post consolidation figures to establish what differences have occurred between this time period. These tools are appropriate for testing the effects of increased bank size on organisational complexity, local market share or concentration, effects of combining financial ratios, and other conditioning variables of the consolidating parties, and thus maintains the same key focus by testing similar parameters as the tools (OLS) utilised by Berger et al. (1998) for examining the static effect of consolidation.

The time period under review is 2001-2009, this encompass the 18 months transitional window and a trajectory of 3 years before the consolidation announcement. It is important to **NOTE** that for some data sets and years, data were not available in audited form from the CBN at the time of this analysis, and as a result such data was not included to avoid issues of validity (for example: audited data was only available from 2001-2007 for the calculation of concentration ratios and Herfindahl-Hirschman Index). The following sections examine the tools used for analysis in more detail.

4.6.3 Size of Nigerian Banks

The relative small size of Nigerian banks was one of the main causes of bank failure between 1994-2003 (Gunu 2009). Imala (2005) and Gunu (2009) note that the average capital base of Nigerian banks is US$ 10 million, which is very low compared to banks in other developing countries like Malaysia where the capital base of the smallest bank is US$ 526 million. Similarly, Imala (2005 p. 28) states that "the aggregate capitalisation of the Nigerian banking system at N311 billion (US$2.4 billion) is grossly low in relation to the size of the Nigerian economy and in relation to the capital base of US$688 billion for a single banking group in France and US$541 billion for a bank in Germany". These large capital bases were achieved in France and Germany in 1998 through consolidating banking institutions (Imala 2005).

Hesse (2007) argues that the intention of the CBN decree on July, 6, 2004 that banks had to increase their minimum capital requirements from N2 billion to N25 billion (US$190 million), was to increase the average size of bank via mergers and acquisitions. CBN (2005) suggests that consolidation has resulted in fewer but bigger banks with a large capital base. One of the objectives of this study is to test and analyse if banking consolidation in Nigeria has actually increased the size of assets, deposits, and loans extended in the top 10 banks. This study will analyse these propositions, with the help of the following null and alternative hypotheses:

H_0 (CR): There is no difference in the size of assets, deposits, and extended loans of Top10 Nigerian banks as a result of the consolidation.

H_1 (CR): The size of assets, deposits and extended loans of top 10 banks has changed as a result of banking consolidation.

In order to test these hypotheses, concentration ratio will be applied. Concentration ratio measures the total output produced in an industry by a given number of firms in the industry. Usually concentration ratios are used to show the extent of market control of the largest firms in the industry and to illustrate the degree to which an industry is oligopolistic (Lu et al. 2007). The concentration ration is computed as follows:

$$CR_J = \sum_{i=1}^{J} (X_i / \sum_{i=1}^{n} X_i)$$

The CRj is the concentration ratio for the variable X (for example assets) for the largest J banks to the whole industry, where n is the total number of the banks. In order to estimate the concentration ratio of top 10 and remaining banks based on banks assets, the sum of the market share of the largest banks in the respective market is calculated by the ratio of the individual bank's total assets to the sum of all banks total assets; total assets thereby proxy overall bank activity. This methodology will be repeated to test for CR in deposits and extended loans in the case of Nigeria. A higher concentration ratio implies that the market is dominated by few but large banks.

Tirole (1988) notes that concentration measures in general ignore other important factors determining market power, such as costs of entry and asymmetries in costs or demand. Kwoka (1985) suggests that concentration ratios may focus on more limited information only about leading firms. These concerns are addressed by using various tools to analyse quantitative data (i.e. explicit coding, Herfindahl-Hirschman Index and capital adequacy ratio), and conducting face-to-face interviews which are integrated in this study to compare findings from quantitative data.

Chang et al. (2008) claim that proposals of decomposition according to income sources and according to groups or sub-populations contribute to making the concentration ratio a more modern instrument of analysis. In support of this view, Giorgi (1993) notes that concentration ratios are effective for the estimation of grouped data which makes particular reference to interval estimates between the upper and lower bounds. Furthermore, Amel and Liang (1990) deploy concentration rations to examine the dynamics of market concentration in the United States' banking industry between 1966-1986, similarly Bikker and Haaf (2002) and Mamatzakis et al. (2005) apply concentration ratios to test for banking concentration in the western (1988-1998) and south eastern (1998-2002) European regions respectively. This shows that concentration ratio is considered an appropriate tool for examining changes in size, and thus justifies its use for analysing the changes in size of Nigerian banks as a result of consolidation.

Field (2005) states that in the social sciences, statistical models are effective where the focus is in discovering something about a phenomenon that we assume actually exists, and seek to explain it by collecting data from the real world. Thus, data collected is used to draw conclusions about what is being studied. In this study, the hypotheses above will also be tested using Independent-Samples T-Test and Mann-Whitney Test. The Independent Sample T-Test is calculated as follows:

$$t = \frac{\begin{array}{c}\text{observed difference} \\ \text{between sample} \\ \text{means}\end{array} - \begin{array}{c}\text{expected difference} \\ \text{between population means} \\ \text{(when null hypothesis is true)}\end{array}}{\begin{array}{c}\text{estimate of the standard error of the difference between} \\ \text{two sample means}\end{array}}$$

The Independent-Samples T-Test procedure compares means for two groups of cases, using variables such as sample size, mean, standard deviation and standard error of the mean. Secondly, it tests for equality of variances, and both pooled-variances and separate-variances T-Tests for equality of means. Ideally, subjects are randomly assigned to two groups, so that any difference in response is due to the treatment and not other factors (Pallant 2007). While the Mann-Whitney Test relies on scores in different groups being ranked from lowest to highest. It tests whether one variable tends to have values higher than the other. One form of the test statistic is an estimate of the probability that one variable is less than the other (Pallant 2007). For both tests this study assigns a 5% level of significance.

The Independent-Samples T-Test and Mann-Whitney Test explained above, are statistical models which represent the kind of data collected (secondary data of performance from the Nigerian banking industry before and after consolidation). Based on the calculation methods presented in this section, these models can be said to be a good fit for the kind of data being examined and therefore will be as accurate as possible, so that there is confidence that the predictions made are also accurate (Field 2005).

4.6.4 Competition in the Nigerian Banking Industry

Pruteanu-Podpiera et al. (2007) state that banking competition impacts on economic development, as a higher degree of competition is expected to provide welfare gains by reducing cost inefficiencies, lowering monopoly rents, favouring the reduction of loan rates thereby accelerating investment and growth. They further opine that these expected gains are a major issue for developing countries in which bank credit represents the largest source of external finance for companies. Imala (2005) argues that in many emerging markets, including Malaysia, Indonesia, Argentina, Brazil and Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasingly globalised banking systems. In support of this view, Ajayi (2005) notes that consolidation in emerging markets is predicated upon the need for reorientation and repositioning of an existing status quo in order to attain an effective and efficient state. One of the objectives of this study is to examine the nature of competition in the Nigerian banking industry before, during and after the consolidation. This study will analyse these propositions, with the help of the following null and alternative hypotheses:

H_0 (HHI): There has been no change in competition amongst Nigerian banks, between 2001-2007.

H_1 (HHI): There is more competition amongst Nigerian banks, between 2001-2007.

In order to test these hypotheses, the Herfindahl-Hirschman Index will be applied. HHI makes use of information on every firm in an industry, and measures the size of firms in relation to the industry and an indicator of the amount of competition among them (Lu et al. 2007). The HHI is computed as follows:

$$HHI = \sum_{i=1}^{n} (MSi)^2$$

Where: i –an individual bank; n –number of individual banks in the banking market; MSi –market share of an individual bank. HHI is calculated by squaring the market share of each bank competing in the market and then summing the resulting numbers. The result is proportional to the average market share and, it can range from 0 to 1, moving from a number of very small firms to a single monopolistic producer. Increases in the HHI generally indicate a decrease in competition and an increase of market power, whereas decreases indicate the opposite. For the purpose of this study, HHI is calculated for banks total assets, deposits and extended loans in Nigeria between 2001-2007.

Hannan (1997) notes that the HHI implicitly gives equal weight to the roles of market share inequalities and the number of competitors. Hannan's (1997) empirical results suggest that the HHI underestimates the importance of the number of competitors in the market. Similarly, Rhoades (1995) claims that large inequalities of shares among firms in a market plays an exceedingly important role in the dominance of leading firms, at times independent of measures of concentration such as the HHI. This weakness is addressed by examining the Concentration Ratio of Nigerian banks (section 4.6.1), which shows the extent of market control of typically the top 10 banks in the Industry (Lu et al. 2007).

Despite these criticisms, Lijesen (2004) argues that an appealing feature of the HHI is its ease of interpretation. The usefulness of HHI for testing competition is reflected in the studies of Yuan (2006), Yildirim and Philippatos (2007) and Lijesen (2004). Yuan (2006) deployed HHI to assess the competitiveness of the banking industry in China during 1996-2000, while Yildirim and Philippatos (2007) examined the competitive conditions in the banking industries of eleven Latin American countries for the period 1993-2000 using HHI.

4.6.5 Bank Capital Regulation in Nigeria

Singer (2004) asserts that capital provides banks with a cushion against losses that result from borrower default or changes in asset prices. Thus, adequate capital ratios are necessary for stability and provide an incentive for bank managers to lend. Soludo (2006) highlighted that as at 6 July 2004 the minimum capital requirement for banks in Nigeria was N1.0 billion or US$7.53 million for existing banks and N2.0 billion or US$15.06 for new banks, and compared with the RM2.0 billion or US$526.4million in Malaysia. Imala (2005) argued that negative capital adequacy ratios of some banks in Nigeria, completely eroded shareholders' funds caused by operational losses, over-dependence on public sector deposits, and the neglect of small and medium scale private savers caused most banks to be insolvent. Therefore, urgent and fundamental reformatory action was necessary (Imala 2005).

Ediz et al. (1998) state that the Basel Capital Accord obliges banks to maintain equity and quasi-equity funding equal to a risk-weighted proportion of their asset base. The Basel Capital Accord assigns 8% as a generally acceptable capital adequacy ratio and a risk rate of 50% to residential mortgages (Hsu et al. 2007). One of the objectives of this study is to examine the capital adequacy ratio of Nigeria banks before, during and after consolidation. This study will analyse these propositions, with the help of the following null and alternative hypotheses:

H_0 (CAR): There is no change in the capital adequacy ratios of banks in Nigeria as a result of consolidation.

H_1 (CAR): The capital adequacy ratios of banks in Nigeria have changed as a result of the consolidation.

In order to test these hypotheses, aggregate capital adequacy ratios from Nigerian banks between 2002-2008 will be compared. This involves measuring two types of capital: tier one capital, which can absorb losses without necessitating a bank to cease trading, and tier two capital, which can absorb losses in the event of a winding-up thus provides a lesser degree of protection to depositors (Hsu et al. 2007). The capital adequacy ratio is computed as follows:

$$CAR = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Tier one capital is the sum of core capital elements (i.e. surplus, capital stock, qualifying non-cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, undivided profits) less other intangible assets and goodwill. Tier two is made up of secondary bank capital that includes items such as subordinate term debt and general loss reserves (Ediz et al. 1998). Risk-weighted assets are calculated by assigning each asset and off-balance-sheet item to one of four broad risk categories. These risk categories are 0 percent, 20 percent, 50 percent, and 100 percent. Riskier assets are placed in the higher percentage categories (Ediz et al. 1998). For the purpose of this study, representative tables will be used to help ascertain what changes have occurred in the aggregate capital adequacy ratios of Nigerian banks between 2002-2008.

Barrios and Blanco (2003) argue that examining the capital adequacy ratios of banks is significant, because it takes the regulatory community into protecting the health of the entire system rather than just individual banks. This countercyclical capital buffer heralds a step change in the way national banking regulators interact and is the first concrete example of macro prudential regulation that seeks to moderate the economic cycle. Furthermore, Fonseca and Gonzalez (2010) emphasis the importance of examining capital adequacy ratios when analysing the performance of banking industries, as this capital buffer even though designed to protect banks; is likely to raise the price of credit. Therefore, this justifies the inclusion of capital adequacy ratios of Nigerian banks as a unit of analysis in this study.

The hypotheses above will also be tested using Independent-Samples T-Test and Mann-Whitney Test. These tests were described in section 4.6.1.

4.6.6 Credit Availability in the Nigerian Banking Industry

Soludo (2004) identified the problem of low domestic savings and high bank lending rates in the Nigerian banking system, had reduced access to relatively cheap and stable funds that could provide a reliable source of credit to the productive sector at affordable rates of interest. He further stated that the current structure of the Nigerian banking system has promoted tendencies towards a sticky behaviour of deposit rates, such that, while banks' lending rates remain high most deposit rates especially those on savings are low and negative.

CBN (2005 p. 9) notes that one of the goals of consolidating the Nigerian banking industry include: "driving down cost structures of banks, improving banks' efficiency and encouraging competition with the goals of lowering interest rates and providing cheap credit to the economy". Therefore, one of the objectives of this study is to test if banking consolidation in Nigeria has actually reduced the spread between deposit and lending rates. Traditionally, the level of efficient in banking is determined by the spread between deposit and lending rates, with higher spreads a sign of low efficiency and lower spreads a sign of high efficiency. This study will analyse these propositions with the help of the following null and alternative hypotheses:

H_0 (IRS): There is no difference in the average spread between deposit and lending rates from 2002-2009 in the Nigerian banking industry.

H_1 (IRS): There has been a significant change in the spread between deposit and lending rates from 2002-2009 in the Nigerian banking industry.

In order to test these hypotheses, deposit rates will be subtracted from lending rates to analyse the spread between interest rates. A chart highlighting the spread between deposits and lending rates in Nigeria will be used to help ascertain what changes have occurred in the period under review.

Using data from the European banking markets (1989-1990), Ruthenberg and Elias (1996) deployed interest rate spreads to examine estimated cost and operating efficiencies resulting from the creation of a single European banking market. Goodfriend and McCallum (2007) in their study of US interbank activities, use interest rate spreads to ascertain the level of efficiency of monetary policy. The methods used by these authors to test for efficiency, indicates that interest rate spread is an appropriate tool for investigating banking efficiency.

The hypotheses above will also be tested using Independent-Samples T-Test and Mann-Whitney Test. These tests were described in section 4.6.1.

Ezeoha (2007) also maintained that the CBN’s requirement for increased bank capitalisation was to create a diversified, strong and reliable banking sector, ensure the safety of depositors’ money and reposition banks to play active developmental roles in the local economy. Providing credit to finance investment and consumption is a major function of the banking system (Imala 2005). One of the objectives of this study is to test if banking consolidation in Nigeria has actually increased the flow of credit to the private sector. This study will analyse these propositions with the help of the following null and alternative hypotheses:

H_0 (TC2GDP): There is no difference in the flow of credit to the private sector, as a result of the Nigerian banking consolidation.

H_1 (TC2GDP): The flow of credit to the private sector has increased, as a result of the Nigerian banking consolidation.

In order to test these hypotheses, the growth in total credit figures to GDP (Gross Domestic Product) from the Nigerian banking system to the private sector between 2001-2008 will be compared. A representative table and chart will be used to help ascertain what changes have occurred in the period under review.

Hamilton (1999) and Ervin et al. (2003) state that the principal shortcomings of GDP as a tool for measuring economic change is its inability to correlate with changes in national well-being. They note that these shortcomings include: the failure to account for the way in which increases in output are distributed within the community; the failure to account for the contribution of household work; the incorrect counting of defensive expenditure; and the failure to account for changes in the value of stocks of both built capital and natural capital. The main focus of this study however, is on the productive capacity (credit availability) of Nigerian banks resulting from consolidation and not the national well-being in Nigeria.

According to Gil et al. (2007), economic size is normally measured in terms of GDP, and is an effective tool for measuring the productivity of industries within an economy. GDP figures provide constructs, appropriate for measuring multiple and different dimensions of progress in an economy (Natoli and Zuhair 2010). Gregorio and Guidotti (1995) examined the empirical relationship between long-run growth and financial development, using the ratio between bank credit to the private sector and GDP in Latin America between 1960-1985. The work Gregorio and Guidotti (1995) also justifies the use of GDP in measuring credit availability to the private sector in Nigeria.

4.7 Analysis of Primary Data

This section highlights methods used to analyse primary data collected. Themes and codes are assigned to interview questions in order to examine the context, content, process, and forces influencing banking consolidation in Nigeria. Secondly, methods used by Berger et al. (1998) to test the restructuring effect, the direct effect, and the external effect are presented along side the modified approach deployed in this study to test for these same effects in the case of the Nigerian banking industry.

4.7.1 Measurement of the Restructuring Effect (Berger et al. 1998)

Berger et al. (1998) estimate the changes in size, condition, and competitive position that are expected to occur over time after the M&A, and then plug these changes into the MEM to obtain the predicted effects of these changes on bank lending. In order to measure the restructuring effect, the regressed change in the log of GTA on a list of independent variables which include: BANK AND ORG SIZE, BANK AND ORG FINANCIAL, BANK AND ORG COMP POSITION, ORG COMPLEXITY, PAST M&A, MARKET PAST M&A, TIME, ENVIRONMENT, CURRENT M&A, and MARKET CURRENT M&A are determined (Berger et al. 1998).

4.7.2 Measurement of the Restructuring Effect (Modified Approach used in this study)

Themes and codes are assigned to interview questions in order to examine the restructuring effect of banking consolidation on credit availability. Questions, themes and codes are designed to analyse changes in lending that follow from the decision to restructure banks in terms of their size and financial characteristics (Q12; Table 6.19). This modified approach maintains the same key focus and tests similar parameters as the tools utilised in the original Berger et al's. (1998) framework, thus it provides an appropriate method for examining the restructuring effect.

4.7.3 Measurement of the Direct Effect (Berger et al. 1998)

This is calculated from the parameters of the MEM, using as a starting point the simulated changes in the right-hand side variables from the static effect, secular change, and restructuring effects. That is, it is the effect of 'turning on' the PAST M&A variables to include the effect of the current M&A being analysed by putting ones in the PAST M&A vector the appropriate number of years back. Thus, the dynamic direct effect of a merger of equals three years after it occurred is taken from the predicted value of the MEM (Berger et al. 1998).

4.7.4 Measurement of the Direct Effect (Modified Approach used in this study)

Themes and codes are assigned to interview questions in order to examine the direct effect of banking consolidation on credit availability. Questions, themes and codes are designed to analyse the changes in lending propensities that are directly attributed to the static aggregation of banking assets (Q13; Table 6.20). This modified approach maintains the same key focus and tests similar parameters as the tools utilised in the original Berger et al's. (1998) framework, thus it provides an appropriate method for examining the direct effect.

4.7.5 Measurement of the External Effect (Berger et al. 1998)

To measure the external effect, Berger et al. (1998) use the MARKET PAST M&A variables, which to this point have been treated as control variables. For every bank, they measure the external effect as the impact on their lending of M&As in their local markets over the past 3 years. The external effect is incorporated by setting the MARKET PAST M&A variables to their actual values. The estimate of the external effect equals the difference between the predicted value of the MEM when the variables are set to their actual values and the predicted value when these variables are set to zero. Berger et al. (1998) note that the external effect is likely to be less accurately measured than the other effects, and so should be looked upon primarily as a qualitative measure of how other banks in the market tend to react to M&As.

4.7.6 Measurement of the External Effect (Modified Approach used in this study)

Themes and codes are assigned to interview questions in order to examine the external effect of banking consolidation on credit availability. Questions, themes and codes are designed to analyse the dynamic response of other lenders in the same local market to banking consolidation (Q14; Table 6.21). This modified approach maintains the same key focus and tests similar parameters as the tools utilised in the original Berger et al's. (1998) framework, thus it provides an appropriate method for examining the external effect.

4.7.7 Managerial Motivation for Banking Consolidation and the Effects of Changes on Credit Availability

Ajayi (2005) and Kwan (2004) argue that banking consolidation in Nigeria was motivated by economics of scale and scope, potentials for risk diversification as well as bank management personal incentives. Soludo (2007) stated that the Nigerian financial system was characterised by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a pragmatic reform. One of the objectives of this study is to examine the change management practices of managers in the Nigerian banking industry, and to highlight the effects of these changes on the availability of credit. In order to test this, coded data from semi structured interviews will be applied. Furthermore, a critical review of approaches to coding is examined in this section prior to deciding on the most appropriate method to deploy for this investigation.

Codes are tags or labels for allocating units of meaning to the descriptive or inferential information compiled during a study (Basit 2003). It involves subdividing the data as well as assigning categories (Dey 1993). Basit (2003) states that codes usually are attached to chunks of varying-size words, phrases, sentences or whole paragraphs, connected or unconnected to a specific setting. The role of coding is described by Seidel and Kelle (1995) as noticing relevant phenomena; collecting examples of those phenomena; and analysing those phenomena in order to find differences, commonalities, structures and patterns. Thus, coding helps researchers to communicate and connect with data, to compare across data, to ask questions, and to generate theory grounded in the data through a comprehension of the emerging phenomena.

Sapsford and Jupp (1996) note that the first strategy in coding is to sort the elements according to themes or topics central to the objectives of the research or the research questions, setting aside those that seemed to have no bearing on the topic. This process will continue until some main categories of each variable are identified. The researcher then proceeds to construct a coding frame (Appendix 5). The coding frame is important as it is drawn up for transforming the data into codes and for identifying the location of all the variables. It always includes three pieces of information for each variable, these are: (i) A reference back to the source data, (ii) A list which comprises the codes and their associated symbols, and (iii) An identification of the column location of variables (Sapsford and Jupp 1996).

Considering the range of priorities and the need to integrate explicit coding and analytic procedures, this study adopts the constant comparative method of joint coding developed by Glaser and Strauss (1967). Glaser and Strauss (1967) state that the constant comparative method combines an analytic procedure of constant comparison, an explicit coding procedure, and a style of theory development. They outline four stages described below:

(i) Comparing incidents applicable to each category: The process starts by the researcher coding each incident in the data into as many categories as possible or as data emerge that fit into an existing category. The defining rule here is to compare codes in categories with previous incidents in the same and different groups. This constant comparison of the incidents very soon starts to generate theoretical properties of the category. Thus, the researcher starts thinking in terms of the full range of types of the category, its dimensions, the conditions under which it is pronounced or minimized, its major consequences, its relationship to other categories, and its order properties (Glaser and Strauss 1967).

(ii) Integrating categories and their properties: As coding continues, the constant comparative units change from comparison of incidents with incidents to comparison of incidents with properties of the category that resulted from initial comparison of incidents. The diverse properties themselves then start to become integrated, creating patterns of integration in the data itself (for example in Table 5.1).

Therefore, theory develops as theoretical sense is made of different categories and their properties which have become integrated through constant comparisons (Glaser and Strauss 1967).

(iii) Delimiting the theory: As theory develops, the constant comparative method begins to curb what started as a seemingly overwhelming mass of qualitative data. This occurs at two levels; the theory and the categories. First, the theory solidifies, as modification became fewer and fewer and the process of integration progressed. The inter and intra category analysis takes this process to its conclusion as the task becomes one of accounting for expectations and building these into the propositions, which were both close to the data and generalised to all cases. The two major requirements for theory, parsimony of variables and formulating wide scope of applicability are achieved (Glaser and Strauss 1967).

(iv) Writing theory: Coded data and theory are written in form of three case studies, which represent three categories of Nigerian banks. Theoretical concepts form the basis on which relevant themes in the case studies are examined. Thus themes and codes are generated using theoretical underpinning and emergent issues in the case studies (for example in Table 5.3). These case studies provide the content, which become major themes in the theory presented in this study.

However, Dey (1993) argues that categories cannot be created in isolation, as categories involve decisions about how to organize the data in ways which are useful for analysis, and also take account of how these categories will fit into the wider analytic context. Therefore, this study's provisional list of categories and codes for examining the research questions are generated from the three broad lenses framework identified in figure 3.3 and the Berger et al. (1998) framework discussed in section 3.6. Thus, these categories and pre-codes are aligned with the research context to reflect appropriate external and internal realities, from the narrative in the interviews.

4.8 Conclusion

This chapter examined the methodologies and methods used to test various questions and hypotheses identified in this study. These methodologies and methods are built around Pettigrew's (1988) three broad lenses and the credit analysis approach adapted from Berger et al. (1998). The aim is to develop a framework which highlights a range of parameters that help characterise how change was managed in the Nigerian banking industry and to evaluate the effects of banking consolidation on credit availability.

The theoretical perspectives reviewed in this chapter indicate that the mixed methodology is best suited to examine the complex phenomena of banking consolidation in Nigeria. Tashakkori and Teddlie (1998), McConney et al. (2002), Yauch and Steudel (2003), Bryman (2006), Greene (2008), Vitale et al. (2008) believe the mixed methodology is sought when practical demands of contexts call for both generality and particularity, defensible patterns of recurring regularity as well as insight into variation, results that convey magnitude and dimensionality as well as results that portray contextual stories about lived experiences. Table 4.4 shows how these concepts are addressed in the context of this study.

Table 4.4: Concepts for Mixed Methods Approach

Concepts for the Mixed Methods Approach	**Context in this Research**
Both generality and particularity	In this study, a review of the performance of all banks in the Nigerian banking industry is required. For greater insight, the activities of different

	categories and individual banks are further examined.
Defensible patterns of recurring regularity as well as insight into variation	To understand the phenomenon of banking consolidation in Nigeria, quantitative methods are deployed to unravel patterns of recurring regularity and variation. Qualitative methods are then used to provide contextual insight to these recurring regularities and variation.
Results that convey magnitude and dimensionality	In this study, results of industry wide bank performance is required, the different categories and individual banks provide dimensionality to findings.
Results that portray contextual stories about lived experiences	Contextual stories (findings) of the lived experiences of senior bank managers involved in implementing consolidation, is key to understanding the process of banking consolidation in Nigeria.

Source: Author Generated (Adapted from Tashakkori and Teddlie 1998; McConney et al. 2002; Yauch and Steudel 2003; Bryman 2006; Greene 2008; Vitale et al. 2008)

Therefore this study deploys the qualitative and quantitative research approach to review change management practices of senior managers in consolidating banks and the effects of these actions on credit availability to the private sector. For the purpose of this study, secondary data were first collected and analysed. Preliminary findings from secondary sources were then used to inform the collection of primary data (i.e. semi-structured face-to-face interviews). The interpretation and synthesis of primary and secondary data are presented in chapters 5 and 6 respectively. These chapters are later integrated in chapter 7.

Chapter 5: Analysis of Change Management Practices in Nigerian Banks

5.0 Introduction

The previous chapter highlighted the methodologies used in different stages of this research to test and explore the phenomena of banking consolidation in Nigeria. The objective of this chapter is to present results and use these results to analyse change management practices of managers in the Nigerian banking industry through a range of change management frameworks. The essence here is to establish why, what and how change was achieved by managers in the Nigerian banking industry as a result of the consolidation.

In answering these questions, Pettigrew's (1988) three broad lenses of "Context", "Content" and "Process", are used to present the findings arising from the series of in-depth interviews. The focus for this analysis is to set the argument to address these three aspects of change as it applies to the Nigerian banking industry. To achieve a detailed and robust analysis McKinsey's 7-S framework proposed by Peters and Waterman (1982), Kotter's (1998) eight guidelines for implementing successful change and Lewin's (1951) force field analysis are deployed.

Therefore this chapter is organised to analyse why the CBN (Central Bank of Nigeria) consolidated the Nigerian banking industry, what aspects of banking practices were transformed, how this was achieved and highlight lessons learnt. Themes from the interviews are applied to critically examine the response and options available to Nigerian banks as a result of the CBN's consolidation drive. Secondly, this study explores interventions used by individual banks to meet these new requirements. Finally, key steps used by banks to implement consolidation are identified and benchmarked.

5.1 Evaluation Framework

Pettigrew's (1988) framework utilised for analysis in this study was discussed in detail in chapter 3. Sample selection and questions asked focused mainly on organisations and individuals who were directly involved in the consolidation process, and could provide insight to the various aspects of the evaluation framework.

Eleven Nigerian banks and a respected financial analyst agreed to participate in the process of data collection and fourteen face-to-face interviews were conducted (sample transcript Appendix 4). These respondents were personnel directly involved with the change management process in response to the banking consolidation for their organisations. The mode of data collection for all respondents was face-to-face in-depth semi-structured interviews, also all respondents agreed to participate in a telephone interview if further clarification was required. The rationale for adopting face-to-face interviews was discussed in section 4.4.

In this chapter issues covered during the interviews include: (i) the initial response of banks to the CBN's consolidation drive, (ii) the options available to banks to meet this new requirement, (iii) how individual banks met the new requirements, (iv) key steps used and the sequence in which they were implemented, (v) positive factors that influenced the change process, and (vi) challenges or negative factors that worked against the change process (see Table 4.1). Codes for data analysis (Appendix 5) are developed from the review of literature and themes generated in interviews conducted. Where there is a blank box in a table, it means there was no response in that category from the sample set. The next section presents findings and analysis of data obtained through face-to-face in-depth interviews with fourteen personnel.

5.2 Context and Response of Nigerian Banks to CBN's Consolidation Drive

The CBN provided a window of 18 months for all banks to consolidate and increase their minimum capital base to N25 billion, from N2 billion. The varied response of banks to this trigger is examined in this section. As senior managers who perceive their banks as having the capacity to raise capital to meet the new requirements might be receptive, while banks with less capacity are more likely to be resistant. Banks could also be receptive because of proactive management teams, with the ability to critically analyse the Nigerian and global business environment and place their banks in a position to better take advantage of opportunities. The degree of acceptance or resistance is not captured, as this research focuses on the approach of Nigerian banks to consolidation. Table 5.1 presents the response of Nigerian banks to the CBN's consolidation drive.

Table 5.1: Bank Response to CBN's Consolidation Drive

(Q1: What was the initial response of your bank, to the Central Bank of Nigeria's consolidation drive?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
1.1 Receptive	(SA1:M1) (SA1:M2) (SA2:M1)		(CI1:M1) (CI5:M1) (CI6:M1)
1.2 Resistance		(CO1:M1) (CO2:M1)	(CI7:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1)
1.3 Other Issues			

Source: Author Generated (From interview data)

Table 5.1 shows that all stand alone banks (bank categories are highlighted in Table 2.5) were receptive to the CBN's consolidation drive. Lewis and Stein (1997) claim that Nigeria's financial system was in a barely contained state of collapse, it appears that stand alone banks put measures in place to increase capital. To examine this, a senior manager from a stand alone bank (SA1:M1) states the bank's response to the CBN's consolidation drive:

> "Guaranty Trust Bank had decided on its strategy in response to its environment prior to the CBN's announcement….so we had taken a decision that we need to do some level of expansion, which required expanding our shareholding and capital. So prior to CBN coming out with their requirement for going to N25 billion, we had decided on taking additional capital……the way it came out…..it seemed as if we had foreknowledge about what the CBN wanted to do, but unfortunately we didn't".

This indicates that Guaranty Trust Bank had put measures in place to increase its capital base prior to the CBN's directive. Although, this measure was informed by the bank's strategic direction, which required some level of expansion. The increased capacity to raise capital amongst other things, explains why the bank was receptive to consolidation. Standard Chartered Bank was also receptive to consolidation, as its foreign group encouraged by the prospects of investing in Nigeria put in $140 million to meet CBN's requirement (Atafori 2007). Table 5.1 shows that some banks were receptive in the common interest category. These banks namely: Diamond Bank, United Bank of Africa and First Bank of Nigeria opted to merge or acquire other banks. For example a senior manager (CI6:M1) in First Bank of Nigeria states that:

> "As at July 2004 with share capital in excess of N47 billion, First Bank was the biggest bank in the Nigerian banking industry. We were happy with CBN's planned changes in the banking industry and as a result received several invites from other banks to merge and in some cases acquire them. This presented the bank with an opportunity to grow its size and gain market share".

Even though these banks fall into the common interest category as a result of being involved in mergers or acquisitions, they had the capacity to stand on their own. Aside from their capacity to raise capital, evidence from the interviews suggests that receptive banks also see consolidation as an opportunity to expand in terms of size and market share. Primarily, such expansions are based on the economies of scope common to all banks by taking deposits on one hand and making loans on the other. It is not surprising that managers of consolidating banks would expect to assert more influence, as the activities of fewer bigger banks (reduction of banks from 89 to 24) are more likely to have a higher systemic impact on the economy. This issue will be examined in the financial analysis and discussion chapters (chapters 6 and 7). The higher systemic risk of fewer bigger banks also necessitates the CBN to expand its regulator capacity to effectively monitor the activities of these banks.

Seven respondents in Table 5.1 from common ownership and common interest banks were resistant to consolidation. These banks might have been resistant because of low capacity to raise capital or do not believe in the perceived benefits of consolidation. A senior manager (CI4:M1) from one of the resistant banks explains the bank's position on consolidation:

> "In First Intercity Bank, we believed the CBN's N25 billion consolidation requirement would be a very difficult task, because we were coming from a capital base of just under N2 billion. So within our team we had a discussion and agreed it was too big a challenge, and we thought that CBN was going to reduce the requirement. Or at best create three strata of banks, in which some banks can grow their capital base to N5 billion, some to N10 billion and the big ones to N25 billion".

The respected financial analyst (P1:M1) further states that:

> "Resistant banks had struggled to achieve the previous increase of bank capital base to N2 billion, and as a result they felt that the task of raising N25 billion was also most impossible".

Evidence from the interviews show that First Intercity Bank was resistant because of its relatively low capital base and limited capacity to meet the N25 billion capital requirement for consolidation. Managers in this bank suggested the creation of three strata of banks, to accommodate banks with low capacity to raise capital. The response here can be likened to the denial and grieving cycle presented by Kubler-Ross (1969), in which the initial reaction to new reality is one of denial or that it cannot be true. These strata were discredited by the insistence of the CBN that all banks meet the N25 billion capital requirement (CBN 2006). Ajasa et al. (2007) note that resistant banks were characterised by low capital base and came together in a bid to raise the mandated N25 billion by the end of December 2005. The reason presented here for resisting consolidation does not query the benefits of these reforms. Rather resistance was more or less an indication of ill preparedness on the part of managers. This suggests that there might have been agreement in the banking industry as per the perceived benefits of consolidation. Soludo (2004 p. 1) claimed that consolidation will create "a diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system".

Interestingly, no respondent mentioned politics as a determinant of their response to consolidation. It is observed that managers agreed the politics (in the context of legitimate policy making role of the CBN) of reform was given, and did not see politics as an excuse. Pettigrew (1988) argues that it is impossible to explain the changing policies of companies without reference to the contexts in which they occurred. Findings in this section suggest that there were varying responses from Nigerian banks, with respect to consolidation. Receptive banks were generally better equipped in terms of capacity to raise capital to meet the new recapitalisation requirement, while resistant banks were characterised by low capacity to raise capital.

5.3 Options Available to Consolidating Banks

Even though Nigerian banks responded differently to the CBN's consolidation drive, available options to meet these new requirements remained a major challenge. The CBN's guidelines for consolidation stated that the only legal modes of consolidation allowed are going solo, mergers and outright acquisition/takeover. It further stated that mere group arrangements were not acceptable for meeting the N25 billion capital base (CBN 2006; Ezeoha 2007). Individual banks were expected to shore up their capital through the injection of fresh funds where applicable, but most importantly encouraged to examine and adopt from the range of options allowed for consolidation. The operating licence of banks who could not recapitalise to N25 billion by adopting any of these options was withdrawn. These measures are consistent with policy instruments in Malaysia and Indonesia, where Bank Negara Malaysia and the Indonesian Banking Regulation Agency deployed mergers and acquisitions as legal modes for consolidation. Table 5.2 is expanded to show the different tactics adopted by banks to meet the CBN's capital base requirement.

Table 5.2: Options Adopted by Banks to meet new CBN Requirements

(Q2: What options did you have as a bank to meet the new requirements?)

Codes	**Stand Alone Banks**	**Common Ownership Banks**	**Common Interests Banks**
2.1 Public Offer/ Recapitalisation	(SA1:M1) (SA1:M2)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
2.2 Private Placement			(CI3:M1) (CI3:M2)
2.3 Merger		(CO1:M1) (CO2:M1)	(CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI7:M1)
2.4			(CI1:M1) (CI2:M1)

Acquisition			(CI6:M1)
2.5 Go Solo	(SA1:M1) (SA1:M2) (SA2:M1)		
2.6 Partner with Strategic Investors			(CI2:M1)
2.7 Group Injection of Funds	(SA2:M1)		
2.8 Other Issues			

Source: Author Generated (From interview data)

Apart from Standard Chartered Bank whose group injected funds into its Nigerian operations to meet the recapitalisation requirement, Table 5.2 shows that most consolidating banks (10) increased their capital base through public offers. In addition to public offerings Bank PHB raised capital through private placement (longer-term fixed rate debt), while First City Monument Bank deployed funds from strategic investors (namely: International Finance Corporation and Sabre Capital) to increase its capital base. No Nigerian bank as at July 2004 had the N25 billion capital base requirement for consolidation, as the CBN's bank capital base requirement prior to consolidation was N2 billion. The increase of capital base through public offers, private placement, strategic investors, and group injection of funds created two strata of Nigerian banks. The first strata of banks raised enough capital to meet the N25 billion requirement and as a result could go solo, merge or acquire. The second strata of banks were unable to meet the N25 billion requirement, thus these banks had to merge or be acquired, to survive.

Hill and Brown (2007), and Lin et al. (2006) note that strategic and cultural fit are two determining dimensions when bringing institutions together. Pettigrew (1998) argues that the interplay of culture in organisations helps explain how changes are perceived and implemented. Hence, the possibility of finding strategic and cultural fit could influence options available to individual banks across categories. In response to a question on options available to consolidating banks, a senior manager (SA1:M1) from a stand alone bank states that:

> "The other aspect with raising additional capital as required by the CBN was whether we could take on additional or rather merge with some banks……this is something we debated, talked about, something we analysed and we found out that for us we had a certain culture which we didn't want to dilute. So it was difficult for us to begin to find banks that were very compatible with us. We talked to a number of banks, we looked at the books of a number of banks, but we then realised it was better we went it alone and that's why we decided it was going to be Guaranty Trust Bank and that's the way we have gone".

Another senior manager (SA2:M1) from a stand alone bank confirms that strategic and cultural considerations were a major determinant of the decision making process:

> "In deliberating how to meet the CBN's new requirements, we realised that culture and processes were critical and was going to be a major problem. We did not want to get into an acquisition that will take 4 or 5 years to get out of. Therefore there was a question mark on this approach, and as a result we adopted an organic growth model".

Evidence from the interviews shows that stand alone banks though in the first strata, did not merge or acquire any bank because of the difficulty of finding strategic or cultural fit. It is evident for example: that cultural integration is the major reason why mergers or acquisitions were not the preferred options for Guaranty Trust Bank. However, it is expected that issues of cultural integration are more evident in categories of banks with two or more entities and less in the stand alone category because they did not have to merge. Another conflict for stand alone banks could be their ability to sustain this model and continue to grow organically, given the rapidly changing business environment in which market opportunities are created by new technology or national deregulation or economics of globalisation. Managers in these banks will have to evaluate their ability to compete globally with the existing model, against the gains of mergers or acquisitions.

Other banks in the first strata were involved in mergers or acquisitions. These banks might have identified either strategic or cultural fit or both. A senior manager (CI1:M1) from Diamond Bank claimed that:

> "After its public offer and raising the required capital, Diamond Bank acquired Lion Bank because we wanted to spread out to northern Nigeria. We wanted a bank that had a lot of presence in the north and Lion Bank met this requirement. This acquisition had a strategic advantage, because Diamond Bank was seen as an eastern Nigerian bank before now and had to acquire a northern based bank to help expand its banking services across Nigeria. The other reason for acquiring Lion Bank was its strategic focus and expertise in retail banking, as we (Diamond Bank) have always been strong in retail banking".

Also a senior manager (CI6:M1) from First Bank notes that:

> "In deciding to merge or acquire, we evaluated several banks based on criteria set by our management team. In doing this we looked at culture, seamless integration, branch network and credit portfolios. For example: the FBN Merchant Bank culture was easily integrated into that of First Bank, because we had similar values".

The respondent from Diamond Bank suggests that Lion Bank was acquired because it would help the bank achieve its objective of expanding across Nigeria, while both banks were strategically aligned based on their focus on retail banking. Also managers from First Bank indicate that culture and the ability to strategically integrate processes, branch networks and credit portfolios were key in deciding to merge or acquire. This indicates that strategic and cultural considerations were significant for senior managers in decisions to merge or acquire banks. These considerations as precursors are consistent with the views of Hill and Brown (2007), and Lin et al. (2006) that strategic and cultural fit are determining dimensions in bringing institutions together.

Experience from the analysis above has shown the importance of achieving strategic and cultural fit in mergers or acquisitions (section 3.4). However, banks in the second strata also came together to survive the 18 months window provided by CBN for consolidation, because these banks could not raise the N25 billion capital base requirement on their own. Having survived the consolidation process through mergers or acquisitions, respondents claim that managers in these banks developed processes to better integrate their people and structures for effective controls. A senior manager (CI3:M2) from one of the merging banks stated that:

> "First of all, at the top level there was a spirit of give and take, Platinum bank took the Managing Director's position, while Habib bank took the Chairman's position. There was also equitable distribution of powers down the line".

Evidence from the interviews suggests that the size of merging entities was a major determinant of power distribution, and by extension what cultures and systems were adopted. This is consistent with Moeller et al (2002 p. 3), who argue that "managers of large firms might be more prone to hubris, perhaps because they are more important socially, have succeeded in growing the firm, or simply face fewer obstacles in making acquisitions because their firm has more resources". Also noteworthy, is the emphasis on effective distribution of management positions and incentives as a significant factor in the mergers and acquisitions process for banks in the common interest category. Most managers interviewed in this category were concerned with power distribution in the new entity. This pattern is observed and indicates that there is more power play in this category than in the stand alone and common ownership categories. The difference in emphasis across different categories may be as a result of the emergence of new management structures in the common interest category. Thus managers are more inclined to protect their areas of influence.

In summary, most banks increased their capital base through public offering, to achieve the CBN's N25 billion capital base requirement. Some banks after raising capital had the capacity to go solo, while others who did not meet this requirement opted for mergers or acquisitions to survive. These activities were also influenced by the structures, cultures and political context within these banks. The next section discusses the interventions of consolidating banks.

5.4 Content of Change in Consolidating Banks

Although factors such as capacity to raise capital, size and market share influenced individual banks, this section examines the content of change in Nigerian banks. Evidence from the interviews is used to provide an insight to the operational and cultural interventions utilised by senior managers across categories of consolidating banks.

Abdullahi (2007) reports that the 25 banks that survived the Herculean task of raising their capital base to a minimum N25 billion from N2 billion, re-crafted their strategy matrix to appear more customer-centric. Nwoji (2006) notes that older generation banks devised means of retaining customers' loyalty, while newer generation banks deployed cutting edge technology and services to woo young mobile high net-worth individuals. This is consistent with the claim of a senior manager (SA1:M2) in Guaranty Trust Bank that:

> "The new generation big banks have introduced cutting edge technology, with better responsive management style".

In support of this view, the respected financial analyst (P1:M1) notes that:

> "New big banks have provided more dynamic leadership in the banking industry, and as a result these banks have developed a varied range of innovative lending products".

This indicates that the development of new strategies was a common feature amongst consolidating banks. Business goals and objectives in line with CBN's recommendations were tailored to better address customer needs. The focus on customers across categories of consolidating banks is as a result of the renewed drive to generate deposits. This is necessary as the N25 billion capital base created an environment where banks could no longer compete on size, but instead through services. The situation is similar in Malaysia, as Bank Negara Malaysia (2003) states that domestic banking institutions tried to understand the drivers of performance and aimed to meet consumer demands in an effective and efficient manner.

5.4.1 Operational Interventions

Faulkner (2002) argues that strategic choice typically includes not only the establishment of structural forms but also the manipulation of the process of choice itself, in which economic and "administrative exigencies" are weighed by actors concerned against the opportunities to operate a structure of their own. Before consolidation, the Nigerian banking industry was characterised by relatively small sized banks with very limited ownership base. The increase of bank's capital base to N25 billion from N2 billion meant that banks became bigger with more diverse ownership (through public offers, private placement, strategic investors and group injection of funds). This is consistent with the view of Amao and Amaeshi (2008) that shareholding in Nigeria has grown from a few thousands in the early 70s to an estimated 10 million by 2005. The effect of this on bank structure is explained by a senior manager (SA1:M2) who notes that:

> "As a result of the consolidation, we had to change our organisational structure. The organogram was tweaked with to accommodate growth. So we had new groups and divisions. We had the existing groups, for example: shared services increasing in number, so we were prepared for growth and for size".

This shows that changes were made to the structure of banks post consolidation, as centralised structures were no longer effective given the bigger size of banks. Although processes remained centralised, the interviews imply that some groups and divisions were decentralised to accommodate growth and entrench effective control mechanisms. This is significant as decentralisation allows managers to develop their skills in various lines of business and monitor actual versus predicted performance when banks expand to new geographical areas or introduce new products or services. Secondly, the emphasis on control mechanisms is consistent with the findings of Petersen and Rajan (1995), Berger and Udell (1995), Cole (1998) and Elsas and Krahnen (1998). They argue that the high risk nature of banking emphasises the importance of banks developing relationships with its customers, particularly for credit terms such as loans, interest rates and collateral requirements, and these relationships are difficult to establish in a centralised organisational structure. This is not surprising because the fundamentals of banking require some level of detail, and more so when banks increase in size as was the case in the Nigerian banking industry.

Jacobs (2010) notes that mergers have failed because of the failure to effectively integrate two or more bank operating systems as the case may be. Evidence from the interviews reveals varying emphasis on systems across categories of consolidating banks. Managers from stand alone banks mentioned systems in relation to upgrades, to accommodate increased size of the bank. For example a senior manager (SA1:M1) from a stand alone bank claimed that:

> “We looked to reinforce and upgrade our systems to accommodate the increased size of the bank”.

The emphasis above on system upgrade in the stand alone category is because these banks did not have to integrate their systems and operational activities with order entities. Thus, the focus here was more on scaling up existing systems and improving process to accommodate the increased size of banks. This also provides an opportunity for stand alone banks to better knit their management and systems more closely together. Findings are however different for common ownership and common interest banks. Managers from these categories of banks identified operational integration as a key step used. For example: a senior manager (CI3:M2) states that:

> “Committees were set up to look at the operational manuals of the two entities and the idea was to harmonise them to achieve best fit”.

It appears that managers in common ownership and common interest banks identified harmonisation as a key step, because these categories of banks were involved in one form of merger or acquisition. It is observed that when acquisition was the preferred option banks in these categories basically adopted the acquiring bank processes. For example: the Gross Total Assets of Diamond Bank in 2005 was N125,675 billion as compared to N14,824 billion for Lion Bank in the same year (Appendix 6). The relative size of Diamond Bank over Lion Bank which it acquired made it more likely that the acquiring bank processes and culture will dominate the enlarged group. The incentive for managers who emphasise the need for effective systems integration is the higher chances of success in combining different entities. Also important is the argument commonly made for mergers based on economies of scope, and the assertion that related lines of business create opportunities for one another through shared resources if under the same ownership. It would be interesting to see whether banks in these categories are able to take advantage of opportunities presented by their unions, to produce results, further research is required to examine this (section 8.6). There is acknowledgement from respondents that effective integration of systems was key to successful mergers or acquisitions and this is consistent with the views of Jacobs (2010), that mergers fail because of the failure to effectively integrate operations.

Despite the incentives of harmonisation identified above, senior managers interviewed across categories of consolidating banks highlighted the need to effectively manage human capital. Respondents, particularly from common ownership and common interest banks suggest that managing human capital was a major determinant of the merger or acquisition negotiation process. Peters and Waterman (1982) claim that the composition of human capital has to do with selecting (from existing staff), recruiting, motivating, rewards, and education. They note that the need to effectively manage these elements is required in a change situation. This is consistent with the views of a senior manager (SA1:M2) who states that:

> "With size come opportunities, staff were encouraged and motivated to aspire to fill higher roles in the bank.....All of a sudden the bank was growing rapidly, so we also had to bring in a lot of middle level hires".

This view is supported by another senior manager (CO1:M1) who notes that:

> "There was also a committee on human capital which comprises of the human resources managers of the various merging banks. We had to look at the staffing, the staff complements, and the people, because when you are merging entities you want to determine the fitness of some individuals to be in the combined entity".

This indicates that staffing through motivation of existing staff to occupy higher roles, training and recruitment was of high priority to senior managers. It is not surprising that there seems to be agreement as to the importance of human capital across consolidating banks, because despite differences in context and format, staff of organisations have traditionally been the focus of programmes to bring about change (Guskey 1985). Thus, reforms are more likely to be successful if the right people are recruited, with appropriate reward and educational support.

Also in relation to human capital is the availability of skill to effectively implement changes necessitated by the consolidation. From an organisational perspective, this is vital to drive performance and take advantage of opportunities. Anderson (1982) claims that skills developed through various learning mechanisms are structured around variable use and reference to goal structures. A senior manager (CI1:M1) supports this view and states that:

> "I must say that Diamond bank realised the effects of CBN's changes on its loan size, capital base and assets quite early, and they sought for the required skills and human capital to staff their risk management units and improve the process. To achieve this they headhunted capable hands".

Another senior manager (SA2:M1) claims that:

"If for instance before consolidation we were dealing with a wholesale loan book of $50 million, we would need a particular type of manager to manage the risk portfolio. If after consolidation we planned to increase our wholesale book to $50 billion, we would require a different set of managers".

Evidence from the interviews show that consolidating banks enhanced managerial skills due to increased loan size, and also to plug competency gaps resulting from the scale and complexity of the business. This implies that managers are aware of the need for skilled human capital in the effort to transform their organisations. Secondly, banks were now expected to create higher levels of risk assets and more robust control mechanisms. The statement presented above suggests that most banks did not have employees with the requisite skill to create such assets. These banks also seemed to experience some difficulty in filling positions and this highlights the shortage of skill in the Nigerian banking industry. It is not surprising that the banking industry lacked the requisite skill, because it had not properly played its intermediation role (Soludo 2007) and as a result there was no enabling environment to develop such skill. However, if banks are to create higher levels of risk assets as expected by the CBN, they will have to put measures in place to develop, attract and retain skilled employees.

5.4.2 Cultural Interventions

The CBN's consolidation drive necessitated changes in the approach to banking in Nigeria. Management in consolidating banks put measures in place to effectively take advantage of opportunities in their business environment. Naturally some of these changes could positively or negatively impact on employees and work processes. For example a senior bank manager from a stand alone bank (SA1:M2) notes that:

"Our strategic retreat before the consolidation, prepared and positioned us for growth and size….so we were at the right place

> doing the right thing. Of course our management style encouraged staff to embrace change, and as a result the average staff of this bank is very well motivated".

Contrary to the views above, a senior manager from a common ownership bank (CO2:M1) states the effects of management changes on employees:

> "They say old habits die hard. Sometimes when you want to bring new ideas and changes, some staff who are used to the old ways of doing things, would say look this is what we have been doing before. But you see, we can't continue to do business that way. In fact the group MD made it clear that we just have to change our processes and systems to remain competitive. Let me draw you back, even those who tried to resist change were enlightened, some were even threatened....look if you don't want to change, if you don't want to toe along the line you chip out".

Banks in the stand alone category were generally better prepared for consolidation, and this explains the motivation of their staff. However, employees in the common ownership bank above were not motivated, because management was not anticipative of changes in its business environment. This lack of preparedness is noticed amongst resistant banks (For example: Intercontinental Bank Plc, Unity Bank Plc, First City Monument Bank Plc), as employees in these banks did not clearly understand what they would gain in the new business environment. Thus, the "what is in this for me" question was left unanswered. This finding suggests that little or no effort was made to address some specific concerns of employees with respect to changes being implemented. This is probably because of the amount of time (18 months) allocated to banks to complete the consolidation process. Managers naturally would respond to requirements differently depending on how they perceive the threat in relation to their organisations. Goleman

(2000) argues that style springs from different components of emotional intelligence. He further states that the styles taken individually appear to have a direct and unique impact on the working atmosphere of a company, division, or team, and in turn its performance. In relation to Nigerian banks, this can be interpreted to mean that individual manager's response to perceived threat directly impact on the performance of their work force.

According to Dunphy and Stace (1988) managerial style would vary depending on the scale and pace of change. They suggest that more directive and coercive change management strategies would be used in volatile business environments, while collaborative and consultative strategies apply in more stable environments. The latter was the case in resistant banks and would help explain why employees were not motivated. To deal with this conflict, managers must create an effective feedback process in their organisations that allows for employee participation in the design and implementation of change programs.

Peters and Waterman (1982) and Williamson (1986) argue that more often than not shared values determine what people do in organisations. Respondents claimed that organisational values influenced how their banks evolved. Strongly evident in categories of banks with common ownership and common interests was the harmonisation of values. To affirm this, a senior manager (CI3:M2) stated that:

> "There were good things about Platinum Bank, and good things about Habib Bank. To a great extent we tried to adopt the best from both Banks. For example the dress code of Platinum was very English, coming together we relaxed it especially on Fridays. Before the union there was no question of maintaining beards, but now you can. So we created an environment that did not exert on staff and this is one of the many reasons why people want to work for Bank PHB".

In support of the view above a senior manger (CI5:M1) notes that:

> "We adopted what was better, the integration teams basically looked at what was best. As a bank we implemented best plus".

Evidence from the interviews suggests that best practice from merging entities were adopted in the new entity. As can be seen above, managers in Bank PHB were able to harmonise some aspects of the dress code of both merging banks, to create an enabling environment post-consolidation. This suggests that managers were keen to facilitate values perceived to have a positive impact on their work force and thus avoid problems that do not need to arise. This is significant as transformation will be more successful if these values impact positively on employees and could become organisational strengths if properly channelled.

The findings discussed in this section, are consistent with Peters and Waterman (1982). Peters and Waterman (1982) identify strategy, structure, systems, staff, style, shared values and skills as guidelines which organisations must pay attention to if they must succeed in implementing change programs. However, resistant banks were characterised by poorly motivated staff, as ill prepared management teams did not effectively address specific concerns of employees. Nigerian banks also experienced a shortage of skilled human capital, because there had not been an enabling environment to develop required skills. The next section highlights key steps used to implement change in consolidating banks.

5.5 Process of Change in Consolidating Banks

Across categories of consolidating banks in Nigeria, a number of interventions were instrumental in administering organisational change in line with the CBN's requirements. However, specific priorities, peculiarities and sequence might be similar or different depending on the context of individual banks. The CBN's 18 months window provided for all banks to recapitalise to N25 billion or lose their banking licence created a unique sense of urgency. Though banks responded differently to this trigger, managers were able to create a sense of urgency in their banks through a number of activities. This includes the use of various communication tools to educate employees of the change vision. For example a senior manager (SA1:M2) claimed that:

> "There were meetings at various levels, we then appointed change champions. Each branch had a change champion who was like the mouth piece of management in the branch and who would communicate the intent of management to staff. There were staff sessions or branch meeting sessions....there had always been that, but those sessions were then adopted to communicate the impending change".

Another senior manager (CO1:M1) confirms the use of communication:

> "Some aspects of the consolidation process required communication. Also Executive Directors were sent to other banks we were merging with, to superintend things and inform employees of expected changes".

The use of communication is further confirmed by another senior manager (CI6:M1) who states that:

> "After the CBN's announcement on banking consolidation, we had an investor's forum in which all stakeholders and key customers of the merging banks were invited. In the forum, we discussed the goals of the new entity, and the future direction of the bank. Staff were also delegated to drive these new objectives".

Evidence from the interviews indicates that change champions were deployed as a medium of communication to employees in some banks. The use of communication as a tool to raise the urgency levels is observed across categories of consolidating banks. This is probably because urgency levels had to rise for managers to get the needed cooperation from employees. This is significant as the status quo (which entails losing the bank's licence) was totally unacceptable for these banks, and required managers to convince employees to see business as usual, as more dangerous. This is also consistent with Kotter (1998), Dunphy and Stace (1993) who argue that it is difficult to convince key individuals to spend time necessary to create and communicate a change vision if urgency is low. Table 5.3 provides a summary of the key steps used to implement consolidation.

Table 5.3: Key steps used by Banks to implement consolidation

NB: This only shows the steps and not the sequence

(Q3: What were the key steps used, and in what sequence were they implemented.)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
3.1 Regulatory Requirements/ Due Diligence	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.2 Training	(SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M1) (CI4:M1) (CI6:M1) (CI7:M1)
3.3 Communicating to Employees/ Customers/ General Public	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M2) (CI6:M1) (CI7:M1)
3.4 Structural Change	(SA1:M2)	(CO1:M1)	(CI3:M2) (CI5:M1)
3.5 Change Champions	(SA1:M2)	(CO1:M1)	(CI7:M1)
3.6 Action Research	(SA1:M1) (SA2:M1)		(CI4:M1) (CI7:M1)
3.7Cultural Integration/		(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2)

Acculturation			(CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.8 Operational Integration/ Technology Infrastructure		(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.9 Strategic Objectives/ Vision/Business Plan	(SA1:M1) (SA2:M1) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.10 Guiding Coalition/ Integration Teams		(CO1:M1) (CO2:M1)	(CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.11 Management Incentives/ Staffing	(SA1:M2)	(CO1:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI6:M1) (CI7:M1)
3.12 Re-branding			(CI3:M1) (CI3:M2) (CI4:M1) (CI7:M1)
3.13 Leadership Style			(CI3:M2) (CI7:M1)
3.14 Other Issues			

Source: Author Generated (From interview data)

Findings from the interviews indicate that some banks developed guiding coalitions to manage the implementation of changes necessitated by the consolidation. Interestingly, the focus of guiding teams was different across categories of banks. Common ownership and common interest banks were keen to integrate their people and processes and as a result established powerful integration teams, this was however not necessary in stand alone banks. This finding is further corroborated by senior managers in Bank PHB (CI3:M1; CI3:M2). A key factor responsible for this is the fact that common ownership and common interest banks were involved in mergers or acquisitions and will naturally want to align their people and operations. This explains why all nine respondents in Table 5.3 who identified integration teams as a key step used were from common ownership and common interest banks. The composition and structures of these teams are not discussed, as this study does not have access to such data. Nevertheless, the approach adopted by managers in these categories is positive, because of the pace of change and the number and nature of decisions being made.

The situation is different in the stand alone category, as banks did not opt to merge or acquire. Findings in Table 5.3 do not indicate that stand alone banks focused on powerful guiding coalitions. This might be because these banks basically maintained their existing hierarchy and changes were not major transformational programs as is the case in other categories, even though the CBN provided an 18 month window for all banks to recapitalise. This will hold true if there is a consensus amongst senior managers that the measures being implemented are in the best interest of the bank. It is expected that a high sense of urgency creates an environment for managers to access opportunities and threats for their banks, and provide the necessary power structures to implement changes necessitated by this task. This suggests that Kotter’s (1998) framework might not have been applied in its strict sense, giving the starting point of stand alone banks (changes not as significant as in common ownership and common interest banks). This situation is explained in the “change contextual features” of the Kaleidoscope (Balogun and Hope-Hailey 2004), which refers to aspects of organisational culture, competences and current situation being considered before selecting a change approach. Hence, Kotter (1998), Kliem (1996), Want (1995) and Kanter et al. (1992) fail to adequately emphasise that the focus on powerful coalitions may not always be necessary if changes are carried out in the context of existing organisational hierarchy, power structures and commitment from senior management.

Table 5.3 also shows that twelve managers identified strategic objectives, vision and business plan as key elements used in implementing change. Taking into consideration the CBN’s requirements, all categories of consolidating banks developed vision statements and put strategies in place to meet them. The concern here is if this vision is clear enough to help align employees and coordinate their actions in an effective way. In response to a question on the bank's vision and objectives, a senior manager (CI1:M1) notes that:

> "A lot has changed as a result of the consolidation, and our systems were quite different from that of Lion Bank. I will agree that staff of Lion Bank are a bit slow and still have difficulties aligning with the new vision of the bank".

In support of this view a senior manager (CO1:M1) claimed that:

> "Even though our merger was achieved by bringing banks from the same banking group together, more could be done to align our people with the new vision".

It is evident from the interview above, that the change vision did not effectively align people in some banks. This suggests a lack of clarity of the vision and strategy for change, and indicates that more was needed to be done across categories of consolidating banks to coordinate people's actions. Kotter (1998) argues that the task of communicating the change vision generates dozens of questions, and the guiding coalition's ability to effectively capture and answer these questions for employees, makes the communication of change vision a challenging exercise. Studies conducted by Farmer et al. (1998) suggest that the manager who flattens the communication hierarchy is more likely to achieve shared vision. Adopting a flat communication hierarchy which focuses on answering employee questions could well improve the possibility of achieving shared vision. The emotional work of letting go of the status quo is difficult, but the ability to communicate vision effectively to broader constituencies will go along way in getting people on board.

Although Table 5.3 emphasises the use of training in enhancing employee participation. Another important factor in aligning people is the ability to test the vision against realities on the ground. This will help trigger necessary adjustments to the strategy, retain support of management and sustain momentum for the change process. Detailed analysis of the interviews does not reveal any deliberate actions by managers across consolidating banks to test their vision against realities on ground. For example the successful public offering achieved by some Nigerian banks (Banks in the first strata) is an indication of a favourable public perception of these organisations. However, there is no evidence to show that deliberate action was taken by managers to take advantage of these wins. This is particularly essential, because it will generally encourage employees to see the change vision as achievable.

The merger between Stanbic Bank Nigeria Limited (a member of The Standard Bank Group of South Africa Limited) and IBTC Bank Plc, in which Standard Bank had in August 2007 secured 50.1% shareholding of IBTC Chartered (Standard Bank 2008) shows that some banks have consolidated on gains to produce more change. Closer examination reveals that where banks had established guiding coalitions, many continued to implement multiple change projects. Confirming this, a senior manager (CI7:M1) stated that:

> "It's still on-going, if you observed we are re-branding. First Inland bank is now known as FinBank. A lot of things have changed and there was a process taken in which we took brand people, we once again took consultants and we went through a process of communicating what was about to happen to our people. Letting everybody know that there is need for a change, this is what the consultants are saying, this is the perception of the public to the newly consolidated bank and we don't want to remain there. This is where we want to go. So there was a period of creating awareness, we nominated those we call brand ambassadors, people who

> would drive the process in various locations. So it came in bits, for the past 2 to 3 years we have been taking it in bits. So far so good I think it's working well".

The implementation of multiple change projects after consolidation, is also confirmed by the respected financial analyst (P1:M1) who notes that:

> "Even after achieving the requirements for consolidation, most banks continued to develop and implement projects aimed at aligning their people and improving the competitiveness of the organisation".

The trend highlighted above implies that consolidating banks did not declare victory after meeting the CBN's December 2005 deadline. It is observed from the interviews that all categories of banks embarked on projects aimed at improving corporate governance, credit processing, cultural integration, systems upgrade and so on. This is encouraging and necessary as major transformations require guiding coalitions to keep urgency levels high and stay the course in order to accomplish objectives. However, it is relatively early to judge processes in place to consolidate gains because consolidation was completed 4 years ago and major transformations could go on for years. The ability of managers in most banks to keep urgency at a level necessary to accomplish objectives can only be established over time.

One other incentive available to senior managers, is their ability to relate benefits to altered action. Thus employees can connect changes in their actions to successes in the work place or business environment, and as a result are more willing to continue on that path. Luecke (2003 p. 44) notes that "it is critical that employees be as concerned with institutionalizing the "journey" as with implementing the process itself". Table 5.3 shows that ten managers from common ownership and common interest banks highlighted cultural integration and acculturation as an important process in consolidation. More detailed examination indicates that some banks made significant efforts to alter people's action in the first phases of the transformation. A senior manager (CI5:M1) also states that:

> "As a result of the merger, we had several cultures. We adopted what was best. The integration teams basically looked at what was good and what was on ground. The idea was that: a new bank, this is the business objectives, this is how fast we want to move, and this is where we want to be. So if you need to recommend new things recommend them".

This is a positive observation. However, evidence from the interviews suggests that managers have not been very successful in anchoring new approaches in the culture. This is illustrated by the response of a senior manager (CI1:M1) who notes that:

> "You know bringing two banks together, you have to harmonise different work cultures. Lion Bank has a way that they normally do their processes, in fact they were seen as a bit slow in their approach to the market. For instance their marketing is not as aggressive, so the staff that were taken over had to be taught to move (laughs). Even up till now, I can tell you that it's still a bit easy to identify former Lion Bank staff, they are a bit reserved".

Even though the common ownership and common interest banks prioritised harmonisation of people and systems. Evidence from the interviews suggests that these banks experienced difficulty in institutionalising preferred cultures and systems. A detailed analysis of the interviews does not show any effort by managers in these banks to effectively highlight benefits or explain the connection of new actions to performance improvements (if any), and this is the most likely reason for the lack of institutionalisation identified above.

However, the context for stand alone banks was different, as they focused on scaling up while maintaining existing cultures and systems. This made institutionalisation a little easier for this category of banks. There is also the possibility across consolidating banks that expected gains might not have manifested, as this analysis was conducted 4 years after the banking consolidation, and more time could be needed to ascertain or confirm expected gains. Even at this, changing old cultures or processes and institutionalising new ones are difficult to achieve. Thus, a deliberate effort by managers to highlight gains resulting from alterations in action becomes even more important in transformational activities. Based on the analysis presented in this section, Table 5.4 provides an overview of Kotter's (1998) eight-stage framework for change across categories of consolidating banks in Nigeria. Terms used in the Table include: "LOW" (means the element has little application in that category), "MEDIUM" (means the element applies that category but not to a high degree) and "HIGH" (means the element is significant in that category).

Table 5.4: Kotter's (1998) Eight-stage framework for change across categories of consolidating banks in Nigeria (July 2004-July 2009)

Stages	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
Establishing a Sense of Urgency	HIGH/Appointed change champions	HIGH/Appointed change champions	HIGH/Appointed change champions
Creating the Guiding Coalition	LOW/Maintained existing structures	HIGH/Appointed Integration Teams	HIGH/Appointed Integration Teams
Developing a Vision and Strategy	HIGH/Identified strategic objectives and business plans	HIGH/Identified strategic objectives and business plans	HIGH/Identified strategic objectives and business plans
Communicating the Change Vision	LOW/Vision and Strategy for change not clear	LOW/Vision and Strategy for change not clear	LOW/Vision and Strategy for change not clear
Empowering Employees for	MEDIUM/Maintained existing power	HIGH/Developed new power	HIGH/Developed new power

Broad-Based Action	structures	structure	structure
Generating Short-Term Wins	LOW/No deliberate efforts to highlight short term wins	LOW/No deliberate efforts to highlight short term wins	LOW/No deliberate efforts to highlight short term wins
Consolidating Gains and Producing More Change	MEDIUM/Reorganised existing structures to accommodate increase in size as a result of consolidation	HIGH/Guiding coalitions implemented multiple change projects after consolidation	HIGH/Guiding coalitions implemented multiple change projects after consolidation
Anchoring New Approaches in the Culture	HIGH/Limited changes to culture and systems, some reform to existing culture	LOW/Difficulty in institutionalising preferred culture and systems in mergers	LOW/Difficulty in institutionalising preferred culture and systems in mergers

Source: Author Generated (From interview data)

In this study, Kotter's (1998) eight guidelines are used as an analytical framework to evaluate planned change in Nigerian banks, even as some degree of iteration could occur within the proposed guidelines. Table 5.4 shows an application of Kotter's (1998) eight guidelines in analysing the process of consolidation in Nigerian banks. The analysis suggests a lack of clarity of vision and strategy for change in some banks. There are also indications that managers have not effectively highlighted wins, even though some banks have consolidated on gains to produce more change. It is expected that gains could help convince employees to institutionalise altered action. A major determinant will be management's interpretation of its business environment and how it responds to varying forces for and against change. In the next section positive factors for and negative factors against banking consolidation in the case of Nigeria are discussed.

5.6 Forces For and Against Banking Consolidation in Nigeria

This section deploys Lewin's (1951) force field analysis to examine the nature and relative magnitude of forces acting upon consolidation in the Nigerian banking industry. Paton and McCalman (2000) note that the force field analysis is a positioning tool and assists in answering questions such as:

what forces are at play and what is their likely magnitude? The essence is to determine who is for change and who is against. It is expected that managers would better manage the change process if they can identify what forces are for change and against it. Table 5.5 summarises the response of managers (from successful banks) on forces for consolidation in the Nigerian banking industry.

Table 5.5: Positive Factors for Bank Change Process

(Q4: From my understanding of implementing change, there could be positive factors that drive the change process. What positive factors influenced the change process for your bank?)

Codes	**Stand Alone Banks**	**Common Ownership Banks**	**Common Interest Banks**
4.1 Skilled staff/Training			(CI6:M1)
4.2 Information Technology Infrastructure			
4.3 Corporate Governance			
4.4 Strong Brand	(SA1:M2)	(CO1:M1)	(CI1:M1)
4.5 Successful Public Offering/Strong Capital Base	(SA1:M2)	(CO1:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI4:M1) (CI7:M1) (CI6:M1) (CI3:M2) (CI5:M1)
4.6 Motivated Staff/Opportunities for Growth	(SA1:M2)		(CI2:M1) (CI3:M2) (CI5:M1)
4.7 Well Established Processes		(CO1:M1)	(CI1:M1)
4.8 Effective Communication	(SA2:M1)	(CO2:M1)	(CI2:M1)
4.9 Management's Commitment	(SA1:M2)	(CO1:M1)	(CI2:M1) (CI3:M2) (CI6:M1) (CI1:M1) (CI7:M1) (CI5:M1)
4.10 Clear Performance Measurement parameters			(CI3:M1) (CI3:M2) (CI4:M1) (CI7:M1)
4.11 Strategic Objectives/Vision/ Business Plan	(SA1:M1) (SA1:M2)		(CI2:M1) (CI5:M1)

4.12 Acculturation			(CI3:M2) (CI6:M1)
4.13 Unsatisfactory Status Quo	(SA2:M1)	(CO2:M1)	
4.14 Strong Regulatory Will of the CBN	(SA1:M2)		(CI7:M1) (CI1:M1) (CI2:M1) (CI3:M1) (CI4:M1) (CI6:M1) (CI3:M2) (CI5:M1)
4.15 Other Issues			

Source: Author Generated (From interview data)

The result in Table 5.5 shows that respondents across categories of consolidating banks identified successful public offering, management's commitment and strong regulatory will by CBN as the most prominent positive factors and enablers for consolidation. Clearly the successful public offering in which Nigerian banks raised over N350 billion from the capital market and $652 million from foreign direct investment, leading to a total capitalisation of almost N1 trillion compared to less than N300 billion pre 2004 (CBN 2006) is positive. This also indicates that the Nigerian public favourably perceive the banking industry and by extension its business environment (Soludo 2006). Soludo's (2006) view is supported by the respected financial analyst (P1:M1) who states that:

> "Banks were able to raise funds from the public, because people believed in the reform carried out by the CBN and the expected benefits of this reform for the Nigerian economy".

Ultimately, the perceived benefits of banking consolidation made it possible for some banks to meet the CBN's regulation of N25 billion minimum capital base, amongst other requirements for consolidation.

It is not surprising that as many as eight respondents in Table 5.5 identified management's commitment as a positive factor and an enabler, because this is required if banks are to emerge successfully from the rigorous processes necessitated by the consolidation. Management teams might also be influenced by the expected benefits of consolidation or the consequence of not meeting CBN's requirements (loss of bank's licence). Although these factors might vary from bank to bank, the imperative to consolidate had a compelling effect on management. Finally, managers highlighted the CBN's strong regulatory as a positive factor. This implies that managers believed in the regulator and its ability to see the process through. This is significant, as it will help to sustain stability and build confidence within and outside the banking industry. Table 5.6 summarises the response of managers (from successful banks) on negative forces against consolidation in Nigeria.

Table 5.6: Negative factors against Bank Change process

(Q5: People naturally tend to resist changing old patterns. What sort of challenges did you face while trying to implement these changes in your bank?)

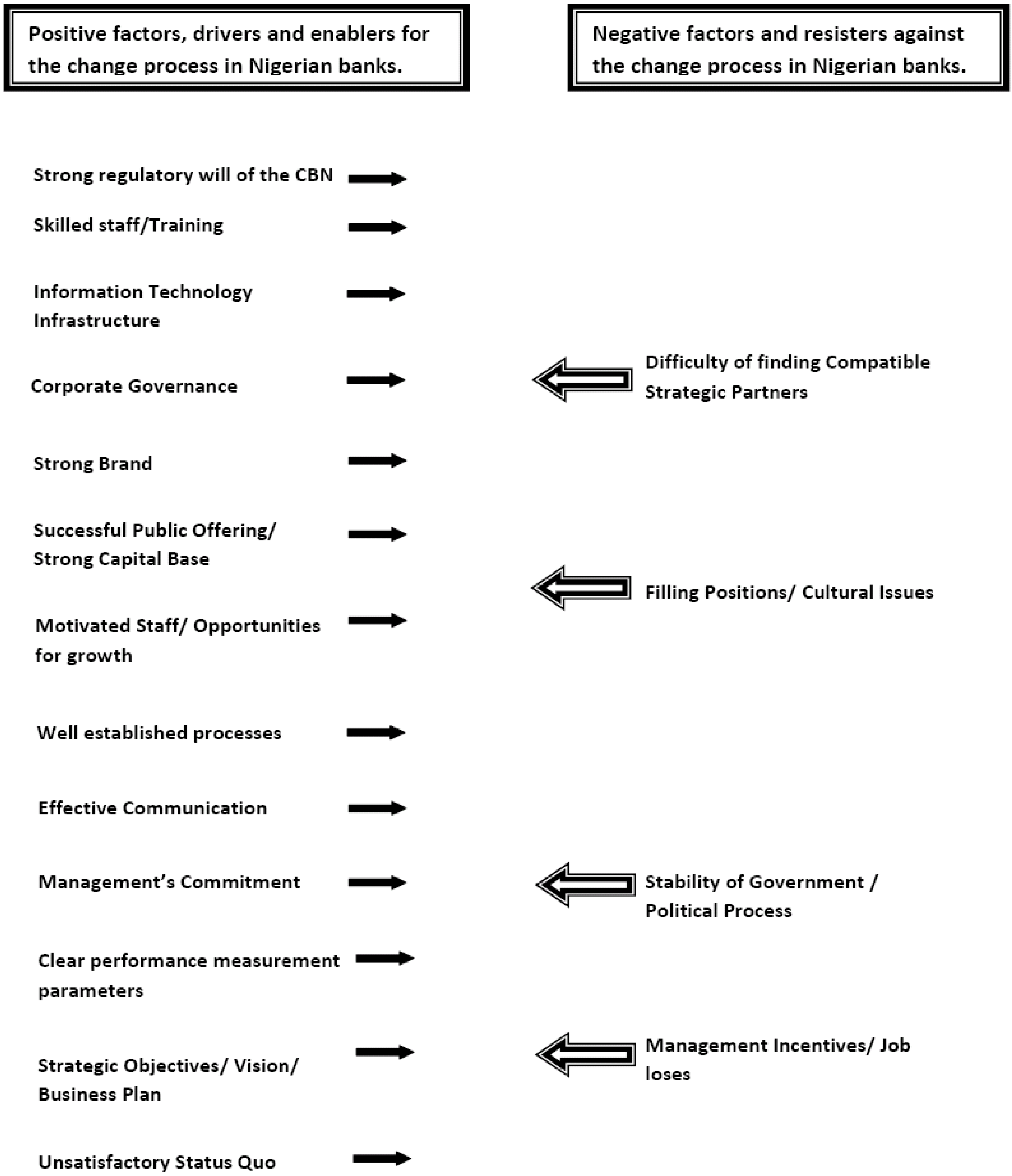
Codes	**Stand Alone Banks**	**Common Ownership Banks**	**Common Interest Banks**
5.1 Difficulty of Finding Compatible Strategic Partners			(CI3:M2) (CI7:M1)
5.2 Filling Positions/Cultural Issues	(SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI4:M1) (CI5:M1) (CI7:M1)
5.3 Weak Control Mechanisms as a result of bigger size	(SA1:M2)		
5.4 Stability of Government/Political Process	(SA2:M1)		
5.5 Management Incentives/ Job loses		(CO1:M1) (CO2:M1)	(CI2:M1) (CI3:M1) (CI4:M1) (CI6:M1)
5.6 Other Issues			

Source; Author Generated (From interview data)

Table 5.6 highlights cultural integration and management incentives as the most powerful forces working against banking consolidation in Nigeria. It shows that managers across categories of consolidating banks experienced difficulty in bringing different cultures together. This implies that the acculturation efforts by managers did not have the right impact on employees. It is also possible that employees are still not able to link altered actions to benefits in their work place or business environment. Secondly, people traditionally protect their domain and will do any thing possible to resist perceived threats. Thus managers try to protect their streams of influence in uncertain conditions; this is illustrated in Table 5.6 where only senior managers from common ownership and common interest banks identified management incentives as a negative factor. There are still significant changes being carried out in these banks and this is why 4 years after consolidation, management incentive and job losses are recurring negative factors.

Though the most prevalent reason for banks resisting consolidation was their low capacity to raise capital, no senior manager highlighted this as a negative factor against consolidation. This is probably because all managers interviewed were from banks which achieved the minimum capitalisation requirement either by going solo, mergers or acquisitions. Therefore, their ability to raise the minimum capital requirement might be why they do not see this as a negative factor in the process of consolidation. Figure 5.1 shows the force field diagram for consolidating banks in Nigeria.

Figure 5.1: Force Field for consolidating banks in Nigeria



Source: Author Generated (from face-to-face interviews with senior managers in Nigerian banks). Note: Size or style of arrow is not indicative of strength of force.

The diagram above identifies the change situation for Nigerian banks that successfully achieved the CBN's consolidation requirements; presumably the barriers (negative factors) were much greater for unsuccessful banks. These elements may or may not apply in all individual banks, as this represents an amalgam of successful banks. This situation is examined in more detail in section 7.2, through an analysis of the change situation in different categories of consolidating banks. The positive and negative forces presented here does not reflect the relative magnitude or strength of these forces, as the researcher did not have access to directly observe these events.

To deal with these conflicts, managers must take advantage of successful public offerings, CBN's strong regulatory will, management's commitment and put processes in place for improvement were necessary. These measures must be reassessed regularly to ensure relevance as the business environment evolves. On the other hand, efforts should be made to mitigate the impact of poor cultural integration and management incentives on the bank's performance. The next section discusses the conclusion and summary of key findings.

5.8 Conclusion and Summary of Key Findings

This chapter presented findings arising from the series of in-depth interviews with senior managers in the Nigerian banking industry. The analysis examined why, what and how banking consolidation was achieved in Nigeria. Soludo (2007) suggested the Nigerian financial system was characterised by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a pragmatic reform. In July 2004, the CBN provided all banks with an 18 months window to recapitalise to the tune of N25 billion.

Receptive banks were generally better equipped in terms of capacity to raise capital to meet the new recapitalisation requirement, while resistant banks were characterised by low capacity to raise capital. Apart from Standard Chartered Bank, all consolidating banks which participated in the interviews increased their capital base through public offers. In addition to their public offerings, Bank PHB and FCMB raised capital through private placement and strategic investors respectively. Interestingly some banks had the capacity to go solo after raising capital, while others who did not meet this requirement (N25 billion capital base) opted for mergers or acquisitions. These activities were also influenced by the structures, cultures and political context within these banks.

Findings from the analysis of interviews with senior managers indicate that, staff of resistant banks were not very well motivated (section 5.2). The most evident reason for this is the ill preparedness of management and the CBN's 18 months window for consolidation. Thus, management in these banks were unable to effectively address specific staff concerns. The banking industry also experienced shortage of skilled human capital, resulting from Nigerian banks not having played an intermediation role in the economy. The analysis of processes for consolidation suggests a lack of clarity of vision and strategy for change. There are also indications that managers have not effectively highlighted wins, even though some banks have consolidated on gains to produce more change. Cultural integration and management incentives are identified as the most prevalent negative factors against the change process. These shortcomings could impact on bank performance matrices; however the focus here is on the effects of these changes on credit availability to the private sector.

This chapter concludes that most aspects of organisational change in consolidating Nigerian banks were successful, but a lot more needs to be done to improve cultural integration and employee motivation. The next chapter explores the effects of banking consolidation on the availability of credit to the private sector.

Chapter 6: Effects of Banking Consolidation on the Credit Availability to the Private Sector in Nigeria

6.0 Introduction

Following the critical analysis of change management practices in Nigerian banks in chapter 5, this chapter aims to examine the effects of banking consolidation on credit availability to the private sector. More specifically, the static effect, the restructuring effect, the direct effect and the external effect of consolidation on credit availability are analysed as identified in Berger et al. (1998). This chapter will also present findings from the series of in-depth interviews held with officials in Nigerian banks. Findings of these interviews are then compared to the evidence from secondary data to reflect on the impact of consolidation on credit availability.

This chapter is organised as follows: Section 6.1 presents the evaluation framework used and provides the sources of secondary and primary data. Section 6.2 examines the static effect of consolidation by comparing findings and analysis of in-depth interviews and secondary data. Section 6.3 analyses the restructuring effect of consolidation and examines how the change in focus due to changes in bank size may have affected credit. Section 6.4 discusses the direct effect by examining the difference between a bank's lending after consolidation and the lending of another institution of the same size as the restructured bank that has not undergone a merger or acquisition. Section 6.5 looks at the external effect of consolidation by analysing the reactions by other lenders in the business environment to the changes in competitive conditions resulting from the banking consolidation. Section 6.6 summarises and concludes the findings of this chapter.

6.1 Evaluation Framework

Berger et al's. (1998) framework tests the static effect, the restructuring effect, the direct effect and the external effect of mergers and acquisitions in the banking industry on credit availability. By examining other non-static effects of consolidation, it recognises the influence of the general and competitive environment on credit. Thus this study adapts this framework to analyse the effects of banking consolidation on credit availability to the private sector in Nigeria. The framework is discussed in detail in section 3.6. Secondary data is collected from the CBN, individual banks and online reports on the Nigerian banking industry. The secondary data is then analysed to inform the in-depth face-to-face interviews conducted with participants from eleven Nigerian banks and a respected financial analyst (section 5.1).

This chapter contains all secondary data analysis. The time period under review is 2001-2009, this encompass the 18 months transitional window and a trajectory of 3 years before the consolidation announcement. However, it is important to **NOTE** that for some data sets and years, data was not available in audited form from the CBN at the time of this analysis, and as a result such data was not included to avoid issues of validity (for example: audited data was only available from 2001-2007 for the calculation of concentration ratios and Herfindahl-Hirschman Index). The first section relates to the secondary data analysis that was conducted to inform the collection of primary data in chapter 5, this approach is used to avoid fragmentation. Secondary data used for analysis in this chapter includes: (i) Gross Loans and Advances, (ii) Total Deposits, (iii) Gross Total Assets (Appendix 6).

The main issues covered during the interviews include: (i) change in the size of top 10 banks, (ii) competition in the newly consolidated banking industry, (iii) factors affecting bank propensity to lend, (iv) deposit and lending rates in the banking industry, (v) flow of credit to the private sector, (vi) risk diversification, (vii) changes in lending policies, (viii) the role of other credit providing institutions in the business environment, and (xi) perceived challenges in credit performance in the next 18 months (Table 4.1). The next section examines the static effect of banking consolidation in Nigeria.

6.2 Static Effect of Banking Consolidation in Nigeria

According to Berger et al. (1998), the static effect is the change in lending propensities which results from simply combining the balance sheets of the participating banks into a larger institution with combined characteristics (raw data used for analysis is contained in Appendix 6). To explore the static effect in the case of Nigeria, this study deploys a range of analytical tools including: (i) concentration ratio, (ii) Herfindahl-Hirschman Index, (iii) capital adequacy ratio, (iv) Interest rates spread, and (v) total credit to GDP. These results will be analysed in the light of evidence from interviews with managers in Nigerian banks and secondary data.

6.2.1 Concentration Ratio

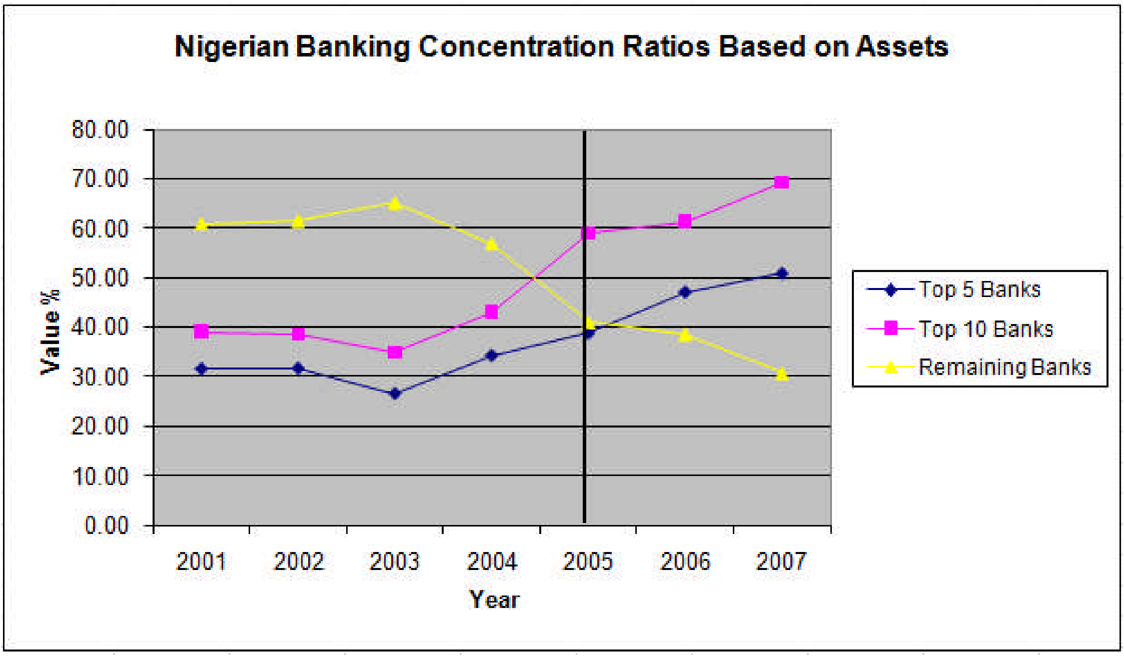
Concentration ratio measures the total output produced in an industry by a given number of firms in the industry. Usually concentration ratios are used to show the extent of market control of the largest firms in the industry and to illustrate the degree to which an industry is oligopolistic (Lu et al. 2007). Concentration ratio will be used as a tool to study the impact of consolidation on the size of big banks in Nigeria. Thus, this study tests the following null hypothesis.

H_0 (CR): There is no difference in the size of assets, deposits, and extended loans of Top10 Nigerian banks as a result of the consolidation.

Demsetz (1973) and Gort (1969) argue that the cost advantage that gives rise to increased concentration may be reflected in scale economies or in downward shifts in positively sloped marginal cost curves, or it may be reflected in better products which satisfy demand at a lower cost. They further note that efficiencies can also occur in other ways.

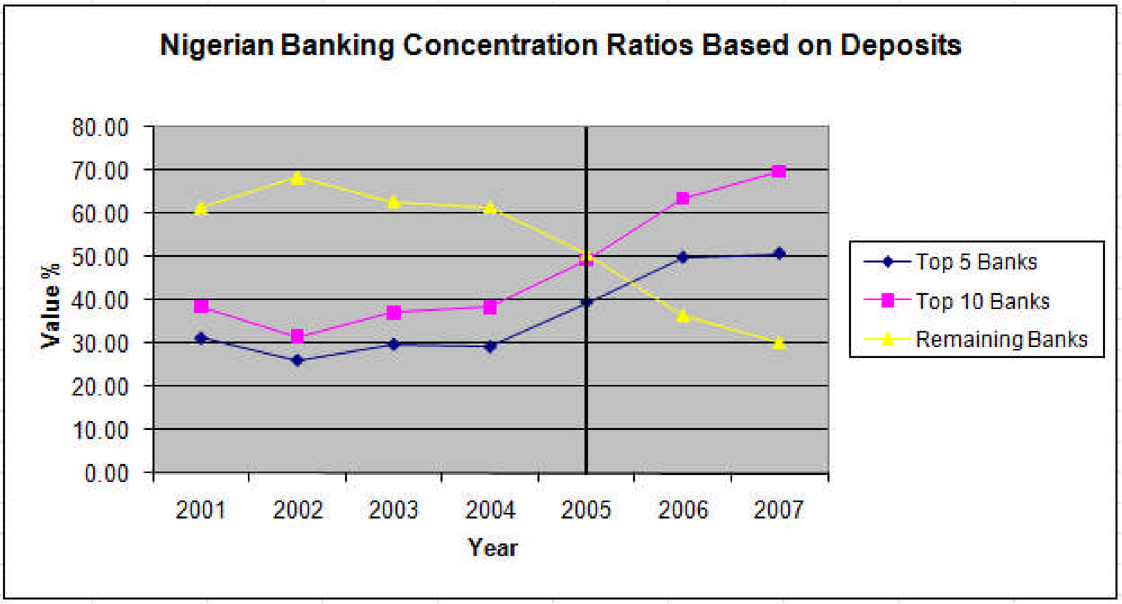
The graph of concentration ratio in Nigerian banking industry shows that there has been significant change in the size of Nigerian banks during and after the consolidation process. In Charts 6.1, 6.2, and 6.3 assets, deposits and extended loans in the top 10 Nigerian banks increased after consolidation.

Chart 6.1: Nigeria Banking Concentration Ratios Based on Assets



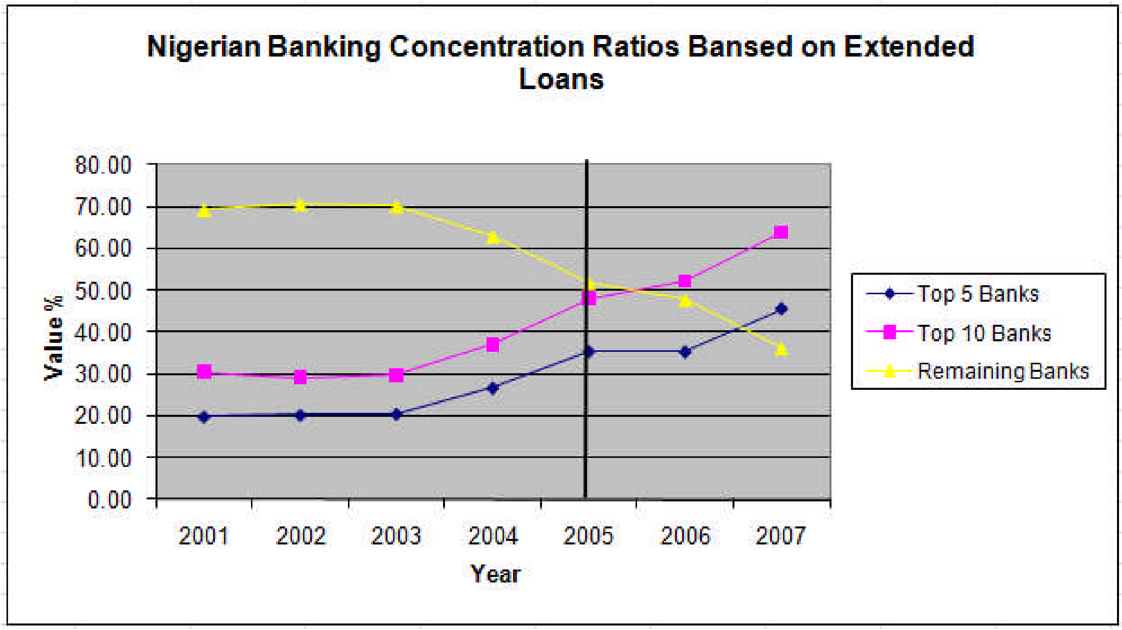
Source: Author Generated (Data from CBN Annual Reports)

Chart 6.2: Nigeria Banking Concentration Ratios Based on Deposits



Source: Author Generated (Data from CBN Annual Reports)

Chart 6.3: Nigeria Banking Concentration Ratios Based on Extended Loans



Source: Author Generated (Data from CBN Annual Reports)

The three charts (6.1-6.3) shown above present a clear trend in the size of Nigerian banks between 2004-2007 (the horizontal line in charts shown above represents the time before and after consolidation). It appears that the size of the top 10 banks increased by assets, deposits and extended loans year on year after consolidation (remaining banks are other banks not in the top 10). In comparison to the top 10 banks, results also show that the business share of remaining banks decreased year on year between 2004-2007. In all three charts this decrease begins in 2004 and 2005 during the 18 months window for consolidation and is particularly significant post consolidation in 2006 and 2007. Tables 6.1- 6.6 show statistical tests to measure differences in mean figures for concentration ratios based on assets, deposits and extended loans. These tests cover annual data for seven years and are based on mean differences between each group for each year analysed, e.g. $(\text{Mean Top 5})_{2002}$ – $(\text{Mean Rest})_{2002}$.

Means and T-Test Comparisons of Nigerian Banking Concentration Ratios Based on Assets Before and After Consolidation

Table 6.1: Group Statistics

(N stands for 5 years before and 2 years banking consolidation)

	Period	N	Mean	Std. Deviation	Std. Error Mean
Top5 - Rest	Before	5	-24.5620	13.66894	6.11293
	After	2	14.2650	8.22365	5.81500
Top10 - Rest	Before	5	-14.2560	18.90100	8.45279
	After	2	30.6500	11.18643	7.91000

Source: Author Generated Based on CBN Data

Table 6.2: Independent Samples Test

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
Top5 - Rest	Equal variances assumed	-3.635	5	.015	-38.82700
	Equal variances not assumed	-4.602	3.395	.015	-38.82700
Top10 - Rest	Equal variances assumed	-3.044	5	.029	-44.90600
	Equal variances not assumed	-3.879	3.460	.023	-44.90600

Source: Author Generated Based on CBN Data

Means and T-Test Comparisons of Nigerian Banking Concentration Ratios Based on Deposits Before and After Consolidation

Table 6.3: Group Statistics

	Period	N	Mean	Std. Deviation	Std. Error Mean
Top5 - Rest	Before	5	-29.7540	11.38360	5.09090
	After	2	16.8650	5.05581	3.57500
Top10 - Rest	Before	5	-21.9400	12.83660	5.74070
	After	2	33.2000	8.82469	6.24000

Source: Author Generated Based on CBN Data

Table 6.4: Independent Samples Test

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
Top5 - Rest	Equal variances assumed	-5.342	5	.003	-46.61900
	Equal variances not assumed	-7.494	4.521	.001	-46.61900
Top10 - Rest	Equal variances assumed	-5.428	5	.003	-55.14000
	Equal variances not assumed	-6.503	2.891	.008	-55.14000

Source: Author Generated Based on CBN Data

Means and T-Test Comparisons of Nigerian Banking Concentration Ratios Based on Extended Loans Before and After Consolidation

Table 6.5: Group Statistics

	Period	N	Mean	Std. Deviation	Std. Error Mean
Top5 - Rest	Before	5	-40.4900	14.69010	6.56961
	After	2	-1.4950	15.46443	10.93500
Top10 - Rest	Before	5	-30.1280	16.07896	7.19073
	After	2	16.1000	16.43316	11.62000

Source: Author Generated Based on CBN Data

Table 6.6: Independent Samples Test

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
Top5 - Rest	Equal variances assumed	-3.139	5	.026	-38.99500
	Equal variances not assumed	-3.057	1.794	.106	-38.99500
Top10 - Rest	Equal variances assumed	-3.421	5	.019	-46.22800
	Equal variances not assumed	-3.383	1.845	.086	-46.22800

Source: Author Generated Based on CBN Data

The mean levels and T-Test statistics for concentration ratios based on assets, deposits and extended loans in the Tables above, show significant differences before and after consolidation. The mean yearly differences of top 10 banks-Rest in Tables 6.1, 6.3, and 6.5 are -14.26, -21.94, -30.13 before and 30.65, 33.20, 16.10 after consolidation. T-Tests in Tables 6.2, 6.4 and 6.6 are significant (t=-3.044, p=0.029), (t=-5.428, p=0.003) and (t=-3.421, p=0.019) at 5% level. The Mann-Whitney tests are also marginally significant (u=0, p=0.053), (u=0, p=0.053) and (u=0, p=0.053) at just above the 5%

level threshold. For both T-Test and Mann-Whiney statistical test, this study rejects the null hypothesis that there is no difference in the size of top 10 banks as a result of the consolidation at 5% level of significance. It implies that the consolidation has resulted in a gradual increase in the size of top end of Nigerian banks. In order to further investigate these findings, results from Table 6.7 are examined.

Table 6.7: Increase in Bank Size

(Q6: The concentration ratios of the Nigerian banking industry shows that, top 10 banks have increased in size by assets, deposits and extended loans. How has this changed your bank's risk management and other operational activities?)

Codes	**Stand Alone Banks**	**Common Ownership Banks**	**Common Interest Banks**
6.1 Improved Risk Assessment Parameters	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M1) (CI3:M2) (CI5:M1) (CI7:M1)
6.2 Standardisation	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1)	(CI3:M2)
6.3 Enterprise Risk Management Systems/Basel II	(SA1:M1) (SA1:M2)	(CO1:M1)	(CI7:M1)
6.4 Global Reach/Assess to International Credit Markets	(SA1:M1)		(CI2:M1)
6.5 Reassessment of Operational Activities/ Restructuring	(SA1:M1) (SA2:M1)		(CI1:M1) (CI3:M1) (CI3:M2) (CI5:M1)
6.6 Increased Obligor Limits	(SA1:M2) (SA2:M1)	(CO2:M1)	(CI2:M1) (CI5:M1) (CI7:M1)
6.7 Resize Target Market	(SA1:M2) (SA2:M1)		(CI2:M1) (CI5:M1)
6.8 Improved Risk Management Expertise/ Consumer Sector	(SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M2) (CI5:M1)

Expertise/ Training			
6.9 Risk Management Tools		(CO1:M1)	(CI1:M1) (CI5:M1)
6.10 Other Issues	(SA1:M2)		

Source: Author Generated (From interview data)

Mausser and Rosen (2001), Demsetz (1973) and Gort (1969) note that cost advantages arising from increased concentration may result in downward shifts in positively sloped marginal cost curves. Isaac (1990 p. 4) argues that “Consolidation, particularly in-market mergers, will reduce the number of institutions chasing marginal business and running up the cost of funds. And it will allow substantial overhead reductions without impairing the ability of banks to serve their customers properly”. In theory, such economies could extend until banks reach a fairly modest size when there is no cost advantage to further expansion (Brown and Medoff 1989). Interestingly, Table 6.7 shows that increased bank size influenced most banks to improve their risk management parameters, increase obligor limits, resize target markets and improve risk management expertise amongst other things. Typically, increased obligor limits mean that managers have a higher proportion of capital available to lend, and as a result the capacity to resize their target market. These opportunities might also necessitate the reassessment of risk parameters and expertise, which should improve the cost, quality and quantity of credit available in the short or long run.

There is considerably more activity in the stand alone and common interest categories in Table 6.7. Evidence in section 5.2 and Table 5.4 indicates that managers in stand alone banks were proactive and maintained existing power structures, and as a result are able to quickly implement necessary upgrades. While managers involved in mergers in common interest banks, developed new power structures and tried to integrate their people and systems as a matter of necessity. Compared to the common interest banks, managers in common ownership banks brought people and systems together from banks that were owned by the same management teams, and thus able to adopt existing practices.

Aside from the downward shift in marginal cost achievable from actions examined above, evidence in Table 6.7 show that more managers across categories of consolidating banks improved their risk assessment parameters. Non-performing loans in the Nigerian banking industry increased from N101 billion in 1999 to N187 billion in 2002, and reached a high of N306 billion in 2004. Furthermore, non-performing loans as a proportion of total loans and advances averaged 20.3, this ratio is considered to be very high when compared to a ratio of between 8-10 per cent widely accepted international standard (Otu 2005). Thus, the focus on improved risk assessment parameters is uniquely important given the context of Nigerian banks. To check the deterioration of bank assets, managers are required to review their credit portfolio periodically with a view to identify any defects in quality and reclassify them accordingly. Evidence in this section supports the consolidation experience and could positively impact on the quality of loans from Nigerian banks.

6.2.2 Herfindahl-Hirschman Index

Herfindahl-Hirschman Index makes use of information on every firm in an industry, and measures the size of firms in relation to the industry and an indicator of the amount of competition among them (Lu et al. 2007). In examining the nature of competition in the Nigerian banking industry, this study will test the following null hypothesis.

H_0 (HHI): There has been no change in competition amongst Nigerian banks, between 2001-2007.

Herfindahl-Hirschman Index is used to test the degree of competition in the Nigerian banking industry before and after the consolidation. Lu et al. (2007) (in the case of China's Banking Industry) has identified benchmarks for standard HH Index in Table 6.8, while Table 6.9 shows Herfindahl-Hirschman Index of Nigerian Banks:

Table 6.8: Benchmarks for Standard Herfindahl-Hirschman Index

When banking sector is in a state of competition	HHI will be under 1
When banking sector is in a state of decreased competition	HHI is nearer 1

Source: Lu et al. (2007)

Table 6.9: Herfindahl-Hirschman Index of Nigerian Banks

	2001	2002	2003	2004	2005	2006	2007
HHI for Assets	0.055	0.053	0.052	0.050	0.054	0.079	0.079
HHI for Extended Loans	0.035	0.039	0.032	0.039	0.048	0.064	0.077
HHI for Bank Deposits	0.057	0.057	0.046	0.050	0.056	0.086	0.080

Source: Author Generated (Data from CBN Annual Reports)

Table 6.9 reports the HH Index for banks in Nigeria based on assets, deposits and extended loans between 2001-2007. The first row gives detail of HH Index based on assets, and shows HH Index increased to 0.079 in 2006 and 2007 respectively. The second row presents HH Index based on extended loans, and shows HH Index increased to 0.064 in 2006 and 0.077 in 2007 respectively. The last row highlights HH Index based on deposits, and shows HH Index increased to 0.086 in 2006 and 0.080 in 2007 respectively.

Based on the HH Index benchmarks identified by Lu et al. (2007) and presented in Table 6.8 the increase in values above between 2006-2007 are insignificant, as the Nigerian banking sector appears to be in the state of competition before and after consolidation. The HH Index values for assets, deposits and extended loans remain well below the benchmark value of 1, which suggests that the Nigerian banking industry witnessed a high degree of competition throughout the period under review. Furthermore, evidence from the interviews presents the general perception about competition within the professionals in the banking industry in Nigeria. For example, a senior manager (CI1:M1) claimed that:

> "Banks are now able to do business they were unable to do before. If there were two or three banks lending to Coca Cola Plc, now even more banks could go for Coca Cola. There is also development of new areas like mortgages, consumer finance, credit cards……..you see all these are areas that banks are competing to get a niche".

In support of the argument presented above, a senior manager (SA1:M2) also notes that:

> "There became almost a level playing field, and that is where the competition then came, because customers all of a sudden realised they could be choosy. Out of these 24 banks customers were almost certain that their money was safe. As a result safety was no longer an issue. I then go for pricing. So for customers who were bringing deposits they were asking for ridiculous interest rates on their deposits, so banks had to increase the interest rates. For all of us as well, because now we had such huge capital and didn't know what to do with it, we then had to lend. We were almost literally throwing money at people to say come and borrow, and because we were almost literally throwing money to people. They are saying guess what: I wouldn't borrow at a high rate because if you don't lend me I will go to another bank. So in my own opinion, competition became stiff after the consolidation".

The reasons offered by interview respondents to explain the state of competition are: increased capacity to raise capital, development of new products, improved expertise, better technology, resized target markets and ease of comparison for borrowers resulting from reduced information search costs. Interestingly, the explanations above indicate that increased capacity of banks was the most important factor driving competition in Nigeria. Aside from resizing target markets, customers could now choose from a variety of products from safe banks. Customers with good risk ratings were able to further negotiate rates as this category of borrowers was highly sought after by banks. Skilled staff was in high demand, as banks could afford to source for expertise locally and globally. Superior technology was deployed by banks to enhance capacity and service to customers; for example Standard Chartered Bank and First City Monument Bank introduced new Personal Instalment Loans for working professional with a turn around time of 48 hours (SCB 2010; FCMB 2010). This is impressive when compared to the minimum 7 days generally required for loan approvals in the Nigerian banking industry. The combination of these factors and the drive to gain market share by newly consolidated banks led to increased competition in the banking industry.

These claims are consistent with the data analysis presented in Table 6.9. The calculations based on Herfindahl-Hirschman Index show that the Nigerian banking industry remained competitive before and after consolidation. Based on the results presented in this section, this study is unable to reject the null hypothesis that there is no change in competition amongst Nigerian banks between 2001-2007.

6.2.3 Capital Adequacy Ratios

Capital adequacy ratios involve measuring two types of capital: tier one capital, which can absorb losses without necessitating a bank to cease trading, and tier two capital, which can absorb losses in the event of a winding-up thus provides a lesser degree of protection to depositors (Hsu et al. 2007). This section evaluates the capital adequacy ratios of Nigerian banking industry and tests the following null hypothesis.

H_0 (CAR): There is no change in the capital adequacy ratios of banks in Nigeria as a result of consolidation.

Ediz et al. (1998) state that the Basel Capital Accord obliges banks to maintain equity and quasi-equity funding equal to a risk-weighted proportion of their asset base. This is enforced as a model for capital regulation of the banking system by local authorities in both developed and developing economies, and has been adopted in more than 100 countries including Nigeria (Arua 2006). The Basel Capital Accord assigns 8 percent as a generally acceptable capital adequacy ratio and a risk rate of 50 percent to residential mortgages (Hsu et al. 2007). Table 6.10 reports the capital adequacy ratios of the Nigerian banking industry between 2002-2008.

Table 6.10: Capital Adequacy Ratios for Nigerian Banking Industry

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Capital Adequacy Ratios	18.12	17.9	14.17	17.83	22.6	20.9	21.9

Source: Central Bank of Nigeria

The banking industry in Nigeria has maintained capital adequacy ratios in double digits since 2002, which is significantly above the 8 percent Basel Capital Accord requirement. Notably the ratio was highest in 2006 (22.6%), the period immediately after consolidation. This shows the soundness of Nigerian banks, while on the other hand very high capital adequacy ratios can reflect the very conservative attitude of banks to lending. Jones (2010) argues that banks could maintain high capital ratios to guard against currency fluctuation (Omotoye 2006 highlights unpredictable currency fluctuations in Nigeria) and changes in capital regulation. In general, this provides some evidence on the ability of Nigerian banks to contain systemic risks and implies that the banking industry is in a healthy state. Tables 6.11 and 6.12 show statistical tests to measure difference of mean in the capital adequacy ratios of Nigerian banks before and after consolidation.

Means and T-Test Comparisons of Capital Adequacy Ratios Before and After Banking Consolidation in Nigeria

Table 6.11: Group Statistics

(N stands for 4 years before and 3 years after banking consolidation)

	Period	N	Mean	Std. Deviation	Std. Error Mean
Capital Adequacy Ratio	Before	4	17.0050	1.89403	.94702
	After	3	21.8000	.85440	.49329

Source: Author Generated Based on CBN Data

Table 6.12: Independent Samples Test

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
Capital Adequacy Ratio	Equal variances assumed	-4.016	5	.010	-4.79500
	Equal variances not assumed	-4.491	4.367	.009	-4.79500

Source: Author Generated Based on CBN Data

The mean levels of capital adequacy ratios in Table 6.11 show significant increase after consolidation at 21.8000 from 17.0050. T-test in Table 6.12 is significant (t=-4.016, p=0.010) at 1% level, while the Mann-Whitney test is also significant (u=0, p=0.034) at 5% level. In the light of these findings this study rejects the null hypothesis that there is no change in the capital adequacy ratios of banks in Nigeria as a result of consolidation. Theoretically, these high levels of capital adequacy in the Nigerian banking industry should provide incentives for managers to lend or at least not be a hindrance. To further examine this, Table 6.13 presents results of in-depth interviews.

Table 6.13: Bank Propensity to Lend

(Q9: What are the key factors that affect your propensity to lend?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
9.1 Customer Risk Analysis/ Understanding the Business/ Return On Investment	(SA1:M2) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M1) (CI3:M2)
9.2 Adequate Levels of Capital adequacy	(SA1:M1)	(CO1:M1)	(CI1:M1) (CI2:M1) (CI3:M2) (CI3:M1)
9.3 Projections of the Business Environment/ Market Segments/ Analysis of Trends	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M1) (CI3:M2) (CI7:M1)
9.4 Overall Enterprise Risk Management/ Risk Appetite	(SA1:M1)		(CI1:M1) (CI2:M1) (CI5:M1)
9.5 Level of Liquidity/Loan to Deposit Ratio of 80%	(SA1:M1) (SA2:M1)	(CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI5:M1) (CI7:M1)
9.6 The Obligor Rule			(CI1:M1) (CI2:M1)
9.7 Risk Management Expertise			(CI1:M1) (CI2:M1)
9.8 Risk Management Tools/Risk Management Infrastructure			(CI1:M1) (CI2:M1) (CI5:M1)
9.9 Other Issues			(CI3:M1)

Source: Author Generated (From interview data)

It appears that capital adequacy has a high impact on lending decisions as suggested by seven bank managers, but was not the most prominent factor.

The results presented in Table 6.13 indicates that levels of liquidity and loan to deposit ratio of 80% were the most prominent factors influencing propensity to lend across categories of consolidating banks. This implies that lending decisions are significantly influenced by the level of capital available to banks. However, when an increasing share of deposits is sourced from the general public, banks are forced to pay market rates for funds used in multiperiod lending (Resti 1997). This could result in bank loans being less feasible if market rates are unstable or if bank loans lose competitive advantage over securities. Secondly, the regulatory requirement of 80% loan to deposit ratio is explained by a senior manager (CI1:M1) who notes that:

> "There are regulatory constraints; by regulation a Nigerian bank is not supposed to lend more than 80% of its deposits".

This view is corroborated by the respected financial analyst (P1:M1) who states that:

> "The 80% loan to deposit ratio is a key factor in bank lending decisions, however the ability to attract deposits enhances bank propensity to lend".

These statements explain the effect of regulatory constrains on bank propensity to lend. It is observed that the CBN expects the loan to deposit ratio of 80% to provide banks with a safety net, while the ability to mobilise deposits and create performing loans is influenced by bank capital adequacy levels. Singer (2004) asserts that capital provides banks with cushion against losses that result from borrower default or changes in asset prices. Adequate capital ratios are necessary for stability, and this provides managers with a favourable environment to attract deposits. This suggests a direct relationship between capital adequacy and levels of liquidity, as deposits can only be generated when depositors perceive banks to be stable and able to accommodate shocks. Having found from the data analysis that there are better capital adequacy ratios in Nigerian banks after consolidation, the wider implications are that adequate capital ratios have helped banks' ability to absorb shocks, improve their risk perception, and attract deposits. Even though the main driver for lending activities was the level of liquidity mobilised by banks, these findings are consistent with the views of Singer (2004) that adequate capital ratios help attract deposits and a higher level of deposits provides the banks with a bigger pot to divide between loans and preserving liquidity.

In addition, projections of business environment identified by eight managers as key in lending decisions could be out with the control of banks. As such banks would have to contend with these factors along side liquidity levels in their lending decisions.

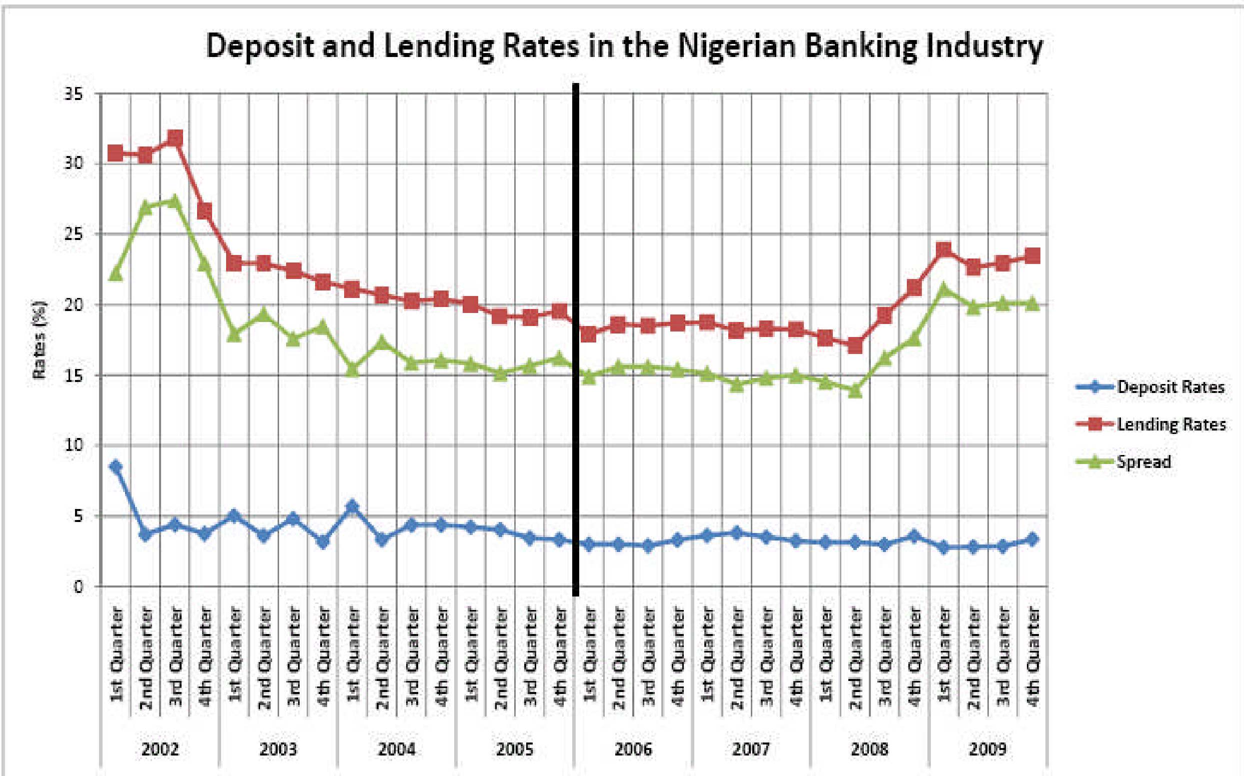
6.2.4 Interest Rate Spread

CBN (2005) proclaimed that by consolidating the Nigerian banking industry the CBN aimed to encourage competition with the goal of lowering interest rates and providing cheap credit to the economy. According to Laeven and Majnoni (2003), regulatory characteristics such as whether CBN imposes liquidity requirements, whether banks are allowed to engage in non-bank financial activities (for example: mortgages, insurance etc), and the degree of entry into banking influence prevailing competitiveness and by extension the level of bank lending spreads. In order to examine the effects of consolidation on the pricing of credit in Nigeria, this study will test the following null hypothesis.

H_0 (IRS): There is no difference in the average spread between deposit and lending rates from 2002-2009 in the Nigerian banking industry.

Chart 6.4 shows a slight reduction in spread between savings and lending rates year on year after the consolidation.

Chart 6.4: Deposit and Lending Rates in the Nigerian Banking Industry



Source: Author Generated (Data from CBN Annual Reports)

Lewis and Stein (1997) note that credit expanded to the public and private sectors in Nigeria by 110% in the mid 1990s, resulting in a sharp reduction in spread over the same period and after. This explains why rates begin to decrease before consolidation in 2002 and 2003, and this downward trend continues until 2008. Even though the reduction after consolidation is very minimal, this pattern is a possible indication that consolidation resulted in more competition, reduced cost structures, effective regulation, and improved efficiency. In support of this view, Gambacorta (2008) argues that aside from regulatory requirements, bank interest rate spreads can only reduce when competition is high or efficiency levels improve (for example:

lower cost, reduction of bad loans) within the industry. These factors are further examined in the interviews with senior bank managers in Table 6.16. Tables 6.14 and 6.15 show statistical tests to measure the difference in means in the spread between deposit and lending rates before and after consolidation.

Means and T-Test Comparisons of Spreads Before and After Banking Consolidation in Nigeria

Table 6. 14: Group Statistics

(N stands for 16 quarterly figures 4 years before and 4 years after banking consolidation)

	period	N	Mean	Std. Deviation	Std. Error Mean
Spread	Before	16	18.7669	3.99396	.99849
	After	16	16.5150	2.41342	.60335
Deposit Rates	Before	16	4.3563	1.30791	.32698
	After	16	3.1894	.31438	.07859
Lending Rates	Before	16	23.1231	4.34979	1.08745
	After	16	19.7044	2.29347	.57337

Source: Author Generated Based on CBN Data

Table 6. 15: Independent Samples Test

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
Spread	Equal variances assumed	1.930	30	.063	2.25188
	Equal variances not assumed	1.930	24.665	.065	2.25188
Deposit Rates	Equal variances assumed	3.470	30	.002	1.16688
	Equal variances not assumed	3.470	16.728	.003	1.16688
Lending Rates	Equal variances assumed	2.781	30	.009	3.41875
	Equal variances not assumed	2.781	22.742	.011	3.41875

Source: Author Generated Based on CBN Data

The mean levels of spreads in Table 6.14 show significant reduction after consolidation at 16.5150 from 18.7669. T-Test in Table 6.15 is marginally significant ($t=1.930$, $p=0.063$) at just above the 5% level threshold, while the more robust Mann-Whitney test shows reasonable evidence of significance at ($u=69.000$, $p=0.026$) below the 5% level threshold. In the light of T-Test and Mann-Whiney tests, this study rejects the null hypothesis that there is no difference in average spread between deposit and lending rates from 2002-2009 in the Nigerian banking industry at 5% level. Table 6.16 presents response of senior managers on the spread between deposit and lending rates.

Table 6.16: Reduction in Spread between Deposit and Lending Rates

(Q10: My analysis shows a slight reduction in the spread between deposit and lending rates in Nigeria. What specifically do you think has influenced this?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
10.1 CBN Regulation	(SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI5:M1), (CI7:M1)
10.2 Interaction between Demand and Supply/ Competition	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI2:M1), (CI3:M1) (CI3:M2), (CI5:M1)
10.3 Other Issues			

Source: Author Generated (From interview data)

During the interviews, reasons provided by respondents to explain the reduction in spread, show an almost even split. Seven senior managers in Table 6.16 identified CBN regulation as the primary cause, while nine senior managers claimed that interaction between demand and supply/competition led to the reduced spread. A more detailed examination of the table presented above indicates that the reduced spread was achieved through a combination of CBN regulation and competition. To support this view, as many as five senior managers in Table 6.16 highlighted both CBN regulation and competition as factors responsible for the reduced spread.

Following on from the analysis presented in section 6.2.2, increased competition seems to have a direct impact on the reduction of interest rate spread. This trend is expected to continue if policy instruments deployed by the CBN encourage less monopolistic or oligopolistic tendencies in the Nigerian banking industry. This further underscores the fact that CBN regulation is an important determinant of the level of competition and by extension the spread between deposit and lending rates, and is consistent with Laeven and Majnoni's (2003) claim that regulatory characteristics could significantly influence banking spread.

6.2.5 Total Credit to GDP

This section will compare the growth in total credit figures to GDP (Gross Domestic Product) from the Nigerian banking system to the private sector between 2001-2008. Providing credit to finance investment and consumption is a major function of the banking system (Imala 2005). In order to examine the flow of credit to the private sector in Nigeria, this study will test the following null hypothesis.

H_0 (TC2GDP): There is no difference in the flow of credit to the private sector, as a result of the Nigerian banking consolidation.

Table 6.17 and Chart 6.5 shows credit and GDP growth in Nigeria between 2001-2008.

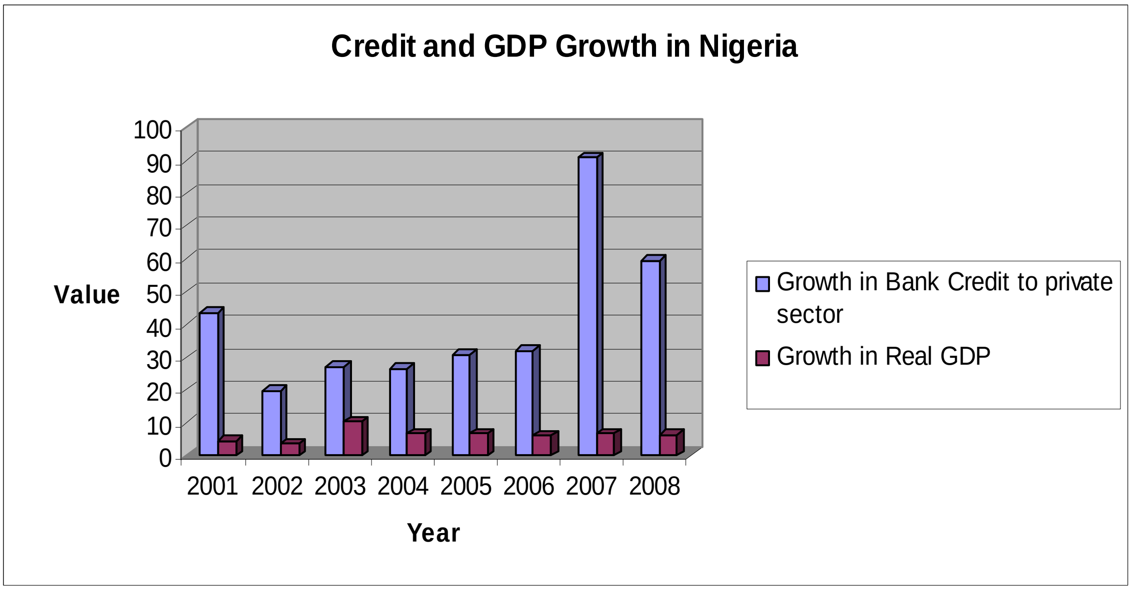
Table 6.17: Credit and GDP Growth in Nigeria

(in percentage)

	2001	2002	2003	2004	2005	2006	2007	2008
Growth in Bank Credit to Private Sector	43.5	19.7	27.1	26.6	30.8	32.1	90.8	59.4
Growth in Real GDP	4.6	3.5	10.2	6.5	6.5	6	6.5	6.4

Source: Author Generated (Data from CBN Annual Reports)

Chart 6.5: Credit and GDP Growth in Nigeria



Source: Author Generated (Data from CBN Annual Reports)

In the pre-consolidation period there was no significant change in credit figures. However, the flow of bank credit increased and was notably higher than GDP post-consolidation. This shows that the total flow of credit to the private sector has increased after consolidation. Based on this observation, this study rejects the null hypothesis that there is no difference in the flow of credit to the private sector, as a result of banking consolidation in Nigeria. Most respondents interviewed claimed that credit was more readily available after banking consolidation. The reasons offered by respondents to explain this, include increased liquidity, higher obligor limits, opportunities in lending to consumer sector, increased international visibility of Nigerian banks, public private sector partnership, and improved macro economic environment. This is consistent with the views of the respected financial analyst (P1:M1) who states that:

> “There is no doubt that more credit has been available to the Nigerian economy post consolidation……..but the problem emerges when we analyse these figures by segments to ascertain who gets what. For example: the SME segment which the CBN expected to form the main engine of growth in the Nigerian economy does not seem to have attracted sufficient credit”.

In support of the argument presented above, a senior manager (CI2:M1) also claims that:

> “Yes the private sector benefited……I mean companies. The SME segment even though part of the private sector did not benefit much, because people were still sceptical and the regulations did not make it worthwhile for banks to go in and lend to the SME segment…….But the corporate and individual segments benefited immensely”.

Evidence from the interviews suggests that, although credit flow increased after consolidation, the SME segment did not get its fair share of credit. This segment looked unattractive to banks because it was characterised by lack of infrastructure (i.e. transportation, power and water), poor credit history and weak regulatory frameworks (Balogun 2007). These findings are confirmed in Table 6.18 and Chart 6.6 which highlights the sources of SME funding in Nigeria and Malaysia in 2008.

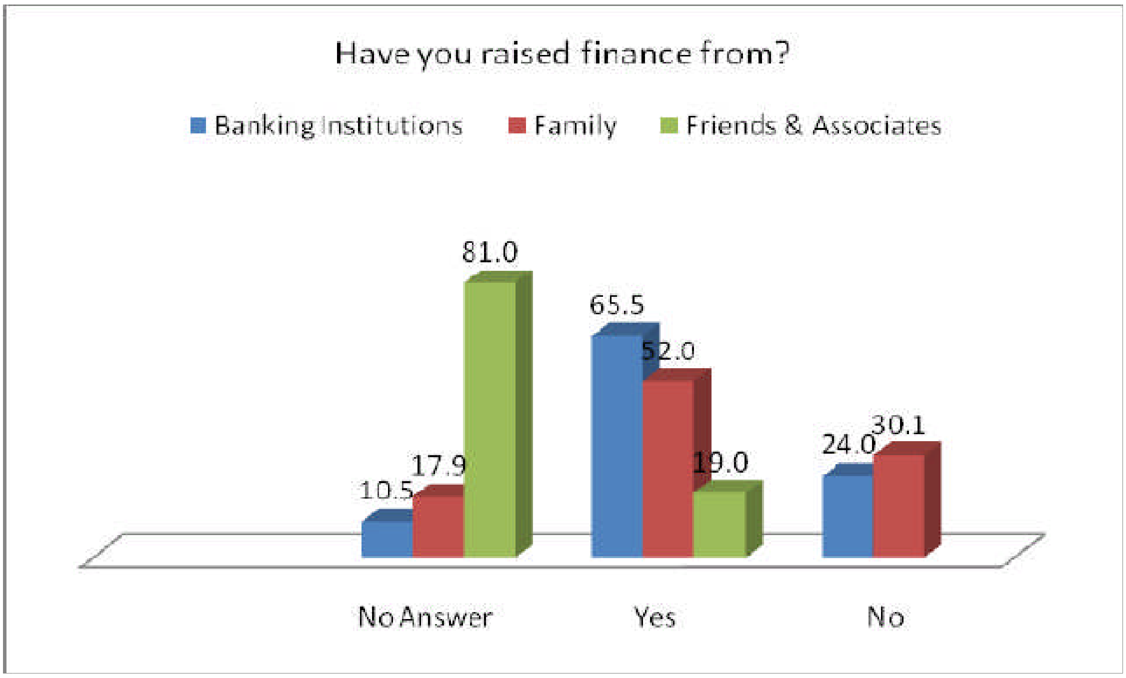
Table 6.18: Sources of SME Funding in Nigeria in 2008

Percentage of Financing from:	Total	Small	Medium	Large
Own funds/Retained earnings	70%	70%	71%	61%
Borrowed from Banks and other financial institutions (such as Micro finance firms, Loan sharks etc)	1%	1%	2%	2%
Purchases on credit from suppliers and advances from customers	25%	25%	25%	35%
Borrowed from family, friends and other informal sources	4%	4%	2%	1%

Source: World Bank (2008)

(some totals may not add up to 100% due to rounding errors)

Chart 6.6: Sources of SME Funding in Malaysia in 2008



Source: Alhabshi et al. (2009)

A total of 1% SME financing from banks and other financial institutions in Nigeria in 2008 is especially low, compared to 65% in Malaysia over the same period. Commercial banks and financial institutions in Nigeria prefer lending to the retail and corporate segments, which generally have shorter turnaround times, and can pay back debts more quickly than SMEs (Isern et al. 2009). Interestingly, the CBN identified improved credit to SMEs as one of the primary objectives of consolidation. These findings clearly indicate that the CBN and by extension Nigerian banks experienced some difficulties in meeting this objective, because most factors such as poor credit history, lack of infrastructure (i.e. transportation, power and water), and weak regulatory frameworks (Balogun 2007) that make the SME segment unattractive were not addressed in the first instance. Therefore, the SME segment may remain globally uncompetitive and unable to attract sufficient credit unless these factors are addressed. This finding is troubling and highlights the need to reappraise the benefits of consolidation by policy makers in Nigeria, who claim that the consolidation would increase credit to the SME segment. Events in the SME segment are further examined in the subsequent sections of this study. The next section highlights restructuring effect of consolidation in Nigeria.

6.3 Restructuring Effect of Banking Consolidation in Nigeria

The "Restructuring effect" identifies the change in lending that follows from decisions to restructure the institution in terms of its size, financial characteristics, and local market competitive position (Berger et al. 1998). Basically these effects are established by examining the change in focus as a result of restructuring. Table 6.19 shows the significance of restructuring effects in the case of Nigerian banks.

Table 6.19: Restructuring Effects

(Q12: What have been the most prominent effects of restructuring on your bank's risk diversification and lending policies?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
12.1 Market Segmentation/ Creation of Subsidiaries	(SA1:M1) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M2) (CI7:M1) (CI3:M1) (CI4:M1)
12.2 New Markets/New Product Offering	(SA1:M2)	(CO2:M1)	(CI1:M1) (CI2:M1) (CI4:M1) (CI7:M1) (CI5:M1)

12.3 Management Tools/Software			(CI2:M1)
12.4 International Operations	(SA1:M2) (SA2:M1)		(CI2:M1) (CI3:M1) (CI4:M1)
12.5 Other Issues	(SA1:M1)		(CI4:M1)

Source: Author Generated (From interview data)

Results in Table 6.19 show that managers identified market segmentation/ creation of subsidiaries, new markets/new product offering, and international operations as the most prominent features of restructuring in Nigerian banks. To achieve this, they established local and international subsidiaries to provide services to various market segments. These subsidiaries may be associated with several generic firm-specific development and diffusion processes in their value-creating activities. To explain this, Rugman and Verbeke (2001) developed a framework to assess patterns of competence building in subsidiaries and multinational enterprise. They note that; nonlocation-bound firm-specific advantages, location-bound firm-specific advantages, and subsidiary specific advantages are three critical types of knowledge bundles which multi-subsidiary and multi-national enterprise networks greatly benefits from the systemic investigation of firm-specific advantage development and diffusion processes. The creation of specialized new products tailored to meet the needs of these segments (both local and international) underlines the necessity of including a complete set of processes in new product development. Furthermore, employees acquire the expertise required for process differentiation to enable new product development and therefore increase process productivity (Li and Calantone 1998). For example: the opening of GTHomes Limited a local subsidiary of Guaranty Trust Bank, which specializes in providing mortgages.

In terms of size, financial characteristics and market position, it appears that restructuring provided banks with the capacity to further explore opportunities in local and international markets. Respondents note that consolidation has improved the visibility and rating of Nigerian banks globally. For example: in March 2007 a United Bank for Africa (UBA) office was opened in London. UBA hoped to take advantage of opportunities in the global financial environment. In support of this view, a senior manager (SA2:M1) notes that:

> "Now you have Nigerian banks pitching and setting up offices or banks for that matter in the United Kingdom and United States, because from a Nigerian perspective the corridors of trade were basically the United Kingdom and the United States. In recent times its moving to China, India and Dubai…….all of a sudden we find banks that could go to those countries that did not have embargos on foreign banks coming in. Other banks that could not go outside Africa started expanding within Africa".

The respected financial analyst (P1:M1) also notes that:

> "The increased size of Nigerian banks after consolidation, meant that foreign banks and international credit instructions were more comfortable in providing credit lines to them".

Interestingly, global visibility and increased size made foreign banks more comfortable in providing credit to their Nigerian counterparts, for example the loan granted to First City Monument Bank by the International Finance Corporation (FCMB 2010). Banks were now in a better position to attract credit lines and compete for business on the international stage, and as a result more banks expanded operations outside Nigeria after consolidation. Enhanced capacity and ability to attract foreign investment (credit line) are beneficial to the Nigerian economy (increased credit availability to the private sector) and possibly to other economies where Nigerian banks operate. However, funds available for loan to the Nigerian private sector could decrease because of short run costs of setting up international operations, restrictions on the outflow of capital from investee nations, and possible lending to international borrowers by Nigerian banks.

As established in section 6.2.1, consolidation resulted in the increased size of banks by assets, deposits and extended loans. Amongst other requirements consolidation necessitated banks to shore up their capital base from N2 billion to N25 billion, through the injection of fresh funds. The risk of bigger banks concentrating risk assets in one segment led banks to focus on risk diversification and product segmentation. To affirm this, a senior manager (CI3:M1) notes that:

> "One way to diversify risk is to do more than just banking; almost every bank that consolidated has either associated companies or subsidiaries in insurance, pension management services, custodian services, brokerage companies, asset management, investment arms, mortgages and so on. Of course that was supposed to diversify the earning sources of the banks. We also knew that we needed to be more balanced in our lending, you couldn't say you are playing niche and concentrate all you efforts in one area………so there were portfolio limits using best practice to help diversify the lending and its associated risks. If not for that there were sectors of the economy that were in serious boom and everybody rushed there………….but if there were not limits and we did all our lending just on those areas…..it would have been terrible".

According to UBA (2010), most market segments were served through departments within Standard Trust Bank and United Bank of Africa (now merged as United Bank for Africa) before consolidation. However, consolidation resulted in significant structural changes particularly in the development of subsidiaries. The UBA group currently consists of several subsidiaries and associated companies which include; UBA Capital Africa, UBA Trustees Limited, UBA Pensions Custodian Limited, UBA Asset Management Limited, UBA Stockbrokers Limited, UBA Registrars Limited, UBA New York, and UBA Metropolitan Life Insurance Company Limited (UBA, 2010). This trend is similar in FINBank (a merger of First Atlantic Bank, Inland Bank, International Merchant Bank and Nigerian Universal Bank) where subsidiaries developed after consolidation include; FINBank Security and Asset Management, FINBank Registrar, FINBank Capital Limited, FINBank Insurance Company Limited, FINBank Insurance Brokers Limited, and FINBank Homes Limited (FINBank 2010). Evidence from the interviews reveals that risk diversification measures resulted in more balanced approach to portfolio management after consolidation. Eight managers in Table 6.19 state that the creation of subsidiaries led banks to set portfolio limits for various market segments. For example: UBA (2010) notes that N30 billion was set as the portfolio limit for its asset management company. The quest to create more balanced and diversified risk assets influenced bigger banks to further implement universal banking principles and focus on other non core banking segments.

Even though these actions could crowd out credit that would have been available to SMEs, it is generally expected by the CBN that the changes in focus means credit will be available to other segments of the Nigerian economy, which might have been previously neglected. This is further illustrated by a senior manager (CI1:M1) who states that:

> "I may say that the larger capital has helped banks including Diamond Bank, to provide banking services in areas that were ignored before now…….because there is an enhancement of our single obligor limit. So we can do big ticket long term projects in oil and telecoms, and offer products to the consumer segment for example mortgages".

Diamond Bank is now able to extend credit to segments previously out of the bank's reach, where considerable capital and longer term funds are required. This indicates that increased capital base as a result of consolidation provided the bank with the capacity to enter new markets and provide customers with a wider range of products. These include the execution of big ticket transactions in oil and telecoms and new product offerings in the consumer segment where improved macroeconomic environment created an emergent middle class.

The analysis presented in this section establishes market segmentation, resized target market and international operations as the dominant restructuring effects in Nigeria. These changes are associated with changes in the bank's size, financial condition and competitive position. They also make clear the implication for credit availability to the private sector, as market segmentation means credit is channelled to segments previously ignored, resized target market implies that banks can handle big ticket and longer term lending in the corporate and consumer sectors, while international operations creates a better environment to attract credit and lend on the international stage.

6.4 Direct Effect of Banking Consolidation in Nigeria

Berger et al. (1998) note that the direct effect is the difference between a bank's lending after a merger or acquisition and the lending of another institution of the same size, financial condition, local market competitive position, and economic environment as the restructured bank that has not undergone a merger and/or acquisition. To analyse the direct effect in the case of Nigeria, this study examines the difference in lending in the newly formed big banks from the traditional big banks. Managers from traditional big banks and newly formed big banks were interviewed to establish the changes in practice brought about by the newly formed big banks. Results of in-depth interviews are shown in Table 6.20.

Table 6.20: Direct Effects

(Q13: How would you characterise the key drivers of lending performance in the newly consolidated banking sector?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
13.1 Proactive lending activity/Policies & Requirements	(SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI5:M1) (CI7:M1)
13.2 Increased Lending Capacity	(SA1:M1) (SA2:M1)		(CI1:M1) (CI3:M2) (CI5:M1)
13.3 Improved Control Mechanisms/ Technology Infrastructure	(SA1:M1) (SA1:M2)		(CI1:M1) (CI3:M1) (CI5:M1) (CI7:M1) (CI2:M1)
13.4 Focus on Consumer Segment Lending	(SA2:M1)		(CI1:M1) (CI2:M1) (CI3:M2) (CI5:M1)
13.5 Increased Application of Corporate Governance Requirements			(CI1:M1) (CI3:M1)
13.6 Increased Risk Management Expertise	(SA2:M1)	(CO1:M1)	(CI1:M1) (CI3:M1) (CI3:M2) (CI5:M1)
13.7 Other Issues		(CO2:M1)	

Source: Author Generated (From interview data)

Table 6.20 identifies proactive lending activity, increased lending capacity, improved control mechanisms/technology infrastructure, focus on consumer segment lending, and increased risk management expertise as the most evident differences of the newly formed big banks from the traditional big banks. Strategies of proactive responsiveness to the uncertainties at the interface between banks and their business environment as demonstrated by newly formed big banks, may be associated with the emergence of unique organisational capabilities. Thus, proactive strategies predicated on developing organisational capabilities that can provide sustained competitive advantage may indeed be an important emergent competitive domain to which newly formed big banks should pay heed.

Increased capacities (larger capital) meant that new big banks were sitting on large pools of funds. Furthermore, control mechanisms, risk management expertise and technological infrastructure were upgraded to accommodate changes in strategy. For example: superior risk management expertise and technological infrastructure was deployed as Platinum-Habib Bank introduced trade and finance business credit and e-powered Naira credit cards, both equipped to provide diverse funding alternatives (PHB 2010). The variance identified in lending policies is further examined through interviews with senior managers. A senior manager (SA1:M2) interviewed states that:

> "Traditionally the old big banks were conservative, they were sometimes not as fast with responses……..and then the new big banks are coming with cutting edge technology, with better responsive management style……so clearly there are differences. Whereas the old big banks will take forever to take decision in terms of big ticket lending transactions, the new big banks are more responsive……you have more involvement of top management. I mean you see CEOs of new big banks closing deals, so I think that the management style clearly influences lending".

In support of this view, a senior manager (CO1:M1) notes that:

> "The new big banks are much more bullish on risk, they are much more robust in terms of their risk management practices. Of course they are more efficient in terms of timing; they can start and finish a credit transaction in a week, unlike an old big bank that might take three months to do that…..really that's the difference. The new big

banks are the ones that want to go for world class talent to manage their risk assets".

Evidence from the interviews reveals that traditional big banks were characterised by reactive lending strategies and required longer turn around time on credit transactions. Respondents claimed that newly formed big banks with increased lending capacities implemented proactive lending strategies. According to the respected financial analyst (P1:M1), lending in traditional big banks was characterised by crippling bureaucracy, while new big banks focused on eliminating unnecessary processes to improve their performance and efficiency.

The focus on lending to consumer segments and big ticket transactions by banks identified above suggest limited benefits for the SME segment and this generates a significant policy debate. Proactive measures of new big banks should create efficiencies, improve customer service, drive competition, and scale-up credit to the Nigerian economy (Gambacorta 2008). These represent significant difference in pre and post banking consolidation in Nigeria and can be identified as direct effects of the consolidation process.

The CBN expects traditional big banks to respond to threats posed by new big banks and hopefully by doing this, create an environment where the customer wins. Generally, this scenario is positive and complements gains captured in the static effects section (section 6.2). However, only two managers in Table 6.20 identified increased application of corporate governance requirements as a feature in the newly consolidated banking industry, even though Imala (2005) highlights the non-compliance with regulatory requirements, inaccurate reporting, gross insider abuse which resulted in huge numbers of non-performing loans in Nigerian banks pre-consolidation (section 2.3). Amao and Amaeshi (2008) argue that improved corporate governance would give shareholders the ability to hold management to account, and as a result encourage prudent practices. The

Nigerian banking industry may still be characterised by weak corporate governance, which could have grave consequences for the quality of loans produced by banks with adverse effects on systemic stability.

6.5 External Effect of Banking Consolidation in Nigeria

According to Berger et al. (1998) the external effect captures the reactions by other lenders in the local market to the changes in the competitive conditions created by banking mergers and acquisitions. Kurfi (2008) argues that the mobilisation of savings at the local level has been an important credit delivery channel in developing economies. A typical example is the model of micro credit developed by Yunus (2007), in which the Grameen Bank specialises in extending credit to the poorest of the poor who are not able to obtain loans from traditional banks. In the case of Nigeria the external effect of consolidation is established by examining the impact of Micro finance institutions (impact of other mutual societies is insignificant (CBN 2008)) which operate in the same business environment, on the credit performance of banks. Jansson (2001) notes that the task of adopting a single definition of Micro finance is complicated, though various agencies and ministries, recognise several different definitions of Micro finance simultaneously. To the extent that supervisory authorities have dealt with organisations they define as Micro finance institutions by the characteristics of the loan, (for example the CBN (2008) stipulates that the totality of business loans granted per individual borrower for micro finance purposes shall not exceed N500,000, this is in contrast to traditional banks which can approve any amount), or by the characteristics of the client (for example the CBN (2008) considers loans for productive purposes to clients with less than N500,000 in productive assets to be micro finance). Table 6.21 show results of external effects from in-depth interviews with managers.

Table 6.21: External Effects

(Q14: What do you think are the key challenges in credit performance of your bank in the next 18 months?)

Codes	Stand Alone Banks	Common Ownership Banks	Common Interest Banks
14.1 Lack of infrastructure			
14.2 Few Micro Finance Institution	(SA1:M2) (SA2:M1)	(CO1:M1)	(CI1:M1) (CI2:M1) (CI3:M1) (CI3:M2) (CI7:M1)
14.3 Low Capacity/Capital	(SA2:M1)		(CI1:M1) (CI2:M1)
14.4 High Administrative cost			
14.5 Relaxed Risk Assessment Criteria for Smaller Credit Institutions	(SA1:M1) (SA2:M1)	(CO1:M1)	(CI2:M1)
14.6 Banks Focus on Big Ticket Transactions/ High end of Consumer market	(SA1:M1) (SA1:M2) (SA2:M1)	(CO1:M1) (CO2:M1)	(CI2:M1) (CI3:M1) (CI1:M1)
14.7 Focus on SMEs			
14.8 Higher Cost of Funds from Small Credit Institutions	(SA2:M1)		(CI2:M1)
14.9 Government Regulations/ Restrictions			(CI1:M1) (CI2:M1)
14.10 Specialisation			(CI5:M1)
14.11 Other Issues			(CI7:M1)

Source: Author Generated (From interview data)

Eight managers in Table 6.21 claim that the existence of few Micro finance institutions and bank focus on big ticket transactions make the reaction of other lenders insignificant. This suggests that the possibility of other players (Micro finance institutions) influencing the credit performance of banks is minimal. Investigating further, senior managers note that banks traditionally lend to corporate institutions, and are now (after consolidation) able to take advantage of opportunities in the consumer segment as a result of the inefficiencies of Micro finance institutions. For example: a senior manager (SA2:M1) said that:

> "There are really not a lot of Micro finance institutions around. Secondly these Micro finance institutions need to get capacity so that they can lend money at a reasonable rate and increase their scale…….the scale at which these institutions are operating is not large enough to threaten our lending performance".

Low capacity, high cost of funds and government restrictions highlighted above indicates that Micro finance institutions regulated by the CBN, face significant challenges. In support of this view, Isern et al. (2009) state that Micro finance institutions in Nigeria have been too small to reach efficient economies of scale. Table 6.22 highlights key indicators of Micro finance banks.

Table 6.22: Key Indicators of Micro Finance Banks in Nigeria

Indicators	**2005**	**2006**	**2007**	**2008**
(Equity + Deposits) / Assets	85%	85%	83%	85%
Loans / Assets	32%	30%	30%	34%
Investments / Assets	50%	53%	49%	44%

Source: Central Bank of Nigeria (2008)

These findings suggest that Micro finance institutions were generally successful at mobilizing deposits, but are less accomplished as lenders. The low allocation of loans to assets is evident in the 2005-2008 balance sheets and is indicative of this claim. The comparison of these figures with that of

Nigerian banks is not required, because this section focuses on the changes in practices of other lenders as a result of consolidation. Kurfi (2008) believes that the Nigerian financial industry would benefit from a modification to banking regulations to better fit the needs of Micro finance institutions, such as replacing collateral requirements by a need to demonstrate client creditworthiness and by simplifying reporting requirements. These modifications would encourage entrance of private commercial banks and finance companies, thus creating a more diverse Micro finance sector with greater regulatory and supervisory burden.

The interviews also reveal that banks lend to the high end of the market on better terms than Micro finance institutions, and as a result are not yet in direct competition. Interestingly, most respondents suggest that the lower end of the market is too risky and unstructured for banks to lend to. This is consistent with the recommendations of Kurfi (2008) on the need for Micro finance regulators (CBN) to encourage creditworthiness. Furthermore, this implies that banks will continue to compete at the high end, while small credit institutions deal with borrowers who do not meet the lending requirements of banks. It is expected that this trend will hold true as long as the lower end is characterised by poor credit history and lack of adequate forms of collateral. For example: a senior manager (CI2:M1) notes that:

> "The small credit institutions deal in segments we are probably not interested in because of the risk; that's the lower or even lowest end of the market. Yes, the pricing at the lower end can compensate, but they are more difficult to manage. Truly, I don't see small credit institutions as a direct threat".

The comments above by a senior manager is confirmed by the respected financial analyst (P1:M1) who states that:

> “Other small credit providing institutions deal in segments where banks naturally do not want to do business in. For now, banks focus on the high end and middle class regular income earners”.

Evidence from the interviews suggests that banks might not yet be at the point where their lending performance is greatly influenced by activities of small credit providing institutions. However, there are clear indications that the Nigerian economy is on a growth path (Soludo 2007). There could be greater influence at a point near maturity when Micro finance institutions are able to scale up in terms of capacity, competences, processes, and target market segmentation. This is expected, as is true anywhere in the world where there is development, aggressive competition, and pressure to increase business (Odoko 2008).

In summary, there is a shift in focus by banks traditionally involved in lending to corporate institutions. These banks now lend to the high end of the consumer segment, leaving the lower end deemed too risky for Micro finance institutions. With consolidation, banks have also increased their lending to the high end of the consumer sector and by so doing reduced the volume of lending business normally available to smaller credit providing institutions. Evidence in this section suggests that the reaction of other lenders particularly Micro finance institutions is insignificant, because of their limited number and low capacity. The next section discusses conclusions and presents a summary of key findings.

6.6 Conclusion and Summary of Key Findings

The analysis in this chapter presents the effects of banking consolidation on credit availability to the private sector in Nigeria. It adapts Berger et al’s. (1998) framework and uses in-depth-interviews and secondary data to examine the static effect, restructuring effect, direct effect and external effect of consolidation on the availability of credit. The static effect captures the balance sheets of the consolidating banks, and the restructuring and direct effects explores two sources of change in the focus of consolidating banks. While the external effect highlights the overall impact of consolidation on the supply of credit (Berger et al. 1998). By examining other non-static effects of consolidation, this model recognises the influence of the general and competitive environment on credit. These varied evaluation techniques present a robust framework for analysing the effects of banking consolidation.

Concentration ratio, Herfindahl-Hirschman Index, capital adequacy ratio, banking spread, and total credit to GDP are used to test changes in balance sheet of consolidating banks and level of credit to the private sector. These static effects show that consolidation has resulted in a general increase in the size of Nigerian banks. Hamel and Prahalad (1994) note that financial services firms, traditionally vie for leadership in a set of more or less common competence areas (for example: Investment management, Risk management, Financial engineering etc). In the case of Nigeria, most banks scaled up their risk management and lending activities, which enables and supports the increased credit to the private sector and a reduction in spread between deposit and lending rates. However, findings indicate that the SME segment did not benefit much because of unfavourable lending conditions in Nigeria. The Herfindahl-Hirschman Index values and interviews with managers show that the banking industry remained competitive before and after consolidation.

Interestingly, market segmentation, resized target market and international operations are the most dominant restructuring effects of consolidation in Nigeria. These factors also have implications for credit availability, as market segmentation means credit is channelled to segments previously ignored, resized target market indicates that banks can handle big ticket and longer term lending in the corporate and consumer segments (growing middle class as a result of improved macroeconomic environment), while international operations creates a better environment to attract credit and lending on the international stage.

The banking industry was also directly influenced by the emergence of new big banks, which were characterised by proactive lending strategies and improved operational activities. It is expected that the proactive measures of new big banks would create efficiencies, improve customer service, drive competition and scale-up credit to the Nigerian economy. These represent significant difference in pre and post banking consolidation in Nigeria and can be identified as direct effects of the consolidation process.

The external effects of consolidation suggest that the reaction of other lenders particularly Micro finance institutions is currently insignificant, because of their limited number and low capacity.

Following on from the analysis in this chapter and the CBN’s expectations of increased credit to the SME segment after consolidation, this study finds lack of credit to the SME segment and corporate governance (limited reference to improved corporate governance by senior managers interviewed) as the most critical issues in the Nigerian banking industry. The SME segment is characterised by poor credit history, lack of infrastructure (i.e. transportation, power and water), and weak regulation (Balogun 2007), and these conditions make it unprofitable for banks to lend to this segment. Secondly, poor corporate governance affects the quality of loans granted by banks, and might lead to huge numbers of non-performing loans or possibly reduced lending by risk averse managers due to inefficient processes. This also raises question about the regulatory capabilities of the CBN and the possibility of a narrowly defined reform agenda.

The modified Berger et al. (1998) framework deployed as a guide for the analysis in this chapter, is less data intensive and provides an alternative approach with which to test the effects of banking consolidation on credit availability. The next chapter discusses and corroborates these findings in the light of financial theory and feedback from a senior manager in the CBN and a respected financial analyst.

Chapter 7: Discussion of Findings in the Light of Financial Theory

7.0 Introduction

Following the critical analysis of change management practices in chapter 5 and the effects of consolidation on credit availability to the private sector in chapter 6, the discussion in this chapter examines the findings in chapters 5 and 6 in relation to the Central Bank of Nigeria's objectives. Hence, this chapter explains the consequences of these findings and explores how they interact with other aspects of the Nigerian economy to support or hinder the achievement of the expected benefits of banking consolidation.

The CBN's consolidation drive and the subsequent increase of bank minimum capital base to N25 billion, necessitated significant structural and operational changes in the Nigerian banking industry. In a bid to achieve the required N25 billion, three categories of banks emerged, these are: Stand Alone banks, Common Ownership banks and Common Interest banks. The key focus of this chapter is to understand how the varying degrees of structural and operational reforms implemented by policymakers and bank managers promote the availability of credit to the private sector in Nigeria. Thus, a model derived from the literature for incorporating institutional variables into financial sector reforms in developing economies is deployed.

The structural and operational changes identified in banks also directly or indirectly impact on the concentration ratios, Herfindahal-Hirschman Index, capital adequacy ratios, interest rate spread and total credit to GDP in the Nigerian economy. The analysis of these variables provides valuable indicators and is linked to the CBN's overall objective of growing the economy through increased credit to the private sector. Therefore further discussion on the effects of these indicators is presented in this chapter.

7.1 Evaluation Framework

The framework utilised in this chapter is a synthesis of the literature reviewed in detail in chapter 3, and follows on from the analysis presented in chapters 5 and 6. Therefore, a conceptual framework for incorporating institutional variables into financial sector reforms in developing economies is developed by combining the frameworks of Pettigrew (1988), Peters and Waterman (1982), Kotter (1998) and Lewin (1951). The combined impact of these frameworks provides an instrument for integrating all stakeholders in the implementation of banking consolidation in Nigeria. This conceptual framework is applied to the three categories of banks in Nigeria, to determine how structural and operational changes implemented by policy makers and bank managers (in their bid to meet the CBN's required N25 billion) directly or indirectly impact on key indicators in the Nigerian economy. Secondly, the framework highlights the varying performance of banks in the newly consolidated banking industry.

7.2 Categories of Consolidating Banks

The CBN's reform agenda had 13 objectives which are highlighted in chapter 2. However the primary research questions of this study focus on two of these objectives: (i) Requirement that the minimum capitalisation for banks should be N25 billion with full compliance before end-December 2005, and (ii) Consolidation of the banking institutions through mergers and acquisitions. The focus on these two objectives is justified because the CBN particularly expected increased capital requirements of N25 billion and its effects on bank structure to stimulate growth in the Nigerian economy (CBN 2005). In support of this view Soludo (2004 p. 1) claimed that consolidation will create "a diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system". Thus, one of the primary objectives of this study is to critically appraise the effectiveness of key policy instruments and support mechanisms on performance, competition and availability of credit to the private sector in Nigeria.

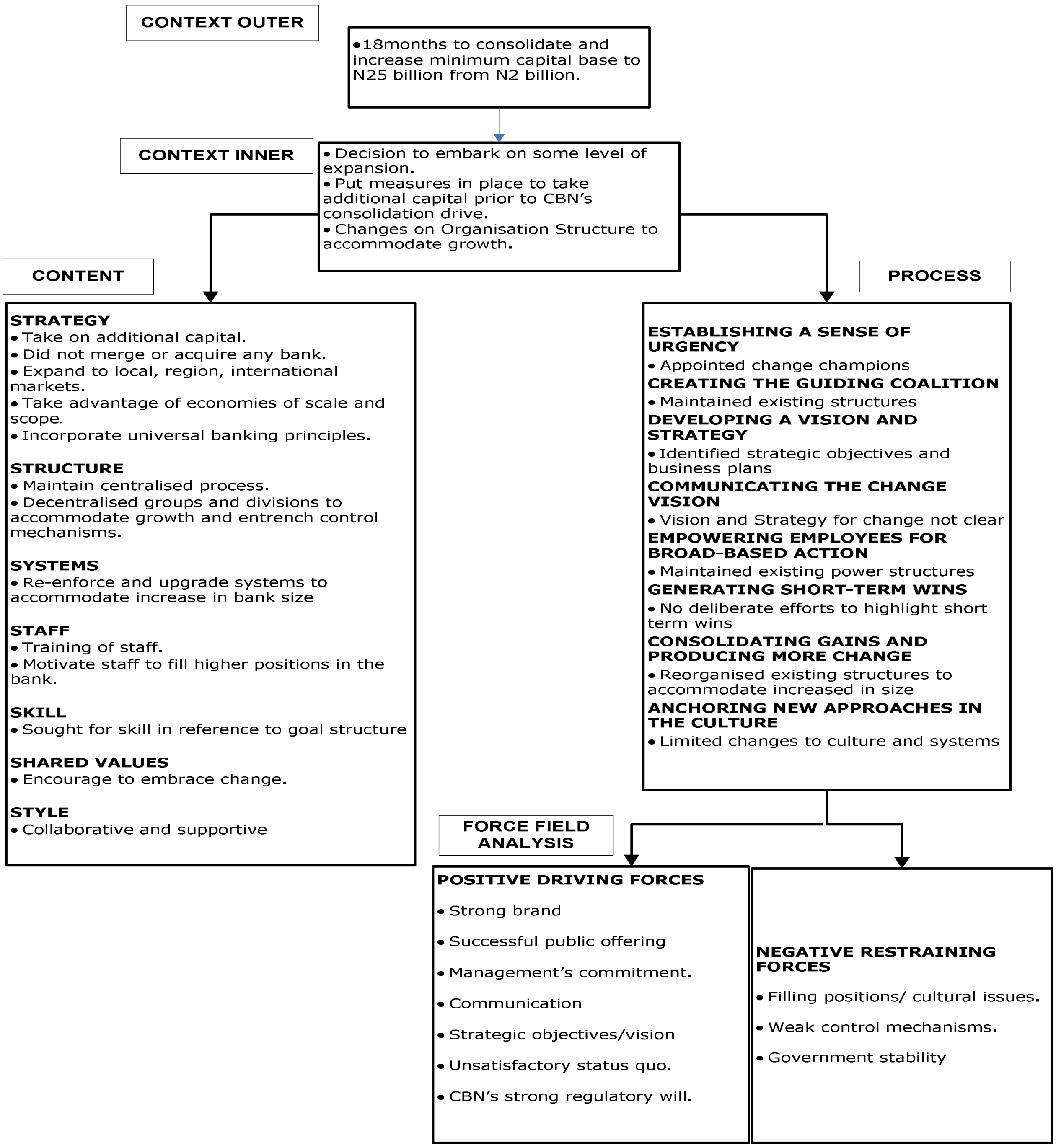
Imala (2005) also notes that as at July 2004 the average capital base of Nigerian banks was US$ 10 million, which was very low compared to banks in other developing countries like Malaysia where the capital base of the smallest bank was US$ 526 million. The aggregate capitalisation of the Nigerian banking system at N311 billion (US$2.4 billion) was low in relation to the size of the Nigerian economy. In line with the objectives and arguments above, Nigerian banks raised funds from the capital market and engaged in mergers or acquisitions, as no bank could meet the CBN's minimum capital requirement as at July 2004. These activities simultaneously led to the reduction in the number of banks from 89 to 24 (Table 2.3), and the emergence of three categories of banks.

Insights from the Malaysian and Indonesian experience and the review of literature in chapter 2, show that consolidation reduced the number of banks and stabilised the banking industry. Typically these countries increased bank minimum capital requirements, and provided the enabling environment for mergers and acquisitions. The CBN's objectives and approach to consolidation highlighted above, reflects the traditional methods deployed in emerging markets to resolve issues of fragmented banking industries. Three categories of Nigerian banks are discussed in the next section.

7.2.1 Stand Alone Banks

Stand Alone banks either through group injection of funds or raising funds from the capital market, had the capacity to go solo by providing the CBN's N25 billion minimum capital requirement. The selection of sample size is highlighted in section 4.4.1. For the purpose of this study, senior bank managers from Guaranty Trust Bank and Standard Chartered Bank which fall into the stand alone category participated in the interviews. Based on the findings in chapters 5 and 6, this section explores how the transformation of banking practices in the stand alone category impacts on key indicators in the Nigerian economy. Figure 7.1 combines the frameworks of Pettigrew (1988), Peters and Waterman (1982), Kotter (1998) and Lewin (1951) and presents a snap shot of all the factors acting upon the transformation of banking practices in the stand alone category.

Figure 7.1: Conceptual Framework for Incorporating Institutional variables into Financial Reforms/Snap shot of Stand Alone Banks



Source: Conceptual Synthesis from Pettigrew (1988), Peters and Waterman (1982), Kotter (1998), Lewin (1951) and Interviews with Bank Managers.

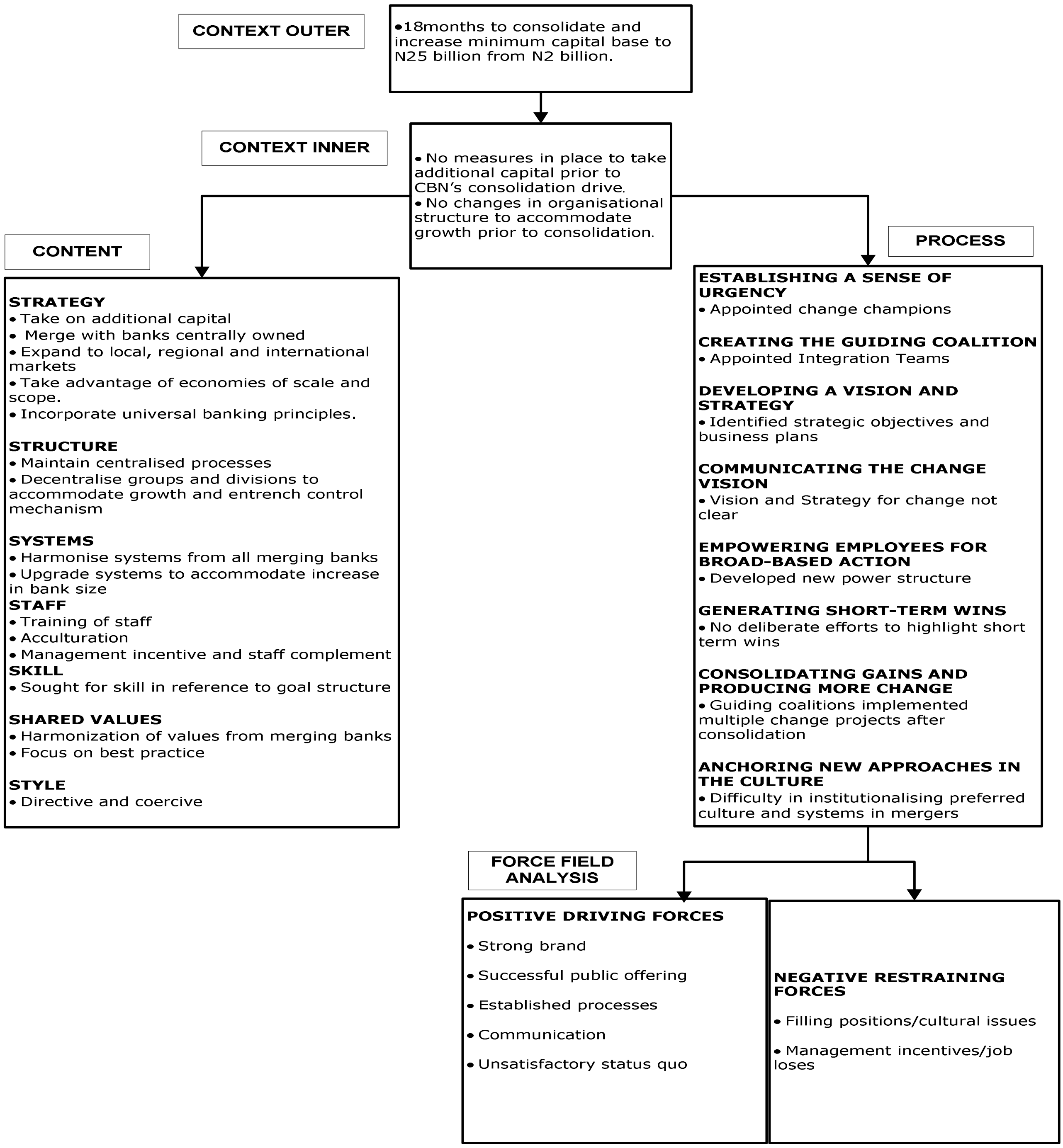
Figure 7.1 shows that stand alone banks in Nigeria embarked on numerous changes in response to the CBN's consolidation drive. The 18 months window to consolidate and increase minimum capital to N25 billion was the most significant context outer driver for change, while the context inner necessitated banks to embark on some expansion and development of processes for raising additional capital prior to the CBN's directive. The different options available to banks taking additional capital and legal modes for consolidation are discussed in section 5.3.

Furthermore, this category of banks implemented universal banking principles, decentralised groups and divisions, re-enforced and upgraded systems, and enhanced managerial skills due to increased loan size. The content of change was encouraged through collaboration and employee support, as stand alone banks did not have to merge or acquire any bank. Thus, the change process was characterised by the maintenance of existing power structures and limited changes to culture and systems. The force field analysis indicates that these banks had strong brands and were successful in their quest to raise additional capital, even though they experienced difficulties in filling positions amidst weak control mechanisms. Subsequent sections in this chapter discuss the implications of these actions in more detail.

7.2.2 Common Ownership Banks

Common Ownership banks are a group of banks with central ownership, these banks came together to meet the CBN's N25 billion minimum capital requirement after raising funds from the capital market. The selection of sample size is highlighted in section 4.4.1. For the purpose of this study, senior bank managers from AfriBank and Intercontinental Bank which fall into the common ownership category participated in the interviews. Based on the findings in chapters 5 and 6, this section explores how the transformation of banking practices in the common ownership category impacts on key indicators in the Nigerian economy. Figure 7.2 combines the frameworks of Pettigrew (1988), Peters and Waterman (1982), Kotter (1998) and Lewin (1951) and presents a snap shot of all the factors acting upon the transformation of banking practices in the common ownership category.

Figure 7.2: Conceptual Framework for Incorporating Institutional variables into Financial Reforms/Snap shot of Common Ownership Banks



Source: Conceptual Synthesis from Pettigrew (1988), Peters and Waterman (1982), Kotter (1998), Lewin (1951) and Interviews with Bank Managers.

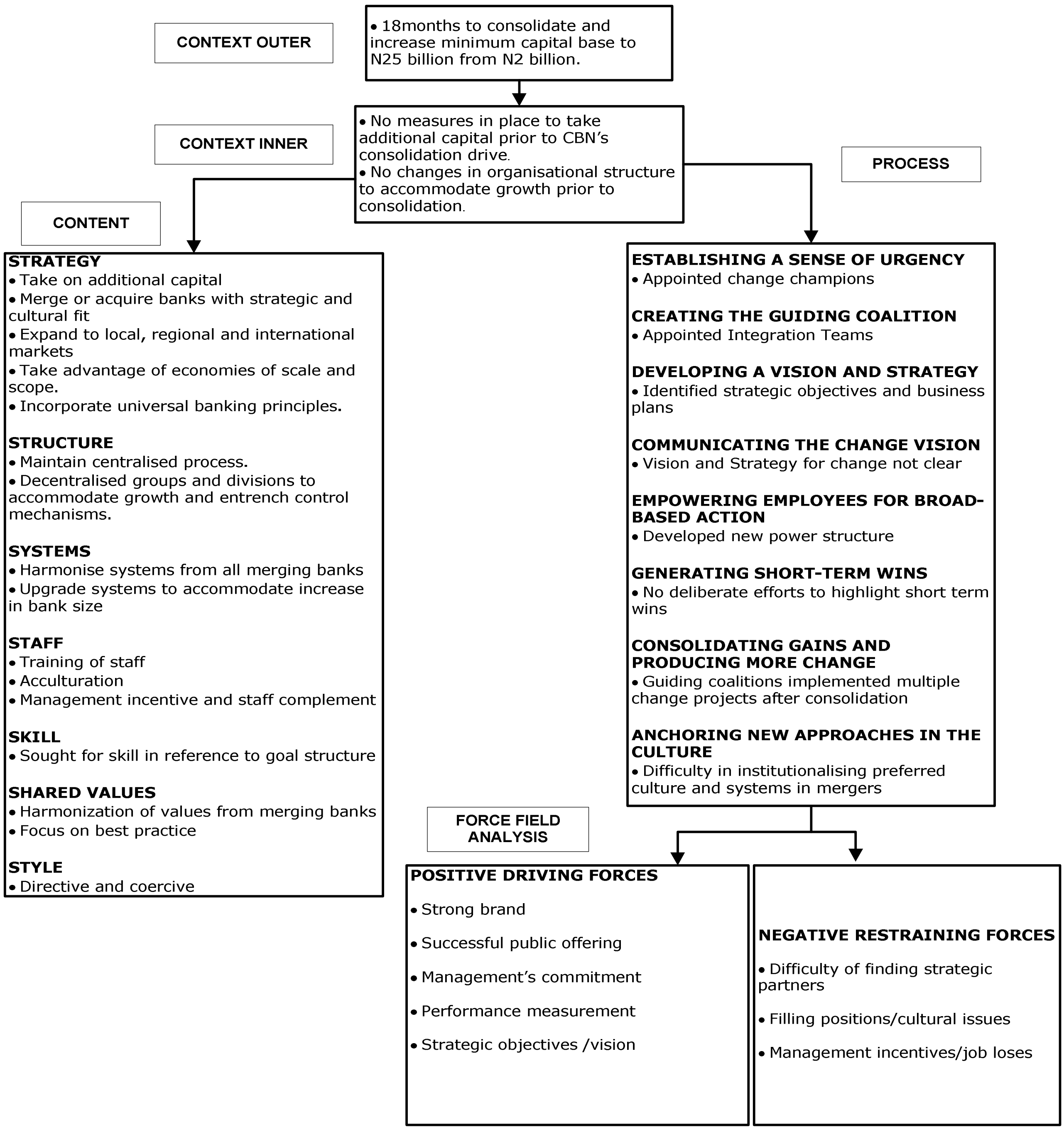
Figure 7.2 shows that common ownership banks in Nigeria embarked on numerous changes in response to the CBN's consolidation drive. The 18 months window to consolidate and increase minimum capital to N25 billion was the most significant context outer driver for change, while the context inner confirms that no measures were put in place to raise additional capital or change organisational structures to accommodate growth prior to the CBN's directive. The different options available to banks taking additional capital and legal modes for consolidation are discussed in section 5.3.

Common ownership banks were therefore required to merge with other banks owned by the same banking group, implement universal banking principles, decentralised groups and divisions, upgrade and harmonise systems, and enhanced managerial skills due to increased loan size. The content of change was more directive and coercive as the need to harmonise values from merging banks and establish best practice necessitated this approach. Consequently, the change process was characterised by the development of new power structures, the implementation of multiple change projects and major changes to culture and systems. The force field analysis indicates that these banks had strong brands and were successful in their quest to raise additional capital, even though they experienced difficulties in filling positions amidst a struggle for management incentives and job loses. Subsequent sections in this chapter discuss the implications of these actions in more detail.

7.2.3 Common Interest Banks

Common Interest banks are a group of banks with different ownership structures, after raising funds from the capital market, these banks came together primarily to meet the CBN's N25 billion minimum capital requirement. The selection of sample size is highlighted in section 4.4.1. For the purpose of this study, senior bank managers from Diamond Bank, First City Monument Bank, First Bank of Nigeria, First Inland Bank, Platinum-Habib Bank, and United Bank for Africa which fall into the common interest category participated in the interviews. Based on the findings in chapters 5 and 6, this section explores how the transformation of banking practices in the common interest category impacts on key indicators in the Nigerian economy. Figure 7.3 combines the frameworks of Pettigrew (1988), Peters and Waterman (1982), Kotter (1998) and Lewin (1951) and presents a snap shot of all the factors acting upon the transformation of banking practices in the common interest category.

Figure 7.3: Conceptual Framework for Incorporating Institutional variables into Financial Reforms/Snap shot of Common Interest Banks



Source: Conceptual Synthesis from Pettigrew (1988), Peters and Waterman (1982), Kotter (1998), Lewin (1951) and Interviews with Bank Managers.

Figure 7.3 shows that common interest banks in Nigeria embarked on numerous changes in response to the CBN's consolidation drive. The 18 months window to consolidate and increase minimum capital to N25 billion was the most significant context outer driver for change, while the context inner confirms that no measures were put in place to raise additional capital or change organisational structures to accommodate growth prior to the CBN's directive. The different options available to banks taking additional capital and legal modes for consolidation are discussed in section 5.3.

Common interest banks were therefore required to merge or acquire other banks (if strategic and cultural fit is established), implement universal banking principles, decentralised groups and divisions, upgrade and harmonise systems, and enhanced managerial skills due to increased loan size. The content of change was more directive and coercive as the need to harmonise values from merging banks and establish best practice necessitated this approach. Consequently, the change process was characterised by the development of new power structures, the implementation of multiple change projects and major changes to cultures and systems. The force field analysis indicates that these banks had strong brands and were successful in their quest to raise additional capital. However, they experienced difficulties in finding strategic partners and filling positions amidst a struggle for management incentives and job loses. Subsequent sections in this chapter discuss the implications of these actions in more detail.

7.2.4 Discussion of Similarities and Differences between Categories of Consolidation Banks

Increased Minimum Capital Base

Managers across categories of consolidating banks focused their strategies to take advantage of economies of scale and scope, increase efficiency savings and reduce risk through improved risk management. As new capital requirements (N25 billion) and the reduction in the number of banks from 89 to 24 through mergers and acquisitions created bigger banks. This reduction also led to the emergence of three categories of banks, these are: stand alone banks, common ownership banks and common interest banks. Hallowell (1999) argues that consolidators primarily create value through financing and operational economies. Value is created through financing when a larger firm is able to access debt at a lower cost, and with fewer restrictive covenants than can a small firm. While in operations, value is created through sharing overheads, purchasing economies, use of improved operating and information systems technologies, superior management talent, sharing best practices and common branding (Hallowell 1999). Harrison (1997) notes that operational economies exist when unit increases in the capacity of the organisation lead to more than proportional increase in output or decrease in unit costs of service provision. Table 7.1 shows how the numerous changes by banks discussed in this section impact on the Nigerian economy.

Table 7.1 Impact of Bank Reforms on the Nigerian Economy

Reforms in Nigerian Banks	**Tool Used to Measure Impact**	**Impact on the Nigerian Economy**
Increased Minimum Capital Base	Concentration Ratios	Decrease in Monopolistic Activities (Section 6.2.1)
	Herfindahl-Hirschman Index	Decrease in Monopolistic Activities (Section 6.2.2)
	Capital Adequacy Ratios	Stability in Banking (Section 6.2.3)
	Spread in Interest Rates	Efficient Allocation of Credit (Section 6.2.4)
	Total Credit to GDP	Increased Credit Allocation to Private Sector (Section 6.2.5)
Economies of Scale and Scope	Herfindahl-Hirschman Index	Decrease in Monopolistic Activities (Section 6.2.2)
	Spread in Interest Rates	Efficient Allocation of Credit (Section 6.2.4)
	Total Credit to GDP	Increased Credit Allocation to Private Sector (Section 6.2.5)
Universal Banking	Concentration Ratios	Decrease in Monopolistic Activities (Section 6.2.1)

	Herfindahl-Hirschman Index	Decrease in Monopolistic Activities (Section 6.2.2)
	Spread in Interest Rates	Efficient Allocation of Credit (Section 6.2.4)
	Total Credit to GDP	Increased Credit Allocation to Private Sector (Section 6.2.5)
Increased Market Share	Concentration Ratios	Decrease in Monopolistic Activities (Section 6.2.1)
	Herfindahl-Hirschman Index	Decrease in Monopolistic Activities (Section 6.2.2)
	Spread in Interest Rates	Efficient Allocation of Credit (Section 6.2.4)
	Total Credit to GDP	Increased Credit Allocation to Private Sector (Section 6.2.5)

Source: Author Generated

Economies of Scale and Scope

Phillips et al. (1998), Harrison (1997), and Bennett (1993) claim that economies of scale and scope can only be achieved through a critical threshold of volume, which depends on the interaction of fixed costs with variable costs across the geographical market of potential demand, which in turn depends on the level of market penetration. Alternatively, it may be the case that once a threshold to achieve a critical mass is crossed, the benefits of further operational economies of scale are small or negative if the customer perceives the organisation to be too large, too remote, or too generalised to provide specific needs (Bratton et al. 2003). In this situation, Jin et al. (2006) note that banks would experience diseconomies of scale as quantity discounts make little sense when greater coordination costs in ensuring consistency of standards of service across a widespread network of branches exists. The arguments presented by Phillips et al. (1998), Harrison (1997), Bennett (1993) and Bratton et al. (2003) highlight the potential for resource misallocation in the Nigerian banking industry. Thus, the evolving structure (after consolidation) of the banking industry will depend on what categories of banks remain profitable over time. Primarily, profitability will be determined by the extent that operational economies and cost reductions can be achieved as Nigerian banks expand their operations. Successful extensive cost reductions and increased market share as a result of resized target markets by consolidated banks, suggests that large diversified banks will potentially be more profitable than smaller specialised ones.

Universal Banking

Findings in Figure 7.1, 7.2 and 7.3 indicate that universal banking was an important aspect of consolidation. In universal banking, Calomiris (1995) notes that large banks operate extensive networks of branches, provide many different services, hold several claims on firms (including equity and debt), and participate directly in the corporate governance of firms that rely on the banks for funding or as insurance underwriters. The CBN provided the enabling regulatory environment and encouraged banks to further implement universal banking principles by focusing on non-core banking segments (Soludo 2004). In most cases senior managers implemented universal banking through subsidiaries with the aim of diversifying risk and earnings. Paraphrasing a senior manager (CI3:M1); one way to diversify risk is to do more than just banking; almost every bank that consolidated has either associated companies or subsidiaries in insurance, pension management services, custodian services, brokerage companies, asset management, investment arms, mortgages and so on.

Roe (1990), and Petersen and Rajan (1994) believe that universal banking can better finance economic growth because it facilitates the financing and monitoring of small firms and eases their access to the capital markets. In principle, Roe (1990) states that universal banks can exploit economies of scope in the provision of financial services by providing these services more efficiently together. Fama (1985), Sharpe (1990) and Diamond (1991) claim that, by combining firms in the universal banking environment, banks can provide their client firms with loans, other diverse financial services, and private information about competitors on the basis of continuing relationships. For example: UBA Plc (United Bank for Africa) consists of several companies currently providing among themselves, a wide range of financial services solutions to its diverse clients (UBA 2010). This information advantage allows banks to help their client firms by mitigating the information asymmetry problem, by monitoring corporate decisions, and by reducing the cost of financial distress. However, universal banking has often been associated with several concerns, particularly involving the universal bank's influence on financial stability, systemic risk, economic development, development of other financial institutions, concentration of political and economic power, consumer choice, and potential conflicts of interest (Benston 1994). Francke and Hudson (1984) point out that universal banks might also consider themselves to be too big to be allowed to fail. Expecting government bailouts, they might take excessive risk and thus create a moral-hazard problem as is the case with Lloyds Banking Group and The Royal Bank of Scotland in the United Kingdom.

In Indonesia, Hall (2005) adopts the Fries, Mella-Barral and Perraudin (1997) (FMP) model and an American-style option model to calculate the authorities' liabilities arising from the provision of depositor protection in form of deposit insurance. The study shows that the cost of bankruptcy was significantly higher post universal banking; this is discussed in detail in section 2.2.3. The establishment of universal banking in Nigeria as a result of consolidation could extend the government's safety nets far too broadly, with adverse consequences for the Nigeria Deposit Insurance Corporation (NDIC). For example: universal banking could lead banks to stretch their activities and resources more thinly and increase the possibilities of things going wrong. This implies that, risk diversification resulting from universal banking could have multiple effects, with significant implications on bank supervision by the CBN or credit guarantees by the NDIC. Lins and Servaes (1999) note that cross-subsidisation between departments of the bank can increase the risk of the bank and disbenefit depositors. For example: a universal bank might give bank loans at favourable rates to third-party investors in the understanding that they will buy securities in the initial public offering (hereafter IPO). In the universal banking environment, Nigerian banks can more easily benefit from misallocating funds, but go on to pass loses to the NDIC. This also shows that the incentive to control moral hazard is low, if banks have some control rights in firms where they have equity positions.

Increased Market Share

Soludo (2007) claims that the benefits of consolidation include growth in assets, deposits, credit, profitability and network of branches in Nigerian banks. As can be seen in Figure 7.1, 7.2 and 7.3, these changes in size also provided banks with the capacity to grow market share in the local, regional and international markets (section 6.3). Minhas and Jacobs (1996) note that financial institutions typically compete in broad markets with numerous customers that may be geographically dispersed, and seeking a variety of different service benefits. Young (1999) argues that banks are increasingly developing marketing strategies that target specific segments which provides the bank with the greatest opportunity for success. Prospects for sustained growth will depend on the ability of Nigerian banks to identify opportunities for differentiation and low cost advantages in new markets. To achieve this, an understanding of bank features and its influence on the client decision making process will be key.

Therefore, Nigerian banks will have to tailor their products to meet the specific needs of customers in new geographic markets. Market tenure can also help banks increase their market share, as banks have a higher possibility of increasing market share and profitability if they stay longer in a particular market (Berger and Dick 2007).

In summary, the economies of scale and scope, implementation of universal banking, and increased market share were significant effects of the N25 billion minimum capital base requirement in Nigerian banks. These effects also directly impact on the stability of the banking industry, the efficient allocation of credit, and the availability of credit in the Nigerian economy. Primarily, profitability will be determined by the extent that operational economies, resized markets and cost reductions are achieved as banks expand their operations. Combining firms through universal banking could provide advantages that allow banks to help their client by mitigating the information asymmetry problem, even though universal banks may consider themselves too big to fail. Sustained growth will depend on the ability of Nigerian banks to identify opportunities for differentiation and low cost advantages in new markets. The next section discusses the consequence of changes in consolidating banks for the Nigerian economy.

7.3 Consequence of Changes in Consolidating Banks on Credit Availability to the Private Sector in Nigeria

Rojas-Suarez (2001) argues that the appropriate indicators of credit performance evolve over time as markets develop, and that given large differences among emerging markets, a single set of indicators will not fit all economies. Guidotti (1995), Chiuri et al. (2001), Gregorio and Rojas-Suarez (2001), Black and Strahan (2002), and Beck et al. (2004) note that market concentration, competition, stability, efficiency, and direct measurements of credit availability are effective indicators of credit performance in emerging market economies. Thus, this study deploys these indicators to discuss the effects of banking consolidation on credit availability to the private sector in Nigeria. The discussion in this section is informed by the analysis and findings presented in chapter 6, on changes in concentration ratios, Herfindahal-Hirschman Index, capital adequacy ratios, interest rate spread, and total credit to GDP as a result of consolidation.

7.3.1 Concentration in the Banking Industry

Banking concentration shows how banks in the industry constitute the content of market structure (Lu et al. 2007). Imala (2005 p. 28) states that "the aggregate capitalisation of the Nigerian banking system at N311 billion (US$2.4 billion) is low in relation to the size of the Nigerian economy and in relation to the capital base of US$688 billion for a single banking group in

France and US$541 billion for a bank in Germany". Beck et al. (2000) observe that in the long-run an expansion of financial services will generate demand, and therefore lead to an enlargement of the intermediating sector. The assumption here is that bigger banks and established financial markets are essential for economic growth and development, even though this is dependent on the right economic model and the effective use of regulatory and institutional frameworks. It is based on this fundamental belief of the causal relationship between financial markets and economic growth that the CBN deployed consolidation in 2004-2006.

However, there are conflicting views on the relationship between banking concentration and economic growth. One of these views suggest that concentrated banking systems with fewer banks are less prone to financial crisis than banking systems with many banks and low concentration (Chang et al. 2008). Chang et al. (2008) argue that the higher market power of banks as a result of concentration, would lead to higher profits that would somehow serve as protection against adverse shocks and thus increase the franchise value of the bank. In support of this view, Yeyati and Micco (2007) note that mergers seem to have been pro-competitive in general, as a merger between firms serving overlapping or identical markets reduce competition and increases efficiency by eliminating duplication of activities. Naturally, efficiency is achieved in this case by eliminating the duplication of activities within the firm for example; the harmonisation of systems and processes in the common ownership and common interest category of banks in Nigeria. It is important to note that these successes can only be achieved if bank market concentration effectively adjusts to short-run and long-run equilibrium levels. Secondly, regulatory checks and balances (such as interest rate cap) will have to be deployed effectively to prevent excess rent taking. As the expected gains of concentration on credit availability to the private sector identified above, depends on the pace with which banks and regulatory authorities can embark on numerous adjustments in the economic cycle.

Contrary to the views above, Caminal and Matutes (2002) maintain that a monopolistic bank (possible in totalitarian states) has more incentives to monitor its clients than a bank with less market power, thus decreasing the credit rationing of loans. Hughes and Mester (1998) conclude that few relatively large banks are more likely to display a “too big to fail” problem by which large banks increase their risk exposure anticipating the unwillingness of the regulator to let the bank fail in the event of insolvency problems. Typically, these issues can be resolved if early warning signals prompt action, which might mitigate systemic problems if acted upon. The recent global financial crisis confirms that the ability of regulators to detect and act on warning signals is crucial.

The findings and analysis in section 6.2.1 show an increase in the size of the top 10 banks by assets, deposits and extended loans year on year after consolidation. The distribution of bank size (see Chart 6.1, 6.2, 6.3) indicates that the CBN achieved its objective of expanding the financial market by creating bigger banks. Expansion of financial services encouraged banks to increase their intermediation role in the economy, thus making more credit available to the private sector with significant impact on economic growth. However, it is important to note that economic growth will ultimately depend on the demand for loans, entrepreneurial flair and suitable projects for the banks to back. In addition, fewer bigger banks are now better able to deal with the problem of information asymmetry in the Nigerian banking industry, and prevent situations where customers who default on loans simply go to another bank (Nakamura 1993). Furthermore, the CBN establish a Credit Bureau and mandated banks to integrate a “Know Your Customer document” (KYC) into all loan approvals (CBN 2008). The failure of the Financial System Stability (FSS) framework discussed in chapter 2, to adequately address the problem of asymmetric information facing Indonesian banks highlights the difficulties of credit profiling in emerging economies. Higher bank exposures create incentives to improve their risk management systems, and as a result reduce the number of non-performing loans in the Nigerian economy.

7.3.2 Competition in the Banking Industry

The Herfindahl-Hirschman Index is used in chapter 6, to test hypothetical positions on the state of competition in the Nigerian banking industry before and after consolidation. Based on the HH Index benchmarks identified by Lu et al. (2007), the Nigerian banking industry remained competitive between 2001-2007. Furthermore, evidence from the interviews suggests a perception of increased competition as a result of consolidation. For example: a senior manager (SA1:M2) claims that consolidation created an almost level playing field which increased competition. Emem-Akpan (2007) notes that Nigerian banks are struggling to outdo each other in the area of branches, as a bank that had about 64 branches nationwide before the consolidation exercise now has about 178. This focus on bricks and mortar could change if information technology infrastructure improves or gets to a point of maturity.

At the macroeconomic level, banks perform a vital economic function in channelling funds from savers to investors (Goddard and Wilson 2009). Bank Negara Malaysia (2003) notes that in consolidating the Malaysian banking industry, priority was accorded to strengthening drivers of performance to provide high quality service at competitive prices. The right level of competition improves efficiency, drives innovation and influences the pricing and quality of products available to consumers. Thus, the perceived reality above, of increased competition in the Nigerian banking industry is a positive phenomenon. The CBN’s induced competition and its effects on bank behaviour, cost structures and efficiency provides incentives for managers to be prudent in the allocation of investment resources, risk management systems, IT applications, accounting standards, skills and credit with overall benefits on banking intermediation. This scenario presents the customer with a host of bank products and credit facilities to choose from. Such healthy rivalries (so long as it does not spill over into illegal or unethical activities) amongst banks ultimately benefits consumers and by extension the Nigerian economy, as banks provide financial means to facilitate production in other industries. This is in line with the argument by Yildirim and Philippatos (2007) that increased competition can also stimulate economic growth by raising the availability of credit and financial services to businesses and households.

Mamatzakis et al. (2005) and, Hughes and Mester (1998) note that competition could negatively impact on stability if banks take excessive risks or reduce incentives for prudent risk taking behaviour. The CBN's ability to manage these concerns directly impacts on the soundness and stability of the financial sector in Nigeria. Tolerance levels on infractions, statutory returns, accountability, corporate governance, transparency, realignment of incentives away from rent-seeking and an established credit bureau influence the delivery of efficient financial intermediation. Unfortunately, evidence from the interviews in section 6.4 show limited efforts on the part of Nigerian banks to improve corporate governance, inaccurate reporting, and gross insider abuse which resulted in huge numbers of non-performing insider related credits pre-consolidation.

The comparative advantage of relationship lending is another potential concern when competition is induced by consolidation. Black and Strahan (2002) point out that relationship lending involves long-term relationships that generate valuable information about borrower quality. They note that small banks are better than large banks at relationship lending which depends on soft information. While in contrast large banks specialize in transaction lending to more mature firms that depend on hard data where less discretion is involved. Thus, the mechanisms at play in a consolidated banking environment could reduce credit availability to small firms and new businesses, and create issues of credit not reaching the SME segment of the Nigerian economy. This view is consistent with the response of a senior manager (CI2:M1) to a question on credit availability to small firms:

> "The small credit institutions deal in segments we are probably not interested in because of the risk; that's the lower or even lowest end of the market. Yes, the pricing at the lower end can compensate, but they are more difficult to manage".

However, Boot and Thakor (2000) argue that competition may raise the rewards to activities that allow lenders to differentiate themselves from other lenders, thereby raising the incentive to invest in relationships. For example; Standard Chartered Bank and First City Monument Bank developed unsecured lending products for staff of organisations to access loans without the requirement of a collateral (SCB 2010; FCMB 2010). Large banks may also be lower cost lenders than smaller banks, because of their superior ability to diversify credit risks across borrowers and as a result reduce the cost of lending to risky borrowers (Diamond 1984). Cost can be further reduced in large banks by investing in semi-automated processes and systems for managing credit facilities (i.e. through exception reporting), Table 6.7 shows that managers from the three categories of consolidating banks in Nigeria invested in standardisation (i.e. semi-automated processes) for credit analysis and approvals. The prevailing environment in the Nigerian banking industry of increased competition force prices closer to marginal costs, and helps the credit supply conditions to all borrowers in the economy.

7.3.3 Stability in the Banking Industry

Providing buffers for bank risk exposures seem to be the most appropriate approach to maintaining stability in the banking industry. In the last decade, pressures from regulatory authorities require banks to have appropriate capital adequacy ratios to enhance stability in financial systems. This is precipitated by the high financial leveraging and high risk nature of banking. International banking losses and bankruptcies have also become more frequent. For example; in 1995, Japan's largest credit union The Credit Union of Mu Jin, went out of business and the second largest local bank, Hyogo

Bank, closed and liquidated its assets (Lin et al. 2005), and also the recent fall in 2008 of Lehman Brothers.

Adequate capital requirements can reduce moral hazard by forcing bank shareholders to absorb a larger part of the losses, thereby reducing incidents of excessive risk taking and the value of the deposit insurance put option (Rime 2001; Keeley and Furlong 1990). In consolidating the Malaysian and Indonesian banking industry, financing arrangements such as target levels of recapitalization, types of instruments, and terms and conditions were guided by the principle of minimizing government's contribution. The international consensual knowledge of these systemic risks on bank lending led to the creation of the Basel Capital Accord. This is enforced as a model for capital regulation of the banking system by local authorities in both developed and developing economies, and has been adopted in more than 100 countries including Nigeria (Arua 2006).

Ediz et al. (1998) state that the Basel Capital Accord obliges banks to maintain equity and quasi-equity funding equal to a risk-weighted proportion of their asset base. The Basel Capital Accord assigns 8% as a generally acceptable capital adequacy ratio and a risk rate of 50% to residential mortgages (Hsu et al. 2007). In the case of Nigeria, the CBN (2005) notes that in 2005, the required minimum capital adequacy ratio for banks was raised from 8% to 10%. Findings in Table 6.10 show that the banking industry in Nigeria maintained double digits capital adequacy ratios between 2002-2008, which is significantly above the 8% Basel Capital Accord requirement. On the other hand, managers stressed that levels of liquidity and the CBN's stipulated loan to deposit ratio of 80% were the most prominent factors influencing propensity to lend across categories of consolidating banks. For instance: a senior manager (CI1:M1) states that by regulation a Nigerian bank is not supposed to lend more than 80% of its deposits and these constraints either boosts or reduces a bank's ability to lend. This implies that bank managers could be encouraged to lend if their banks are considerably below the 80% loan to deposit ratio threshold, while this could also be a constraint if bank lending figures are nearer the threshold.

Even though most managers claim their lending decisions are primarily influenced by available levels of liquidity, this study notes that there is a direct relationship between capital adequacy and levels of liquidity in banks. The increased capital adequacy ratios in Nigerian banks, means that banks are better able to attract depositors because they are perceived to be stable and can absorb shocks. In support of this view, Lindquist (2004) states that a poorly capitalised bank runs the risk of losing market confidence and reputation. In Nigeria, the 13 banks which did not meet the CBN’s minimum capital requirement lost their operating licence and were liquidated (CBN 2005). Thus, excess capital acts as an insurance against costs that may occur due to an unexpected fall in the capital ratio and difficulties in raising new capital. Fonseca and Gonzalez (2010) believe that when bank liabilities are not totally insured, depositors demand higher returns to compensate for higher risk. Furthermore, they note that bank shareholders may have incentives to add to bank capital to reduce bank risk and therefore the cost of deposits. Secondly, the positive influence of higher capital buffers such as stability and market power encourage foreign banks and credit providing institutions to provide credit lines to Nigerian banks. For example: strategic investors such as International Finance Corporation and Sabre Capital deployed funds and credit lines to First City Monument Bank as a result of consolidation (FCMB 2010). These causal relationships between capital adequacy, deposits, and credit shows that the CBN’s increase of bank capital adequacy ratios positively influence the availability of credit to the private sector.

Yet other authors challenge the idea that capital requirements can stabilise the banking system and enhance the availability of credit. Hsu et al. (2007) argue that the 8% capital adequacy ratio requirement is a major problem, because this figure was assigned without any empirical evidence to support its accuracy. They opine that in computing the capital adequacy ratio, banking institutions may be over-capitalised according to the regulatory regime but under-capitalised according to the market. Kim and Santomero (1988), and Rochet (1992) find that if capital is relatively expensive, the forced reduction in leverage diminishes the bank's expected returns and as a result, bank owners may choose a higher point on the efficiency frontier with a higher return and higher risk. Fortunately, these situations can be addressed by making special provisions to raise the ratio in specific cases. The higher capital ratios (section 6.2.3) of Nigerian banks after consolidation did not negatively affect their ability to provide loan able funds to the private sector.

The current events in the global financial system shows that the capital requirements of Basel II do not adequately reflect bank risk taking, these inadequacies in banking supervision informs the proposals for Basel III. Appropriate risk based capital standards can eliminate the adverse effects of capital requirements and reduce the incidence of moral hazards. The instance of double digit capital adequacy ratios in Nigeria is a positive sign and indicates that these ratios are reflective of bank risk exposures, even though higher safety margins could lower bank profit.

7.3.4 Efficiency in the Banking Industry

At the macroeconomic level, bank efficiency represents a socially optimal target, since it reduces the costs of financial intermediation, driving down the drainage of real resources due to the transfer of funds from savers to producers. Consequently, central banks are interested in operating practices and market equilibrium that grant the maximum productive efficiency (Resti 1997). Traditionally, the level of efficiency in banking is determined by the spread between deposit and lending rates, with higher margins a sign of low efficiency and lower margins a sign of high efficiency.

Chart 6.4 shows a slight reduction in spread (margins) between deposit and lending rates year on year after banking consolidation in Nigeria. Interestingly, senior managers are almost evenly split between interactions of demand and supply, and government regulation as the reasons for the reduction in spread (see Table 6.16). This clearly implies that lower margins between deposit and lending rates in Nigeria were achieved through the combination of demand and supply and CBN regulation which aimed to cap interest rates. Ultimately, this result is positive as lower margins mean that bank cost structures are at optimal levels, customers have greater incentives to save and credit is available to investors at cheaper rates.

The concentration ratios in the Nigerian banking industry after consolidation can have two possible impacts on efficiency. First a class of models claim that more concentrated banking industries will behave oligopolistically; while another class of models stress that concentration is due to more efficient banks taking over less efficient counterparts. This means that in the first case; lower competition should result in higher spreads, while in the second case; a decrease in marginal costs due to increased efficiency should reduce spread (Gambacorta 2008).

The high level of competition identified in section 7.3.2 significantly influence efficiency levels in the Nigerian banking industry for a number of reasons. First, managers have higher incentives to manage the bank more efficiently because their capacity to establish price above marginal cost and generate sufficient profits is diminished as a result of competitive pressures from other banks. Secondly, managers are not able to pursue objectives such as market power or higher wages at the expense of efficiency (Maudos and Guevara 2007). Corvoisier and Gropp (2002) found that higher contestability is part due to recent advances in technology, which has resulted in an overall increase in competition. Evidence from the interviews in Table 6.7 shows that nine managers identified improved risk assessment parameters as a significant effect of consolidation. This implies that with the increased size of

Nigerian banks, they can afford to make considerable investment to upgrade their information technology infrastructure and risk management systems. Thus, efficiency is achieved as Nigerian banks can now not discriminate on price, this leads to a natural adjustment of interest rates to an intermediate value. By so doing, the banks move to equilibrium interest rates and create a chain reaction on price as other banks adjust.

It has also been argued that an unregulated and aggressively competitive banking system would have tendencies to overproduce non-performing loans (as is the case in Nigeria pre-consolidation), and increase the degree of interest rate uncertainty. Therefore, there is a public policy rationale for the imposition of regulations on bank activities in the form of reserve requirements, portfolio investment restrictions and deposit contract constraints, to help attain money supply objectives (Laeven and Majnoni 2003; Saunders and Yourougou 1990), even though non-market forces could seek to influence regulatory bodies and interests that drive these issues (Amaeshi and Adi 2007). The CBN provided an interest rate agreement for a uniform interest rate structure among banks, in which a window stipulating the minimum deposit rates and maximum lending rates was clearly spelt out. The window provided between the deposit and lending rates is sufficient for banks to cover marginal costs and make profit. The slight reduction in spread, confirms that the combination of demand and supply and the CBN's interest rate controls were effective. This implies that efficiency levels in the Nigerian banking industry have improved after consolidation.

7.3.5 Direct Measurements of Credit Availability

According to Palley (1995), traditional models relate the demand for money to the level of GDP (Gross Domestic Product), where GDP serves as the scale variable determining the transactions demand for money balances. The predetermined component of financial development is strongly associated with real per capita GDP growth and improvements in the efficiency with which economies employ physical capital (King and Levine 1993; Rajan and

Zingales 1998). Thus, there is a correlation between the total credit to GDP and the impact of credit on growth in the Nigerian economy (Rousseau and Wachtel 2002).

The findings and analysis in section 6.2.5 shows that banking consolidation resulted in increased flow of bank credit to the private sector and this was notably higher than GDP. This means that consolidation influenced banks to increase their level of intermediation, and as a result more credit is available to the private sector with overall implications for the productive arm of the Nigerian economy. This is in line with the CBN's objective of stimulating growth in the economy through increased credit to the private sector. The focus on private rather than public sector as a benchmark is the influence of political considerations in the allocation of government credit, which may not reflect optimal allocation of resources. The data is consistent with the view of King and Levine (1993) that banking intermediation stimulates economic growth by improving the efficiency with which economies use capital.

Beck et al. (2000) believe that banks alter the path of growth by affecting the allocation of capital. Banks choose which firms to lend to through various parameters that ensure optimal resource allocation (the most efficient allocation of resources). This is evident in the views of a senior manager (CI2:M1) in section 6.2.5, who claims that the SME segment in Nigeria did not attract sufficient credit, because it lacked the primary determinants of bank performance such as profitability and efficiency. Beck et al. (2000) believe that regulation, technology, credit profile, and infrastructure are fundamental channels which connect financial intermediation to economic growth. Firms in the SME segment who do not meet the requirements for banks loans, are more likely to fall back on internally generated funds or supplier financing in the form of trade credit as a means of funding growth. In emerging economies like Nigeria's, financial development matter disproportionately more for firms that cannot make use of trade credit financing, while firms with access to trade credit financing face fewer difficulties (Rajan and Zingales 1998).

In summary, the growth in total credit to GDP after consolidation shows that the CBN achieved its objective of growing the Nigerian economy through increased credit to the private sector. Even though, the SME segment characterised by weak regulatory frameworks, poor credit history and lack of infrastructure (Balogun 2007) presented difficulties for formal lenders. Access to credit in the SME segment is disproportionate, as firms with supplier trade credit financing face fewer difficulties. This finding highlights the SME value chain as a significant concern for policy makers, sections 8.3.2 and 8.6 present the contribution to practice for policy makers and policy recommendations.

7.4 Corroboration of Modified Berger et al. (1998) Framework used in this Study

The modified Berger et al. (1998) framework used in this study (section 4.5), is less data intensive and examines the Nigerian banking industry in aggregate. Primarily, this conceptual framework aims to analyse the effects of banking consolidation on credit availability to the private sector. Thus, this section seeks to determine the validity of the modified framework for decision making and understanding the health of the banking industry (in terms of credit availability) by interviewing a senior manager in the CBN and the respected financial analyst.

In response to a question on how the CBN would evaluate the performance of policy instruments used to consolidate banks and its effects on credit availability to the private sector. The senior manager (CBN1:M1) from the CBN notes that:

> "The total credit to GDP would be a good measure of credit availability in the banking industry. The CBN would also expect

> interest rates to fall, resulting from healthy competition in the banking industry. These figures help inform our policy response to consolidation and credit provision. The thinking in the CBN after consolidation, was that credit supply had improved but a lot more needed to be done to generate demand".

The response above indicates that the CBN would naturally measure total credit to GDP as a benchmark for improved credit availability in the economy. Secondly, the policy maker identified the spread between deposits and lending rates as an important indicator of credit allocation and competition in the banking industry. These elements inform the CBN's policy response and are key aspects of the modified Berger et al. (1998) framework deployed in this study. Furthermore, the CBN's thinking confirms the position of the study that the demand for credit was inadequate.

This study's findings were also discussed with the respected financial analyst, with the aim of validating its practical implications from an independent observer perspective. The respected financial analyst (P1:M1) claims that:

> "Nigerian banks are now more stable, they are bigger and can do longer term transactions. I think this is a positive sign for growth in the economy, as I would expect better returns when business people hold money for longer periods. The inability of the SME segment to attract credit, remains a major problem. I would agree with your conclusions that that the Nigerian authorities must improve infrastructure, education etc to help stimulate growth in the economy".

The feedback from the respected financial analyst supports the findings of this study and reconfirms the need for joined up thinking between the CBN and government, as the SME segment remained unprofitable to banks. The financial analyst also believes that increased bank capital (supply side) on its own, would not deliver the required level of growth expected in the economy.

These positive corroborative responses are appealing, and indicate that the modified Berger et al. (1998) framework used in this study is an effective approach for examining the effects of banking consolidation on credit availability in developing economies.

7.5 Conclusion and Summary of Discussion

The discussion in this chapter highlights the research findings in relation to existing literature, and explains the consequences of banking consolidation on credit availability to the private sector in Nigeria. Changes in the three categories of consolidating banks namely: Stand alone banks, Common ownership banks, and Common interest banks include an increase in their minimum capital base to N25 billion, economies of scale and scope, universal banking, and increased market share. For banks, taking on additional capital is necessary to meet the CBN's N25 billion requirement. The economies of scale and scope help banks achieve cost and efficiency sayings. Through universal banking risk and earnings are diversified, while increased bank size provide banks with the capacity to grow market share. These changes also significantly impact on market concentration, competition, stability, efficiency, and total credit to GDP in the Nigerian economy.

Findings in section 6.2.1 indicate that the Nigerian banking industry is more concentrated after consolidation. These bigger banks positively impact on the economy through numerous measures such as: their increased intermediation role thus making more credit available to the private sector, reduction of information asymmetry, improved risk management systems, and higher efficiency saving by eliminating the duplication of activities.

Contrary to expectations that more concentrated industries encourage oligopolistic tendencies which negatively impact on competition, the Nigerian banking industry witnessed high levels of competition in the period under review. This level of competition affects bank behaviour, cost structures, and efficiency and provides incentives for managers to be prudent in the allocation of investment resources, risk management systems, IT applications, accounting standards, skills and credit with overall benefits on banking intermediation. Such healthy rivalries amongst banks ultimately benefit consumers and by extension the Nigerian economy, as banks provide financial means to facilitate production in other industries.

Most managers claim their lending decisions are primarily influenced by available levels of liquidity. However, there is a direct link between capital adequacy and levels of liquidity in banks. Nigerian banks maintained double digit capital adequacy ratios before and after consolidation, which is significantly above the 8% Basel Capital Accord requirement. This means that banks are better able to attract depositors because they are perceived to be stable and can absorb shocks. In support of this view, Lindquist (2004) notes that a poorly capitalised bank runs the risk of losing market confidence and reputation. The down side to this could be the use of funds to strengthen balance sheets and capital ratios instead of lending; there is no evidence in this study to suggest Nigerian banks engaged in this type of practices.

The minimal reduction in spread between deposit and lending rates is a positive result. As lower margins mean that bank cost structures are at optimal levels, customers have greater incentives to save and credit is available to investors at cheaper rates. Interestingly, senior managers are almost evenly split between interactions of demand and supply, and government regulation as the reasons for the reduction in spread. This implies that the CBN achieved lower margins between deposit and lending rates through the combination of various instruments.

The focus of this study is on the supply side and not the demand side of credit, and some of the analysis indicates that banks are still unwilling to lend to the SME segment, even though firms with supplier trade credit financing face fewer difficulties. The SME segment did not attract sufficient credit because it lacked the primary determinants of bank performance such as profitability and efficiency. These highlights the need for authorities to address broader policy issues such as infrastructure development, education, foreign direct investment, regulation etc, which could impact positively on the demand for credit and stimulate the SME value chain. The next chapter summarises the findings of this study and draws conclusions relating to the original research questions.

Chapter 8: Summary of Findings and Conclusions

8.0 Introduction

This chapter summarises key findings, presents conclusions and offers recommendations based on the research presented in previous chapters. The appointment as CBN governor of Professor Charles Soludo in 2004, the subsequent increase of bank minimum capital requirement to N25 billion and the 18 months window for consolidation mark a turning point in the Nigerian banking industry. The period under review (2004-2006) is characterised by significant structural and operational changes with outcomes expected to positively impact on the Nigerian economy. Primarily, this study examines change management practices of managers implementing banking consolidation in Nigeria and highlights the effects of these changes on credit availability to the private sector. Therefore, answers to the following research questions were sought: (i) To critically examine what gaps exist in the change management literature as it relates to organisational change in banking, (ii) To highlight how change was managed in Nigerian banks and benchmark these practices with aspects of the change management literature, and (iii) To investigate the extent to which banking consolidation improved the availability of credit to the private sector.

This chapter is divided into seven sections; Section 8.1 summarises the research aim, objectives and achievements. Section 8.2 presents the research findings. Section 8.3 reviews the contribution to knowledge and practice. Section 8.4 highlights limitations of the study. Section 8.5 identifies opportunities for further research. Section 8.6 considers a series of policy and managerial recommendations based on the findings of this study. Section 8.7 concludes this chapter with a critical reflection on the doctoral research.

8.1 Summary of Research Aim, Objectives and Achievements

The performance of policy instruments in developing economies is dependent on effective implementation and management of processes. The purpose of this study is to further advance knowledge in change management by highlighting challenges faced by managers implementing change in developing economies. This study seeks to make an original contribution to knowledge and practice, through the lessons learnt from the consolidation of the Nigerian banking industry in 2004-2006. In other to achieve this, Table 8.1 shows the research objectives and how this study has achieved them.

Table 8.1: Research Objectives and Achievements

Research Objectives	**Research Achievements**
To empirically explore the use of banking consolidation in Malaysia and Indonesia and highlight lessons for Nigeria.	Chapter 2 provides a detailed analysis of financial sector reform in Malaysia and Indonesia. A critical review of events in these countries presents lessons for authorities implementing banking consolidation in Nigeria and other emerging economies.
To identify internal and external change drivers, by undertaking an exploratory critical evaluation of events leading up to the consolidation of the Nigerian banking industry in 2004-2006.	Section 2.3.1 presents drivers of banking consolidation in Nigeria and highlights significant events necessitating the CBN to embark on financial sector reform.
To critically explore the change management literature in order to identify conceptual models and frameworks, to help understand the nature of change in the Nigerian banking industry.	A critical evaluation of the change management literature is presented in Chapter 3.
To understand the nature of strategic change in the Nigerian financial industry, by examining change management practices of senior bank managers involved in the reduction of the number of banks from 89 to 24.	In chapter 5, the analysis of interviews with managers directly involved in banking consolidation, highlights the change management practices of senior bank managers and helps establish the nature of strategic change in the Nigerian financial industry.
To critically appraise the effectiveness of	The analysis of secondary data and

key policy instruments and support mechanisms on performance, competition and availability of credit to the private sector in Nigeria.	interviews with managers in chapter 6, identifies the effects of banking consolidation on credit availability to the private sector in Nigeria.
To develop a framework for incorporating institutional variables (e.g. shared values, structures, systems etc) into financial sector reforms in developing economies, based on the review of change management literature and evidence from this study.	Sections 7.2.1, 7.2.2, and 7.2.3 show the conceptual framework developed for incorporating institutional variables into financial sector reforms in developing economies.
To contribute to professional practice through a review of public policy and managerial recommendations in order to address identified barriers and opportunities for industry participants.	Section 8.3 provides a series of policy and managerial recommendations based on the findings of this study. Furthermore, section 8.4 presents the contribution to knowledge and practice for bank managers and policy makers.

Source: Author Generated

Table 8.1 reflects the focus of this study on two out of thirteen objectives presented by the CBN for consolidation. These are: (i) Requirement that the minimum capitalisation for banks should be N25 billion with full compliance before end-December 2005, and (ii) Consolidation of the banking institutions through mergers and acquisitions. This is justified because the CBN particularly expected increased capital requirements of N25 billion and its effects on bank structure to stimulate growth in the Nigerian economy (Soludo 2004; CBN 2008).

The mixed method research approach is deployed to address the research questions and examine the performance of policy instruments. Secondary data was accessed through the CBN and in-depth semi-structured interviews conducted with managers directly involved in implementing banking consolidation in Nigeria. The overall aim of this study is achieved, as change management practices of senior bank managers were examined and the effects of these practices on credit availability to the private sector established.

8.2 Research Findings

Parallels and lessons are drawn from the Malaysian and Indonesian experience for mangers implementing banking consolidation in Nigeria. These parallels include; the reduction in the number of banks through mergers and acquisitions, the increase of minimum capital base for the emergent banks or banking groups, the focus on efficiency and competition, and the implementation of stringent supervisory and regulatory reforms. It is also expected by authorities in these countries, that capital injection will address the problem of weak capitalisation, and liquidity from the new investment into the banking industry will induce interest rates to fall, improve overall liquidity in the system and increase lending to the private sector. Table 8.2 highlights lessons learnt from the Malaysian and Indonesian experience and its implications for authorities in Nigeria.

Table 8.2: Lessons Learnt from the Malaysian and Indonesian Experience and Actions taken by Nigerian Authorities in response to these Lessons.

Lessons Learnt from the Malaysian and Indonesian Experience	Actions by Authorities in Nigeria
The provision of Institutional and legal framework for restructuring and allocation of qualified human resources.	(i) The National Economic Empowerment and Development Strategy (NEEDS) prepared in 2003. (ii) CBN/BOFIA Act Amendment Bill improved the autonomy of the CBN in its monetary policy decisions.
Standard requirements for selecting between sound banks that need no public support, banks that are viable but need public support and those that should exit the system.	Minimum capitalisation for banks is set at N25 billion. This requirement is high (increased from N2 billion to N25 billion) and aimed to exit all weak banks from the Nigerian banking industry.
Provision of methods for dealing with troubled banks and treatment of existing and new shareholder. i.e. liquidation, mergers and acquisitions, nationalisation, use of bridge banks.	(i) CBN/NDIC adopts the bank resolution option known as Purchase and Assumption. (ii) NDIC to liquidate closed banks.
Financing arrangements should include; target level of recapitalisation, types of	(i) Target Level; N25 billion. (ii) Types of Instruments; Public offers, Private

instruments, terms and conditions, and guided by the principle of minimizing government's contribution.	Placement, Strategic Investors and Group Injection of Funds.
Prompt creation of agencies to manage the restructuring programme and problem assets. For example, the creation of Danamodal Nasional Berhad (Recapitalisation Company) and Danaharta Nasional Berhad (an asset management company) to handle the Malaysian crisis immensely aided the implementation and success of the banking sector reform.	Establishment of an asset management company for distress resolution.
Provision of an appropriate timeframe for the different steps in operational and bank restructuring.	18 months window for all banks to meet the N25 billion minimum capital requirement.
Exit strategy from government ownership of banks and blanket guarantee.	Sale of government stake in banks, reduction of public sector funds in banks, quick exit from blanket guarantee and payment of depositors.
Effective and transparent information campaign, to ensure public confidence and credibility.	Use of various communication channels to inform all stake holders. For example; presentations to key industry actors by CBN governor.

Source: Author Generated

Table 8.2 indicates that authorities in Nigeria deployed an unassisted resolution approach in restructuring the banking industry. This approach necessitated troubled banks to internally make required changes or merge with another financially healthy bank (George 1994; Pangestu and Habir 2002; Batunanggar 2003; Honohan and Klingebiel 2003; Hoggarth et al. 2004; Lindgren et al. 1999; Mishkin 2001). Based on the National Economic Empowerment and Development Strategy (NEEDS), the CBN's framework for consolidation stipulated the new minimum capital base requirement (N25 billion) and legal mode (going solo or merger or outright acquisition) for achieving this, but allowed individual banks to decide on preferred options. Overall, the lessons from Malaysia and Indonesia shows that government intervention either through blanket guarantees or an asset management company for distress resolution be minimal and on temporary bases. Thus, managers are encouraged to identify effective performance measures that support government's economic recovery policies.

This study found that much of the change management literature reviewed presents three broad themes, these are: Triggers for change, Readiness for change, and Implementing change. Therefore, a broad framework in which the change process can focus on content-outer context but still bring process-inner context into the picture is required (section 3.2; figure 3.3). This weakness is addressed by integrating Lewin's (1951) force field analysis with the framework proposed by Pettigrew (1988). This conceptual framework presents a reflective evaluation of the situation in the Nigerian banking industry and deploys a varied range of models to analyse the actions of managers. The principal elements of this conceptual framework ensure that managers do not see change as a completely linear process, but a process more reflective of external and internal pressures.

In the case of Nigeria, evidence from this research in section 5.2 shows that there was varied response to the CBN's consolidation drive. Receptive banks were generally better equipped in terms of capacity to raise capital to meet the new re-capitalisation requirement, while resistant banks were characterised by low capacity to raise capital. Extracts of the interview with a senior manager (CI4:M1) from First Intercity Bank (section 5.2) confirms that the most evident reason for this, is the ill preparedness of management and the CBN's 18 months window for consolidation. Thus, management in these banks were unable to effectively address specific staff concerns. The banking industry also experienced shortage of skilled human capital, as Nigerian banks had not sufficiently played an intermediation role in the economy (Soludo 2004). The analysis of processes for consolidation suggests a lack of clarity of vision and strategy for change. There are also indications that managers have not been proactive in highlighting wins, even though some banks have consolidated on gains to produce more change. Cultural integration and management incentives are identified as the most prevalent negative factors against the change process, even though most aspects of organisational change in Nigerian banks were successful.

This study also adapts the Berger et al. (1998) framework to test the effects of consolidation on credit availability to the private sector. Static effects such as concentration ratio, Herfindahl-Hirschman Index, capital adequacy ratio, interest rate spread, and total credit to GDP show a general increase in the size of Nigerian banks. Interestingly, market segmentation, resized target market and international operations are the most dominant restructuring effects of consolidation in Nigeria. These factors have implications for credit availability, as market segmentation means credit is channelled to segments previously ignored, resized target market indicates that banks can handle big ticket and longer term lending in the corporate and consumer sectors, while international operations creates a better environment to attract credit and lending on the international stage.

The banking industry is also directly influenced by the emergence of new big banks, characterised by proactive lending strategies and improved operational activities. The proactive measures of new big banks: create efficiencies, improve customer service, drive competition and scale-up credit to the Nigerian economy. The external effects of consolidation suggest that the reaction of other lenders particularly micro finance institutions is currently insignificant, because of their current limited number and low capacity.

Overall, the increase in growth of total credit to GDP indicates that the CBN achieved it's objective of growing the Nigerian economy through banking consolidation. However, the SME segment did not attract sufficient credit because it lacked the primary determinants of bank performance, such as profitability and efficiency. Therefore, there is the need to explore other delivery channels for providing credit to SMEs who do not readily meet the requirements of big banks. Findings in section 6.5 indicate that micro finance institutions are more suited to lend to the SME segment, and can play a vital role in addressing issues of credit availability in the Nigerian economy.

8.3 Policy and Managerial Recommendations

Policy and managerial recommendations provided in this section, aim to address some of the impediments to economic growth in Nigeria. The usefulness of these recommendations to other developing economies is dependent on perceived similarities in terms of economic, social development, infrastructure, and fundamentally whether these recommendations are appropriate for the needs of the country in question (Casey and Dostal 2008). These recommendations follow from the findings and lessons learnt in this study:

- **For Bank Managers:** Resistant banks were generally taken by surprise as the CBN implemented pre-emptive measures to address systemic problems in the Nigerian banking industry. The ill preparedness on the part of senior bank managers negatively impacted on staff motivation and management style. The conceptual framework developed in this study for incorporating institutional variables into financial sector reforms; provide bank managers with a tool for examining the interplay of factors acting upon the business environment, and to assess required changes. This conceptual framework can also be utilised as a mitigating tool, if effectively deployed and signals picked-up are acted upon.

- **For the CBN:** Despite the availability of more credit to the private sector post consolidation, evidence in sections 6.2.5 and 6.5 shows that the SME segment in Nigeria remained unattractive to banks. Senior bank managers note that existing regulations did not make lending to the SME segment worthwhile. This imbalance in the supply of credit could be changed through a renewed government focus on micro financing, as micro finance firms are better placed to deal in the

SME segment which Nigeria banks find too risky. Under such programs, the CBN could further enhance internal controls, corporate governance, regulator/supervisory requirements, insurance schemes and other capacity developing mechanisms in micro finance firms. The use of such policy instruments would improve their ability to mobilise deposits and reduce the existence of a huge un-served market in Nigeria. Secondly, there is a need to address the weak capital base (N20 million for operation in a specific local government area and N1 billion for operation in a specific state) of existing micro finance firms in Nigeria, as this will enhance their capacity to adequately provide a cushion for the risk of lending to micro entrepreneurs (in the SME segment) without collateral.

- **For the CBN and the Nigerian Government:** Even though the focus of this study is on the supply side of credit, the recommendation above indicates that the SME segment (demand side of credit) remains unattractive because of the poor state of infrastructure in Nigeria (Balogun 2007). This translates to higher cost of production, as transfer pricing to the end user make products from Nigeria globally uncompetitive. As a result of globalisation, other developed and developing economies with better infrastructure can continue to provide products and services at a more competitive rate than local Nigerian business. The wider implication is the need for joined up thinking between CBN and government (policy makers) to develop infrastructure, create support policies, improve education etc, which would help drive growth in the economy, provide good projects for funding, and reduce the cost of production for local business. The areas that require urgent attention include: hard infrastructure (transportation, power and water), soft infrastructure (human capital, legal and institutional frameworks), security of lives and property, land use act (law governing the allocation of land in Nigeria), and rule of law.

8.4 Contribution of Doctoral Research

This study contributes to the understanding of change management practices by developing a conceptual framework for incorporating institutional variables into financial sector reform in developing economies. The findings and analysis presented, adds value by highlighting issues of organisational change faced by managers implementing banking consolidation in Nigeria. Initial findings demonstrate the difficulties of implementing organisational change and complex forces acting upon the change process. The CBN's 18 months window for consolidation and increase of minimum capital base to N25 billion created a unique sense of urgency. The CBN provided managers with a varied range of options, as the legal mode for consolidation was going solo, mergers or outright acquisition, while additional capital could be accessed through public offers, private placement, strategic investors and group injection of funds. By the expiration of the 18 month window in December 2005, three categories of banks emerged and these are: banks that could meet the new requirements on their own 'Stand Alone Banks', banking groups owned by the same entity 'Common Ownership Banks', and banking groups coming together for the sole purpose of meeting the new requirements 'Common Interest Banks'.

The study goes on to explore the wider implications of these changes for the economy. Various tools are deployed to appraise achievements of managers, and examine the effects of banking consolidation on credit availability to the private sector. The approach deployed above transcends disciplinary boundaries, by examining change management practices and its effects on credit availability in the Nigerian banking industry.

8.4.1 Contribution to Knowledge

Planned Change in Banking Consolidation

The contribution to knowledge concerns aspects of organisational change management and the effects of banking consolidation on credit availability.

Novelty is achieved by applying conceptual models to the context of banking consolidation in Nigeria. This study combines the frameworks of Pettigrew (1988), Peters and Waterman (1982), Kotter (1998) and Lewin (1951) to provide a snap shot of key factors acting upon the transformation of banking practices and the imperative for change. It also aims to address the gap identified in the change management literature, in which scholars focus on the process and outer context link, thereby de-emphasising the explanatory role of inner context variables, the analytical exploration of alternative content areas for strategic change, and the forces for and against change (section 3.2). Therefore, the integration of Lewin's (1951) force field theory into the three broad lenses developed by Pettigrew (1988), provides an evaluation framework that helps address this weakness. This probe and learn approach, encourages participation in developing knowledge of the members' perception of change and creates innovative capabilities for organisations. It also presents a unique expression of the combinational impact of change management models in the context of banking consolidation in Nigeria. The evaluation framework is trans-disciplinary and can be used to manage change in medium-sized, mature and large multi-national organisations.

Furthermore, the CBN's consolidation drive and 18 months window for all banks to achieve the N25 billion requirement, created an imperative in the banking industry. The strategic choices identified by senior bank managers based on their situation include: going solo, merging with banks owned by the same banking group, or merging or acquiring banks with similar interests. Therefore, the approach to change in these banks was path dependent, and presents the context under which the evaluation criteria discussed above is deployed in this study.

Effects of Banking Consolidation on Credit Availability

The next stage represents the diagnostic phase, in which Berger et al's. (1998) framework is adapted to the context of Nigeria to examine the effects of successes achieved by managers across categories of consolidating banks, on credit availability. The original Berger et al. (1998) framework deploys data sets in the United States from the late 1970s to early 1990s, and uses ordinary least squares regression (OLS) to examine the static effect, the restructuring effect, the direct effect and the external effect of mergers and acquisitions on credit availability based on individual bank data. However, these same effects are analysed in this study with less resource intensive aggregate data. Concentration ratios, Herfindahal-Hirschman Index, capital adequacy ratios, interest rate spread and total credit to GDP are applied to test the static effect, while questions are designed and administered to industry participant in order to test the restructuring effect, the direct effect and the external effect of consolidation on credit availability (mixed methods, rather than more quantitative approach). The modifications here maintain the same key focus originally proposed by Berger et al. (1998), and presents an alternative framework that can be deployed in developing economies to examine the effects of consolidation on credit availability when only aggregate data sets are available.

In addition, the Berger et al. (1998) framework tests the effects on credit availability highlighted above, purely as they relate to mergers and acquisitions. The application of this conceptual framework (modified framework) is extended in this study, by examining these same effects on banks that did not engage in mergers or acquisitions (Stand alone category). This approach is essential and demonstrates a significant extension to Berger et al's. (1998) framework, as banks often increase their size and financial characteristics without necessarily engaging in mergers or acquisitions.

8.4.2 Contribution to Professional Practice

The participative approach of this study enhances its potential for developing theory that will be relevant to practice (Huxham and Vangen 2003). The contribution to practice focuses on primary stakeholders namely; bank managers and policy makers in the CBN and International Monetary Fund (IMF).

Planned Change (Bank Managers)

Given the uncertainty of business environments, the conceptual framework developed for incorporating institutional variables into financial sector reforms provide bank managers with a mitigating tool, if signals picked-up are acted upon. The conceptual framework helps identify factors acting upon organisational change and encourages managers to think broadly of how to mitigate these factors, thus reducing the risk of failure. In order to assess effective decisions on bank response to its changing environment, managers have to understand the interplay of factors in the external and internal context, content, process and forces for and against change. For a more detailed analysis, this study adapts frameworks by Peters and Waterman (1982), Kotter (1998) and Lewin (1951) to highlight factors acting upon various stages of banking consolidation in Nigeria. If effectively deployed, this framework could disrupt the narrow focus on processes and provide managers with a more holistic approach to planned change in their business environment. However, this framework could be less applicable or might require substitution with more emergent or contingency approaches depending on the change situation.

Policy Response (CBN)

The CBN's policy stance, that fewer bigger banks are more secure and productive could present conflicting outcomes. In the aftermath of the liquidity crunch of 2008-09, there has been a radical shift from this point of view whereby larger banks are considered too big to fail and hence a source of systemic risk to the economy. To consolidate on the gains of credit creation resulting from consolidation, the CBN has to expand its supervisory capacity and entrench early warning signals. Particularly, the ability to identify credit approvals that defy best practice principles and the requirement that all bank credit is processed through the Credit Bureau in Nigeria. The current inadequacies of the Basel II framework can be mitigated, if the capital adequacy ratios of Nigerian banks reflect their risk exposures.

Furthermore, the modified Berger et al. (1998) framework deployed in this study, allows the CBN and authorities in other developing economies to make policy decisions on credit availability to the private sector with less resource intensive aggregate data sets. Therefore, this modified version can help the CBN (and authorities in developing economies) monitor and react quickly to signals resulting from changes implemented in the banking industry to improve the propensity to offer credit, and avoid situations where the CBN over reacts or under reacts to these events.

Policy Response (IMF)

The experiences of Malaysia, Indonesia and Nigeria confirm that liberalising the capital account is a difficult process. This process, if not well managed, could lead to systemic disturbances in which important segments of the financial sector are likely to be driven into insolvency. Sequencing therefore, in liberalising capital accounts is an important tool that ensures problems in the domestic financial systems are addressed before removing restrictions on capital accounts, as weak or financially troubled institutions develop a crisis situation more rapidly. Thus, stringent monetary and fiscal policies such as the standard (one-size-fits-all) Structural Adjustment Programme implemented by the IMF in the countries under review may not be an effective strategy for correcting balance of payment problems in developing economies. Monetary authorities like the IMF could develop support programmes and lending policy conditionality in collaboration with governments of crisis affected countries, as this will help convince the local market that the reforms can be implemented successfully within realistic targets and timetables highlighted in the reform programme. This ensures that the response to economic crises is tailored to meet the specific economic needs of troubled countries.

8.5 Limitations of the Study and Steps Taken to Reduce their Impact

This study deploys the triangulation approach for data collection and analysis, and uses quantitative research supported by qualitative research techniques to examine the effects of consolidation on credit availability to the private sector in Nigeria. The time line in which this research is conducted is such that quantitative data on bank performance is limited to four years after consolidation. This limitation is made explicit in order to place the findings in context as the effects of consolidation and the global financial crisis continue to manifest in the economy. This also suggests that there are potential areas for further research as events evolve in the banking industry; such areas are highlighted in section 8.6.

Furthermore, interviews were conducted to ensure a clear trail of evidence and present plausible conclusions regarding employee perception of banking sector reforms in Nigeria. The reduction of this data through coding could invariably be a subjective process. Thus, there is the possibility that some degree of bias exists in this study. In order to reduce researcher bias to the barest minimum, the codes and themes were carefully defined, maintained and updated as required. To maintain consistency, the transcripts were reviewed some weeks after coding, to see if the same set of themes emerge. This was achieved with the help of three independent researchers with no prior connection to the study. Ideally, this could further eliminate bias and check to confirm the replicability of this analysis.

Finally, undertaking an investigation of events in financial services raises questions of confidentiality. The researcher had to deal with senior bank mangers from different banks, in competition for market share in the same banking industry. It was evident that some respondents refused to speak when probed on issues of strategy or actions to be taken in response to competition. These difficulties were considered when drafting interview questions, especially as it relates to practices that highlight competitive advantages of individual banks. Thus, data considered to be highly confidential was not included in this study or available.

8.6 Recommendations for Further Research

Primarily, this study's research questions focus on change management practices of consolidating banks and its effects on credit availability to the private sector. The current events in the Nigerian and global financial industries show that further research is required in observing the impact of consolidation and the effective use of policy instruments to maintain stability, confidence, and provide necessary support for economic recovery. In the case of Nigeria, further lines of enquiry link into some of the thirteen objectives highlighted by the CBN for banking sector reforms.

The CBN dismissed the Chief Executive Officers and other top management staff of five Nigerian banks in August 2009. The banks include: Intercontinental Bank, Union Bank, Afribank, Oceanic Bank and FinBank. Senior bank managers in these banks were accused of giving loans to prominent Nigerian businessmen and companies without adhering to good corporate governance and risk management practices, and a total of N400 billion was injected into the affected banks to avoid systemic problems in the banking industry. This indicates that the CBN's objective of adopting a risk focused and rule based regulatory framework require considerable reviews. Further research in this area could provide recommendations on how to enhance corporate governance and risk management practices in the Nigerian banking industry and other developing economies. For example: the study by Amao and Amaeshi (2008) on effective corporate governance and accountability in Nigeria, could also be built on to examine risk management practices of banks, with the aim of recommending practical solutions to the regulatory challenges faced by the CBN.

Furthermore, the possibility of systemic problems resulting from bank failure, highlight the important role of financial institutions in maintaining stability in the economy and the need to develop contingency planning frameworks for systemic banking distress. Basically further research in this area could focus on increased minimum capital requirements, capital adequacy ratios determined by bank risk exposures, and the use of such buffers to minimise government aid to failing banks. It can be argued that excessive risk taking is reduced in situations were banks and their shareholders are made to absorb the cost of failing. The legislation for an asset management company is another line of enquiry, in which non-performing loans are bought in exchange for government bonds in a bid to make rescued lenders saleable.

Overall, the findings in this study suggest that bigger banking institutions through consolidation positively impact on the Nigerian economy. However, recent events in the global financial industry show that bigger banks present higher systemic risks if they become too big to fail. There is therefore the need to explore how policy makers can effectively deploy policy instruments to prevent situations where banks become too big fail and provide early warning signals against excessive risk taking.

This study claims that banking consolidation increased credit to the private sector in Nigeria, findings and analysis in sections 6.2.5 and 6.5 indicate that existing regulations in the SME segment did not make it worthwhile for banks to lend. It is important to address such regulatory bottlenecks with the aim of creating an enabling environment for the flow of credit to the SME segment. There is a need for joined up government and private sector thinking to address issues of credit availability in the supply and demand side of the Nigerian economy. Such an exploratory study could explore the increased use of micro finance institutions, venture capitalists, and business angels as credit delivery channels, highlight some of the difficulties faced by the SME segment in Nigeria and other developing economies, and proffer solutions on how best to improve the business environment and access to credit.

8.7 Critical Reflection on the Doctoral Research

The research process for this study has been extremely demanding and awakening. However, my research interests developed in many unexpected ways and continued to evolve over the last three years. I have also developed a keen interest for management research, which should translate into some publications in the near future. I am currently working on a journal article (Titled: "Initial results from banking consolidation and effect on competition in the Nigerian banking industry") based on findings in my chapter 6, and intend to approach the Journal of Financial Regulation and Compliance for publication.

During the course of this study, I consider my ability to think critically, write crisp incisive papers and evaluate complex issues, to be developmental aspects for an individual undertaking doctoral level research. This is also reflected in the realist philosophical approach used in this study. I learnt to listen more often and appreciate alternative perspectives or a contradictory explanation to any given situation, as each perspective can have validity. This is particularly important in organisations where the co-existence of multiple viewpoints and paradoxes are all a natural part of life and survival. These personal developments will undoubtedly enhance my ability to perform as a senior executive, management consultant or educator.

The findings of this study are made explicit and put in context as four years after banking consolidation; the effects on the Nigerian economy are still expected to evolve. Conducting such research many more years after consolidation could provide a richer picture of it's impact on banking practices and credit availability to the private sector. However, this limitation is addressed in section 8.5 and relevant areas for further research are discussed in section 8.6 of this chapter.

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Appendix 1

CENTRAL BANK OF NIGERIA, ABUJA

PRESS RELEASE

On July 6, 2004, the Central Bank of Nigeria announced to the nation a major reform program that would transform the banking landscape of the country. The main thrust of the 13-point reform agenda was the prescription of a minimum shareholders' funds of N25 billion for a Nigerian deposit money bank not later than December 31, 2005. The banks were expected to shore up their capital through the injection of fresh funds where applicable, but were most importantly encouraged to enter into merger/acquisition arrangements with other relatively smaller banks thus taking the advantage of economies of scale to reduce cost of doing business and enhance their competitiveness locally and internationally.

The program has resulted in the shrinkage of the number of banks from 89 to 25 through merger/acquisition involving 76 banks which altogether account for 93.5% of the deposit share of the market. The capital Market has also received a boost with a total of N406billion raised so far and N360 billion accepted by the CBN including foreign capital inflow of US $654 million and £161,993.

The general banking public is therefore advised to henceforth transact their banking business with only these 25 banks as listed below:

Thirteen (13) out of the 89 banks, accounting for only 6.5% of the deposit share of the industry were not able to make it. However, private sector depositors are hereby assured of the safety of their deposits that are already trapped in these banks. The CBN has concluded arrangements for a smooth resolution of these banks at the least possible cost to the system. Further details on this will be released at a press conference by the Governor of the CBN scheduled for mid-January, 2006.

The CBN wishes to express its appreciation to the banking public for their patience and faith in the Bank to undertake such a monumental reform. We also express our appreciation to Mr. President (Chief Olusegun Obasanjo, GCFR) for his unflinching support, the Federal Executive Council, the National Assembly, the Judiciary, and the multilateral agencies. We also thank the NDIC, the Securities and Exchange Commission, the Corporate Affairs Commission, the Nigerian Stock Exchange, and the Federal Inland Revenue Service for their collaboration and cooperation all through the past eighteen months. We also appreciate the private sector agencies that served on the Technical Advisory Committee.

While wishing the nation a prosperous 2006, the CBN wishes to state that it is very conscious of the challenges that lie ahead as a result of the consolidation, the first phase of which has just been concluded. Apart from resolving the distressed institutions, the recapitalization of the 25 banks that have emerged is only the first step to the Promised Land. The real integration of the institutions has just started and, through its usual consultation and monitoring, the CBN will ensure that the exercise is carried out by the banks seamlessly to avoid disruption of banking services. The regulatory framework and capacity are also being beefed up to ensure that the objectives of the reform to support the real sector of the economy are achieved.

Banks That Have Met 25 Billion Naira

1. **Access Bank**
2. **Afribank**
3. **Diamond Bank**
4. **EcoBank**
5. **Equitorial Trust Bank**
6. **First City Monument Bank**
7. **Fidelity Bank**
8. **First Bank Plc**
9. **First Inland Bank**
10. **Guaranty Trust Bank**
11. **IBTC-Chartered Bank**
12. **Intercontinental Bank**
13. **Nigeria International Bank**
14. **Oceanic Bank**
15. **Platinum Bank**
16. **Skye Bank**
17. **Spring Bank**
18. **Stanbic Bank**
19. **Standard Chartered Bank**
20. **United Bank of Africa**
21. **Sterling Bank**

22. Union Bank
23. Unity Bank
24. Wema Bank
25. Zenith Bank Plc

CENTRAL BANK OF NIGERIA
JANUARY 3, 2006

Appendix 2

THE ROBERT GORDON UNIVERSITY
ABERDEEN

ABERDEEN BUSINESS SCHOOL
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3rd June 2009

To whom it may concern

Re: Chuma Okafor (DBA student at Aberdeen Business School)

Chuma is a Doctor of Business Administration student working under my supervision at Aberdeen Business School, Robert Gordon University in Scotland. He has been researching the impact of banking consolidation in Nigeria and, in particular, interested in how this has affected the availability of credit to the private sector.

He is now at the point where he wishes to conduct a series of interviews to obtain a richer understanding of how events have unfolded since the consolidation was completed in December 2005.

I would be grateful if you could offer him a small amount of your valuable time to participate in his data gathering. It is my hope that there would be mutual benefit in this process as he has spent the last 18 months researching the topic and has gained some useful insights. In addition, the DBA, whilst equivalent to a PhD, is focused on developing implications for professional practice.

Should you have any questions about Chuma's involvement in this investigation please do not hesitate to contact me.

Yours sincerely

Ken Russell

Prof Ken Russell
Associate Dean
(Corporate and MBA Programmes)

INVESTOR IN PEOPLE

Associate Dean
Professor Ken Russell
BSc(Hons) MBA PhD

Appendix 3

Nigerian Banks which participated in the interviews, their categories and codes

Stand-Alone Banks (SA)	1) Guaranty Trust Bank Plc (SA 1) 2) Standard Chartered Bank (SA 2)
Central Ownership Banks (CO)	3) Intercontinental Bank Plc (CO 1) 4) AfriBank Plc (CO 2)
Common Interest Banks (CI)	5) Diamond Bank (CI 1) 6) First City Monument Bank Plc (CI 2) 7) Bank PHB Plc (CI 3) 8) Unity Bank Plc (CI 4) 9) United Bank of Africa Plc (CI 5) 10)First Bank of Nigeria Plc (CI 6) 11)FIN Bank Plc (CI 7)
The Press (P)	12) The Punch Newspaper (P 1)
Policy Maker(CBN)	13) Central Bank of Nigeria (CBN 1)

All senior bank managers interviewed are based in Lagos, the commercial capital of Nigeria. Thus, the researcher travelled to Lagos to conduct face-to-face semi-structured interviews. These managers were directly involved in implementing changes necessitated by the banking consolidation. Senior managers were contacted weeks in advance by the researcher, through written requests (invitation) asking for permission to interview them on their bank's response to the consolidation. All participants were guaranteed anonymity and non-inclusion of commercially sensitive information in the interview process. A total of twenty-four request letters were dispatched (to cover all banks in the Nigerian banking industry), and eleven out of twenty-four banks contacted agreed to have their senior employees speak to the researcher. Permission was also granted for telephone interviews, for respondents who are not available to participate in face-to-face interviews or to follow-up on emergent issues which necessitate further clarification.

Appendix 4

Sample Transcript of interview with a senior bank manager from Diamond Bank

Q1: What was the initial response of your bank, to Central Bank of Nigeria's consolidation drive?
At first there was some enlightenment for staff, and the issue of how to raise the minimum requirements of the Central Bank was discussed. There were various options, there was the option of raising additional funds from the capital market and also the option of merging with other banks. Even though some banks; for example Lead Bank Ltd lobbied against banking consolidation, Diamond Bank was receptive to the CBN's consolidation drive.
Q2: What options did you have as a bank to meet the new requirements?
As a bank we discussed the options of raising capital from the stock market and the possibility of merging or acquiring another bank.
Q3: How did your bank meet the new requirements?
First, the bank issued an IPO (Initial Public Offer), in which staff members were involved in enlightening the public of the benefits of buying the bank's shares. After its public offer and raising the required capital, Diamond Bank acquired Lion Bank because we wanted to spread out to northern Nigeria. We wanted a bank that had a lot of presence in the north and Lion Bank met this requirement. This acquisition had a strategic advantage, because Diamond Bank was seen as an eastern Nigerian bank before now and had to acquire a northern based bank to help expand its banking services across Nigeria. The issue was if we wanted to expand organically or acquire another bank, we looked at the strategic advantages of an acquisition and decided it was right for us.
Q4: What were the key steps used, and in what sequence were they implemented.
After raising capital, we tried to identify target acquisitions and reviewed a number of banks through due diligence processes. As earlier stated, we

acquired Lion Bank and therefore tried to integrate their people, because both banks had different cultures. This includes issues of job scale, reward, management positions and values. I remember that lots of trainings were organised to help with the process of integration, but there were major issues of culture because Lion Bank was a northern based bank. There were also layoffs and down grading for people who could not adapt. With respect to systems, both banks adopted the software and processes used by Diamond Bank.
Q5: From my understanding of implementing change, there could be positive factor that drive the change process. What positive factors influenced the change process for your bank?
Diamond Bank had and still has a very strong brand and capital base. Our processes and values helped drive the change necessitated by consolidation. In the case of our acquisition for example, most of our processes we deployed and that helped make the integration of people and systems fast. I think the change process was easier for us because we were bigger and basically integrated people and systems from Lion Bank, thus there were few issues of contention. This would have been more difficult if we were of equal size as is the case in Unity Bank.
Q6: People naturally tend to resist changing old patterns. What sort of challenges did you face while trying to implement these changes in your bank?
Differences in culture were the main resistance to change. You know bringing two banks together, you have to harmonise different work cultures. Lion bank has a way that they normally do their processes, in fact they were seen as a bit slow in their approach to the market. For instance their marketing is not as aggressive, so the staff that were taken over had to be taught to move (laughs). A lot has changed as a result of the consolidation. However, I remember we were advised in a certain promotion exercise to promote any former Lion Bank staff that appears on the list; as such an individual must have put in so much effort. This is because most of them (former Lion Bank staff) were not performing. Even up till now, I can tell you that its still a bit

easy to identify former Lion bank staff, they are a bit reserved.
Q7: The concentration ratios of the Nigerian banking industry shows that, top 10 banks have increased in size by assets, deposits and extended loans. How has this changed your bank's risk management and other operational activities?
I must say Diamond bank realised the effects of CBN's changes on its loan size, capital base and assets quite early, and they sought for the required skills and human capital to staff their risk management units and improve the process. To achieve this they headhunted capable hands. Before now Diamond Bank was being managed like a small bank, but with the changes in size things had to change. If you are managing a small bank, the owners practically knew every borrower and thus can assess them one-on-one or visit them to assess them. With the expansion, the bank needed people who understand risk management of various businesses. We employed expatriates and consultants to help improve our processes, and deploy best practice. Furthermore, we acquired various risk management tools to help in the analysis of credit and its automation. We have also categorised our customers into various risk buckets, which has helped us to manage them better according to the risk rating of each customer. Departments have also been established to oversee market risks and operational risks. As a bank we have encouraged the use of trainings both external and internal to upscale our people. In summary, risk management became very important to the bank as a result of its increased assets, deposits and extended loans because if you take money from people you need to pay interests, and to do that you need to make good loans.
Q8: My preliminary research shows that the banking industry remained competitive before and after consolidation. What is your observation in this regard?
Yes, I spoke earlier on about headhunting, and as we tried to headhunt skilled staff, other banks also tried to do the same thing. In the Nigerian banking industry there is a scarcity of skilled staff, thus few skilled staff are being headhunted by various banks. As a result, there is high competition for

skilled staff and this also go a long way in providing customers with good services. For example; a good relationship manager is able to move to a new bank with a sizable customer base from his/her previous bank. Secondly, banks are now able to do business they were unable to do before. If there were two or three banks lending to Coca Cola Plc, now even more banks could go for Coca Cola. There is also development of new areas like mortgages, consumer finance, credit cards……..you see all these are areas that banks are competing to get a niche.
Q9: Do you think this degree of competition will have a positive or negative effect on availability of credit to the Nigerian economy.
The high level of competition in the Nigerian banking industry will have a positive effect, because the consumer has a choice. The consumer is now able to go either to bank A or bank B for products or services. Hitherto, a particular product (i.e. mortgage) may only be offered by a Union Bank and if a customer does not meet the bank's requirements he/she will have no access to the product. Now, if you go to Union Bank and they are slow or are asking too many questions or have conditions you don't want, you can go to a Diamond Bank and get the same thing. So with the ability of Nigerian banks to do similar transactions, big transactions, and different markets the consumer will have a choice. This will also positively impact on interest rates, as competition will cause a reduction in interest rates. In summary, I think this level competition has a positive effect on the Nigerian economy.
Q10: What are the key factors that affect your propensity to lend?
There are regulatory constraints, by regulation a Nigerian bank is not supposed to lend more than 80% of its deposits. It is also to maintain a cash reserve ratio which has been reduced from 5% to 1%, because the authorities want higher liquidity in the economy. So these are constrains that can boost our ability to lend or reduce it. There are other things to consider which are important internal determinants of our propensity to lend such as: understanding the market, the profitability of the business, and the risk implications. It is also important to access the bank's capacity to handle a particular segment for instance; not all banks do credit cards, while others

have diversified into the insurance and mortgage segments. All these could either increase or limit a banks propensity to lend. On the other hand, the CBN tries to ensure that banks implement the Basel 2 framework to maintain systemic stability.
Q11: My analysis shows a slight reduction in the spread between deposit and lending rates in Nigeria. What specifically do you think has influenced this?
The reduction in interest rates has been influenced by competition, and to some extent regulation. Now the CBN states that banks should not charge rates of more than 22% and a 2% management fee, thus making interest rate charges 24% all inclusive. The CBN also states that deposits be taken at 15%, so they have given banks a very thin margin. Unlike before when banks could take deposits at 3% and lend at 30% or 45% depending on the risk they perceive on the transaction and customers ability to pay.
Q12: My findings confirm there has been increased credit to the private sector after the consolidation. What specifically do you think has influenced this?
I think this has been influenced by a number of factors such as; higher bank capital, competition and the thinning margin at the corporate end. The thinning margins at the corporate end now force banks to look for areas were they can make more spread. Thus the banks have focused on the retail segments that are less price sensitive. Another important factor is the huge deposits of banks, remember that increased capital induced banks to expand to areas that they had no presence before and has helped them to bank smaller companies and individuals in those areas.
Q13: What has been the most prominent effects of restructuring on your bank's risk diversification and lending policies?
Consciously, we have an internal policy that no sector of the economy should take more than 10% of our total risk assets. I may say that the larger capital has helped banks including Diamond Bank, to provide banking services in areas that were ignored before now…….because there is an enhancement of our single obligor limit. So we can do big ticket long term projects in oil and

telecoms, and offer products to the consumer segment for example mortgages. Therefore our ability to focus resources in new areas has helped our risk diversification and lending policies.
Q14: How would you characterise the key drivers of lending performance in the newly consolidated banking sector?
I said earlier in this interview that we employed consultants and expatriates to help us develop our lending policies, so that we can operate as a big bank. Thus, most previously small banks have now developed proactive lending policies to help them adapt to the new realities of being a big bank. We also reviewed corporate governance issues, the kind of qualification of our board members, the ratio of independent and non independent directors, and the kind of imputes expected of them were all developed as a result of consolidation. Also banks have developed polices to determine how to lend to their subsidiaries. Generally, the new banking environment in Nigeria is characterised by the need to effectively document bank lending polices so that they become more institutionalised, robust and can run without excessive executive oversight.
Q15: What do you think are the key challenges in credit performance of your bank in the next 18months?
As a bank we are concerned with the CBN's policy response to the recession. The Nigerian economy is currently faced with issues of margin loans. I understand that the CBN is insisting on the positioning of these loans, and this will take sometime depending on the level of bank exposure to these markets. There is also a slow down in the consumer sector because of the recession. So in the next 18 months, I would expect banks to focus on stabilising and recovering from the effects of these events. In our external environment other finance firms for example; the micro finance firms still do not have enough capacity to compete with banks.

Appendix 5

Sample Coding Frame for Primary Data Collection in the Nigerian Banking Industry

Change Management in the Nigerian Banking Industry

1: Bank Response to CBN's Consolidation Drive

1.1 Receptive
1.2 Resistance
1.3 Other Issues

2: Options Adopted by Banks to meet new CBN Requirements

2.1 Public Offer/Recapitalisation
2.2 Private Placement
2.3 Merger
2.4 Acquisition
2.5 Go Solo
2.6 Partner with Strategic Investors
2.7 Group Injection of Funds
2.8 Other Issues

3: Key steps used by Banks to implement consolidation

3.1 Regulatory Requirements/Due Diligence
3.2 Training
3.3 Communicating to Employees/Customers/General Public
3.4 Structural Change
3.5 Change Champions
3.6 Action Research
3.7 Cultural Integration/Acculturation
3.8 Operational Integration/Technology Infrastructure
3.9 Strategic Objectives/Vision/Business Plan
3.10 Guiding Coalition/Integration Teams
3.11 Management Incentives/Staffing
3.12 Re-branding
3.13 Leadership Style
3.14 Other Issues

Appendix 6

Acronyms used in Data from Nigerian Banks

GLA	Gross Loan & Advances
PBD	Provision for Bad Debts
BTD	Bank Total Deposit
NBTD	National Bank Total Deposit
GTA	Gross Total Assets
RNL	Ratio of National Loans
STD	Share of Total Deposit
PBT	Profit Before Tax

Data from Nigerian Banks for 2001

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	3488	693	4832	1265319	8001	0.20	0.004	116
All StatesTrust Bank	7592	934	27499	1265319	35540	0.12	0.022	1660
Afribank Int. Ltd	3466	423	3787	1265319	5682	0.12	0.003	191
Afribank Nig Plc	21122	6527	58287	1265319	71839	0.31	0.046	1090
Continental Trust Bank	6200	411.00	11176.00	1265319	16448.00	0.07	0.009	469.00
Co-operative Bank	6119	1122	12253	1265319	14991	0.18	0.010	303
Devcom Bank Ltd	2744	155	2962	1265319	5312	0.06	0.002	550
FBN (Merchant Bankers)	4362	830	8473	1265319	11455	0.19	0.007	409
First Bank of Nig Plc	57685	11574	148279	1265319	212901	0.20	0.117	6201
First Interstate Merch Bank	846	111	1877	1265319	3073	0.13	0.001	101
Fortune Int Bank Plc	7065	857	8908	1265319	11089	0.12	0.007	949
FSB Int Bank Plc	14196	1412	16472	1265319	30314	0.10	0.013	1358
Guaranty Trust Bank	12667	594	24139	1265319	40819	0.05	0.019	2050
Gulf Bank	5186	858	10781	1265319	13090	0.17	0.009	660
Hallmark Bank Plc	9380	1548	16597	1265319	231	0.17	0.013	1253
Inland Bank Ltd	6237	1008	8957	1265319	13834	0.16	0.007	283
INMB Bank	1382	77307	1738	1265319	2978	55.94	0.001	167
Int Trust Bank	2286	1048	4353	1265319	4957	0.46	0.003	52
Investment Banking & Trust Co	5287	237	3813	1265319	10448	0.04	0.003	1065
Lead Bank Ltd	5858	176	7409	1265319	11914	0.03	0.006	1008
Lion Bank Plc	2538	324	4740	1265319	7738	0.13	0.004	364
Magnum Trust Bank Plc	3112	249	8770	1265319	10420	0.08	0.007	362
Manny Bank	2486	334	2766	1265319	5539	0.13	0.002	361
MBC Int Bank Ltd	3194	564	5373	1265319	9926	0.18	0.004	201
Midas Bank Plc	1426	717	1293	1265319	2022	0.50	0.001	25
National Bank Ltd	2765	1764	1954	1265319	6164	0.64	0.002	53
New Africa Merchant Bank Plc	231	195	393	1265319	170	0.84	0.000	4

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
New Nigeria Bank Plc	836	8	2480	1265319	6488	0.01	0.002	-119
Omegabank Plc	4312	799	7688	1265319	11386	0.19	0.006	381
Pacific Bank Ltd	1767	173	1727	1265319	3702	0.10	0.001	243
Prudent Bank Plc	2068	119	2896	1265319	5099	0.06	0.002	203
Regent Bank Plc	518	5	673	1265319	2207	0.01	0.001	11
Trade Bank Ltd	4805	1414	9113	1265319	10792	0.29	0.007	210
Triumph Merchant Bank Plc	1898	318	2778	1265319	4891	0.17	0.002	200
Union Bank of Nig Plc	45835	8910	170977	1265319	214885	0.19	0.135	7058
Union Merchant Bank	1934	865	4613	1265319	6103	0.45	0.004	384
United Bank of Africa Plc	31041	7935	133135	1265319	183248	0.26	0.105	1585
Universal Trust Bank Plc	10813	1936	18967	1265319	29846	0.18	0.015	1373
Wema Bank Plc	14799	2588	29631	1265319	38813	0.17	0.023	800
ACB Int Bank	2387	2387	22	1265319	1954	1.00	0.000	720
Assurance Bank Ltd	3028	2796	2842	1265319	1517	0.92	0.002	-411
Broad Bank Nigeria Ltd	1035	568	3242	1265319	4106	0.55	0.003	-203
Diamond Bank Ltd	15798	421	32398	1265319	47372	0.03	0.026	2225
Eagle Bank Ltd	1191	1164	774	1265319	1508	0.98	0.001	-50
Eko Int Bank Plc	4348	1044	6842	1265319	10104	0.24	0.005	194
Equitorial Trust Bank	12039	781	19214	1265319	26171	0.06	0.015	2111
First City Monument Bank Ltd	6500	364	8128	1265319	17497	0.06	0.006	1030
Fidelity Bank Ltd	2882	552	9323	1265319	12715	0.19	0.007	442
First Atlantic Bank Ltd	5593	268	7857	1265319	10078	0.05	0.006	658
Global Bank Plc	4635	819	6578	1265319	8181	0.18	0.005	502
Int Merchant Bank		118	4905	1265319	8787		0.004	323
Intercity Bank Plc	6056	933	13127	1265319	17850	0.15	0.010	328
Marina Int Bank Ltd	2056	78	2167	1265319	3807	0.04	0.002	277
Nal Bank Plc	6742	824	7675	1265319	17480	0.12	0.006	461
NUB Bank Plc	1790	1790	37	1265319	1113	1.00	0.000	18
Platinum Bank Ltd	2813	28	6924	1265319	8453	0.01	0.005	137
Societe Generale Bank Ltd	5033	980	14470	1265319	16621	0.19	0.011	595
Trust Bank of Africa Ltd	1670	107	1527	1265319	2677	0.06	0.001	73
Zenith Int Bank Ltd	13029	409	30688	1265319	60190	0.03	0.024	2802
Fountain Trust Bank	2163	480	4636	1265319	7652	0.22	0.004	685
Liberty Bank Plc	5788	1218	7345	1265319	9092	0.21	0.006	-697
Metropolitan Bank Ltd	3172	573	5569	1265319	7558	0.18	0.004	477
Societe Bancaire Ltd	2491	1216	1818	1265319	3163	0.49	0.001	-249
Standard Trust Bank	22894	1648	52158	1265319	60522	0.07	0.041	2133
Oceanic Bank Plc	7574	501	23388	1265319	32321	0.07	0.018	2474
African Express Bank	1472	144	2595	1265319	3680	0.10	0.002	295
African International Bank Ltd	11469	9281	20672	1265319	18749	0.81	0.016	-3453
Capital Bank Int Ltd	4303	740	6834	1265319	10712	0.17	0.005	293
Co-operative Dev. Bank	4538	1116	4912	1265319	6895	0.25	0.004	142
Ecobank Nig Ltd	6157	890	15910	1265319	23680	0.14	0.013	932

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Equity Bank of Nig Ltd	6904	1599	11784	1265319	15995	0.23	0.009	1025
Gateway Bank Plc	3992	685	6696	1265319	9411	0.17	0.005	611
Habib Nig Bank Ltd	8868	1604	20755	1265319	29262	0.18	0.016	1452
Intercontinental Bank Ltd	12080	1196	23509	1265319	35779	0.10	0.019	1523
Nigerian-American Bank Ltd	3157	95	2135	1265319	2135	0.03	0.002	286
NBM Bank Limited	2780	381	4498	1265319	4498	0.14	0.004	264
Nigeria Int Bank Ltd	18533	1803	23915	1265319	23915	0.10	0.019	4408
Stanbic Bank	2080	202	3268	1265319	3268	0.10	0.003	88
Standard Chartered Bank Ltd	585	6	813	1265319	813	0.01	0.001	-259
Trans Int Bank Plc	4183	553	8680	1265319	13135	0.13	0.007	508

Data from Nigerian Banks for 2002

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	4980	658	6475	1262556	11343	0.13	0.005	-18
Afribank Int. Ltd	2876	204	5078	1262556	7263	0.07	0.004	348
Afribank Nig Plc	31138	5405	56955	1262556	73088	0.17	0.045	2231
Bank of the North Ltd	43519	3337	46573	1262556	62595	0.08	0.037	743
Continental Trust Bank	14662	1552	11781	1262556	19439	0.11	0.009	-1106
Co-operative Bank	8982	1598	12713	1262556	17012	0.18	0.010	510
Devcom Bank Ltd	2701	150	2890	1262556	5255	0.06	0.002	163
FBN (Merchant Bankers)	6934	1507	9764	1262556	14289	0.22	0.008	550
First Bank of Nig Plc	91227	29309	168175	1262556	266356	0.32	0.133	5087
First Interstate Merch Bank	1434	206	2253	1262556	3645	0.14	0.002	259
Fortune Int Bank Plc	7698	1246	4317	1262556	9195	0.16	0.003	666
FSB Int Bank Plc	12715	2124	19059	1262556	31302	0.17	0.015	1114
Guaranty Trust Bank	18217	617	31373	1262556	59292	0.03	0.025	2657
Gulf Bank	7585	857	7305	1262556	13975	0.11	0.006	1007
Hallmark Bank Plc	12559	2273	20677	1262556	31662	0.18	0.016	1564
Inland Bank Ltd	8430	779	10099	1262556	16646	0.09	0.008	598
INMB Bank	1237	42	1794	1262556	3703	0.03	0.001	283
Int Trust Bank	3263	623	3849	1262556	4429	0.19	0.003	63
Investment Banking & Trust Co	10210	185	8910	1262556	20578	0.02	0.007	1503
Lead Bank Ltd	6250	376	6406	1262556	12511	0.06	0.005	833
Lion Bank Plc	3185	449	6169	1262556	10973	0.14	0.005	485
Magnum Trust Bank Plc	5715	274	10763	1262556	13414	0.05	0.009	501
Manny Bank	3250	657	4256	1262556	7447	0.20	0.003	446
MBC Int Bank Ltd	3370	961	4901	1262556	9227	0.29	0.004	389
Midas Bank Plc	2225	1032	2211	1262556	2363	0.46	0.002	-208
National Bank Ltd	4337	70	6830	1262556	11657	0.02	0.005	64
New Africa Merchant Bank Plc	447	447	526	1262556	952	1.00	0.000	-12
New Nigeria Bank Plc	3767	82	9563	1262556	12743	0.02	0.008	-324
Pacific Bank Ltd	1624	517	980	1262556	2282	0.32	0.001	-210
Prudent Bank Plc	5400	280	8779	1262556	12632	0.05	0.007	523

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Regent Bank Plc	955	10	184	1262556	3336	0.01	0.000	127
Trade Bank Ltd	5237	970	8922	1262556	11304	0.19	0.007	411
Triumph Merchant Bank Plc	1677	335	2531	1262556	5731	0.20	0.002	236
Union Bank of Nig Plc	61962	17568	204347	1262556	275194	0.28	0.162	7490
Union Merchant Bank	1574	159	159	1262556	7726	0.10	0.000	651
United Bank of Africa Plc	41150	4787	4787	1262556	198680	0.12	0.004	2238
Universal Trust Bank Plc	14190	2418	2418	1262556	32406	0.17	0.002	1523
Wema Bank Plc	17093	1291	1291	1262556	44101	0.08	0.001	2294
Broad Bank Nigeria Ltd	2119	615	3419	1262556	5495	0.29	0.003	25
Diamond Bank Ltd	16255	848	33556	1262556	53199	0.05	0.027	2142
Eagle Bank Ltd	1275	670	890	1262556	1598	0.53	0.001	64
Equitorial Trust Bank	12545	525	21361	1262556	29705	0.04	0.017	2462
First City Monument Bank Ltd	7484	1490	8564	1262556	14951	0.20	0.007	501
Fidelity Bank Ltd	5927	1006	12281	1262556	15637	0.17	0.010	634
First Atlantic Bank Ltd	4801	249	8677	1262556	13064	0.05	0.007	601
Guardian Express Bank Plc	748	17	2062	1262556	4137	0.02	0.002	210
Global Bank Plc	4146	356	8000	1262556	11446	0.09	0.006	752
Int Merchant Bank	2999	1260	3138	1262556	5049	0.42	0.002	-842
Intercity Bank Plc	6930	1912	13014	1262556	21209	0.28	0.010	417
Marina Int Bank Ltd	2443	87	2603	1262556	5073	0.04	0.002	353
Nal Bank Plc	12704	1249	14652	1262556	21468	0.10	0.012	71
NUB Bank Plc	397	12	3125	1262556	5020	0.03	0.002	-72
Platinum Bank Ltd	4496	91	9921	1262556	13305	0.02	0.008	151
Societe Generale Bank Ltd	7339	1077	12876	1262556	15429	0.15	0.010	217
Trust Bank of Africa Ltd	1579	746	467	1262556	1562	0.47	0.000	-517
Zenith Int Bank Ltd	20665	439	50134	1262556	92563	0.02	0.040	3999
Fountain Trust Bank	2953	349	8468	1262556	10892	0.12	0.007	563
Liberty Bank Plc	6133	5027	3267	1262556	3666	0.82	0.003	-2937
Metropolitan Bank Ltd	4650	839	8293	1262556	10130	0.18	0.007	213
Reliance Bank Ltd	1697	21	3970	1262556	6073	0.01	0.003	127
Societe Bancaire Ltd	1718	1302	1756	1262556	2326	0.76	0.001	-142
Standard Trust Bank	23290	1458	58927	1262556	69946	0.06	0.047	2782
Oceanic Bank Plc	11272	673	40028	1262556	53294	0.06	0.032	3121
African Express Bank	2027	495	4476	1262556	6708	0.24	0.004	126
African International Bank Ltd	12498	10186	18554	1262556	14120	0.82	0.015	-1988
Capital Bank Int Ltd	6343	248	12262	1262556	15662	0.04	0.010	643
Co-operative Dev. Bank	4489	1442	5164	1262556	7660	0.32	0.004	336
Ecobank Nig Ltd	7169	1443	17602	1262556	24072	0.20	0.014	714
Equity Bank of Nig Ltd	6302	1289	11474	1262556	15042	0.20	0.009	235
Gateway Bank Plc	4959	719	7702	1262556	11923	0.14	0.006	702
Habib Nig Bank Ltd	12838	1536	22975	1262556	35437	0.12	0.018	993
Intercontinental Bank Ltd	14556	2049	35584	1262556	47797	0.14	0.028	2380
Nigerian-American Bank Ltd	2702	61	2245	1262556	5277	0.02	0.002	284

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
NBM Bank Limited	4019	584	5571	1262556	10241	0.15	0.004	-696
Nigeria Int Bank Ltd	21656	2475	35555	1262556	72288	0.11	0.028	4896
Stanbic Bank	2178	221	2892	1262556	6798	0.10	0.002	123
Standard Chartered Bank Ltd	2490	24	11416	1262556	18428	0.01	0.009	768
Trans Int Bank Plc	6394	9786	9786	1262556	14483	1.53	0.008	497
Tropical Commercial Bank Plc	4448	3992	9786	1262556	5644	0.90	0.008	58

Data from Nigerian for 2003

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	7135	629	9309	1774011	22582	0.09	0.005	811
All StatesTrust Bank	8771	815	31521	1774011	37686	0.09	0.018	47
Afribank Int. Ltd	4298	895	5200	1774011	7952	0.21	0.003	185
Afribank Nig Plc	33845	8625	61195	1774011	83144	0.25	0.034	2471
Bank of the North Ltd	49122	36434	63085	1774011	40731	0.74	0.036	- 35120
Co-operative Bank	11291	1801	13133	1774011	19525	0.16	0.007	213
Devcom Bank Ltd	2092	238	4916	1774011	8148	0.11	0.003	238
FBN (Merchant Bankers)	6662	2370	10079	1774011	15553	0.36	0.006	339
First Bank of Nig Plc	92935	36899	193995	1774011	320578	0.40	0.109	13393
First Interstate Merch Bank	2403	707	3372	1774011	5598	0.29	0.002	-402
Fortune Int Bank Plc	8126	1531	7014	1774011	12709	0.19	0.004	718
FSB Int Bank Plc	13404	3509	23743	1774011	35783	0.26	0.013	-2671
Guaranty Trust Bank	31556	893	51068	1774011	83311	0.03	0.029	3802
Gulf Bank	9805	9451	8320	1774011	18857	0.96	0.005	958
Hallmark Bank Plc	20170	2616	31182	1774011	40275	0.13	0.018	1458
Inland Bank Ltd	12479	2488	15102	1774011	24580	0.20	0.009	478
INMB Bank	1476	154	1600	1774011	3512	0.10	0.001	184
Int Trust Bank	2723	1433	3290	1774011	3995	0.53	0.002	-336
Investment Banking & Trust Co	9604	225	8182	1774011	23947	0.02	0.005	1688
Lead Bank Ltd	7111	742	9984	1774011	15119	0.10	0.006	620
Lion Bank Plc	3830	737	7889	1774011	13765	0.19	0.004	690
Magnum Trust Bank Plc	7989	551	16513	1774011	19904	0.07	0.009	401
Manny Bank	4757	1192	5165	1774011	8840	0.25	0.003	198
MBC Int Bank Ltd	4331	175	11322	1774011	15581	0.04	0.006	421
Midas Bank Plc	2535	1305	2112	1774011	2575	0.51	0.001	-376
National Bank Ltd	4332	542	7702	1774011	12985	0.13	0.004	125
New Africa Merchant Bank Plc	502	366	751	1774011	1377	0.73	0.000	-21
New Nigeria Bank Plc	2414	261	8209	1774011	11779	0.11	0.005	189
Omegabank Plc	5399	807	11197	1774011	14775	0.15	0.006	105
Pacific Bank Ltd	1698	1130	1038	1774011	1954	0.67	0.001	-1013
Prudent Bank Plc	8909	450	16109	1774011	20934	0.05	0.009	854
Regent Bank Plc	1017	23	3190	1774011	5148	0.02	0.002	147
Trade Bank Ltd	7348	2592	11799	1774011	15278	0.35	0.007	433

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Triumph Merchant Bank Plc	7272	1321	8797	1774011	12489	0.18	0.005	-346
Union Bank of Nig Plc	61962	16399	224347	1774011	329583	0.26	0.126	10154
Union Merchant Bank	2800	339	6466	1774011	10254	0.12	0.004	860
United Bank of Africa Plc	50178	4102	142427	1774011	200995	0.08	0.080	4816
Universal Trust Bank Plc	14282	2703	26584	1774011	32135	0.19	0.015	496
Wema Bank Plc	23508	2768	43762	1774011	61323	0.12	0.025	2286
ACB Int Bank	759	64	2500	1774011	11313	0.08	0.001	553
Assurance Bank Ltd	5296	3745	8469	1774011	9541	0.71	0.005	-1415
Broad Bank Nigeria Ltd	4377	1031	5479	1774011	8266	0.24	0.003	165
Diamond Bank Ltd	15932	1420	42147	1774011	59287	0.09	0.024	309
Eagle Bank Ltd	739	203	3984	1774011	5291	0.27	0.002	105
Eko Int Bank Plc	6908	1937	10622	1774011	16422	0.28	0.006	861
Equitorial Trust Bank	17924	2619	25838	1774011	36207	0.15	0.015	2027
First City Monument Bank Ltd	6414	580	9216	1774011	15164	0.09	0.005	57
Fidelity Bank Ltd	7881	706	16888	1774011	22517	0.09	0.010	1085
First Atlantic Bank Ltd	8165	519	14355	1774011	20910	0.06	0.008	609
Guardian Express Bank Plc	3079	88	6459	1774011	10277	0.03	0.004	476
Global Bank Plc	5297	1217	12228	1774011	17316	0.23	0.007	613
Int Merchant Bank	3456	3612	3967	1774011	2079	1.05	0.002	-4662
Intercity Bank Plc	9259	3183	14909	1774011	24545	0.34	0.008	561
Marina Int Bank Ltd	2271	142	5497	1774011	8807	0.06	0.003	-522
Nal Bank Plc	11889	760	15376	1774011	24609	0.06	0.009	233
NUB Bank Plc	2011	45	5701	1774011	8057	0.02	0.003	152
Platinum Bank Ltd	8678	478	14988	1774011	20155	0.06	0.008	303
Zenith Int Bank Ltd	27895	605	61574	1774011	605	0.02	0.035	5440
Fountain Trust Bank	5347	756	11867	1774011	756	0.14	0.007	316
Liberty Bank Plc	6117	5957	2869	1774011	5957	0.97	0.002	-1294
Metropolitan Bank Ltd	7885	1592	12673	1774011	1592	0.20	0.007	242
Reliance Bank Ltd	2315	56	5330	1774011	56	0.02	0.003	227
Societe Bancaire Ltd	1234	1084	1672	1774011	1084	0.88	0.001	-9
Standard Trust Bank	22414	2340	74234	1774011	2340	0.10	0.042	3076
Oceanic Bank Plc	13600	725	49366	1774011	725	0.05	0.028	3287
African Express Bank	7910	7910	4798	1774011	2163	1.00	0.003	-7448
Capital Bank Int Ltd	7529	550	11928	1774011	17597	0.07	0.007	306
Co-operative Dev. Bank	4882	1649	4827	1774011	7879	0.34	0.003	334
Ecobank Nig Ltd	9715	1445	19979	1774011	27314	0.15	0.011	1111
Equity Bank of Nig Ltd	11356	1843	16545	1774011	23669	0.16	0.009	626
Gateway Bank Plc	6467	1188	8659	1774011	14140	0.18	0.005	755
Habib Nig Bank Ltd	14528	2267	24494	1774011	39758	0.16	0.014	1255
Intercontinental Bank Ltd	23187	1533	50245	1774011	71412	0.07	0.028	3414
Nigerian-American Bank Ltd	2994	86	2010	1774011	5532	0.03	0.001	293
NBM Bank Limited	4882	748	6630	1774011	10875	0.15	0.004	149
Nigeria Int Bank Ltd	26822	4922	37684	1774011	77636	0.18	0.021	4823

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Stanbic Bank	3190	197	3759	1774011	12166	0.06	0.002	240
Standard Chartered Bank Ltd	6658	71	14527	1774011	26254	0.01	0.008	1057
Trans Int Bank Plc	9065	1218	13364	1774011	19367	0.13	0.008	205
Tropical Commercial Bank Plc	4749	1582	5685	1774011	8515	0.33	0.003	127

Data from Nigerian for 2004

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	12341	879	22724	1854704	31342	0.07	0.012	952
All StatesTrust Bank	13654	977	31612	1854704	38768	0.07	0.017	-54
Afribank Int. Ltd	4059	1100	5293	1854704	7915	0.27	0.003	297
Afribank Nig Plc	26482	7404	57989	1854704	70578	0.28	0.031	1566
Bank of the North Ltd	53322	40353	28933	1854704	42252	0.76	0.016	164
Co-operative Bank	13508	2396	17585	1854704	23870	0.18	0.009	460
Devcom Bank Ltd	4033	423	6434	1854704	9602	0.10	0.003	256
FBN (Merchant Bankers)	7888	3641	13103	1854704	17312	0.46	0.007	-326
First Bank of Nig Plc	117123	39002	207181	1854704	312490	0.33	0.112	14106
First Interstate Merch Bank	3281	840	5121	1854704	6355	0.26	0.003	142
Fortune Int Bank Plc	11352	1629	7697	1854704	13669	0.14	0.004	208
FSB Int Bank Plc	12537	3444	28025	1854704	39817	0.27	0.015	254
Guaranty Trust Bank	45198	1522	74222	1854704	119698	0.03	0.040	5030
Gulf Bank	10913	1880	11235	1854704	21677	0.17	0.006	100
Hallmark Bank Plc	30966	7553	35096	1854704	47871	0.24	0.019	880
Inland Bank Ltd	14676	3538	16159	1854704	26404	0.24	0.009	527
INMB Bank	1870	234	1967	1854704	4098	0.13	0.001	171
Int Trust Bank	3483	2285	2965	1854704	2836	0.66	0.002	-324
Investment Banking & Trust Co	9618	138	10544	1854704	26872	0.01	0.006	1711
Lead Bank Ltd	8270	997	11722	1854704	19570	0.12	0.006	754
Lion Bank Plc	3921	836	8163	1854704	13463	0.21	0.004	419
Magnum Trust Bank Plc	9787	893	18906	1854704	23790	0.09	0.010	233
Manny Bank	7592	1904	7037	1854704	10943	0.25	0.004	237
MBC Int Bank Ltd	4543	280	9307	1854704	14446	0.06	0.005	624
Midas Bank Plc	3058	1901	2643	1854704	3046	0.62	0.001	-262
National Bank Ltd	5806	839	10655	1854704	16703	0.14	0.006	380
New Africa Merchant Bank Plc	521	375	444	1854704	1160	0.72	0.000	-67
New Nigeria Bank Plc	3900	456	13039	1854704	16047	0.12	0.007	350
Omegabank Plc	7284	1324	13966	1854704	17648	0.18	0.008	136
Pacific Bank Ltd	1279	500	1552	1854704	2432	0.39	0.001	536
Prudent Bank Plc	11314	1148	20913	1854704	25998	0.10	0.011	918
Regent Bank Plc	1868	43	3634	1854704	5405	0.02	0.002	-245
Trade Bank Ltd	7771	5326	12240	1854704	13262	0.69	0.007	-1601
Triumph Merchant Bank Plc	7272	1321	8797	1854704	12489	0.18	0.005	-346
Union Bank of Nig Plc	97643	19305	241585	1854704	367798	0.20	0.130	10210
Union Merchant Bank	3059	361	7288	1854704	11085	0.12	0.004	679

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
United Bank of Africa Plc	58855	2719	151929	1854704	208806	0.05	0.082	5608
Universal Trust Bank Plc	14282	2703	26584	1854704	32136	0.19	0.014	496
Wema Bank Plc	41766	5159	55072	1854704	71424	0.12	0.030	1420
ACB Int Bank	945	62	4445	1854704	8631	0.07	0.002	29
Assurance Bank Ltd	1157	55	8134	1854704	9589	0.05	0.004	396
Broad Bank Nigeria Ltd	601	331	13434	1854704	17521	0.55	0.007	744
Diamond Bank Ltd	19500	1055	43391	1854704	69062	0.05	0.023	1162
Eagle Bank Ltd	1403	572	2140	1854704	2562	0.41	0.001	-470
Eko Int Bank Plc	8145	1953	12540	1854704	17184	0.24	0.007	559
Equitorial Trust Bank	21079	3573	33752	1854704	47406	0.17	0.018	2533
First City Monument Bank Ltd	8641	735	18019	1854704	23736	0.09	0.010	265
Fidelity Bank Ltd	11014	1278	19340	1854704	27552	0.12	0.010	1078
First Atlantic Bank Ltd	10320	707	23920	1854704	29917	0.07	0.013	821
Guardian Express Bank Plc	6493	316	14799	1854704	19460	0.05	0.008	583
Global Bank Plc	9469	1259	16216	1854704	20105	0.13	0.009	949
Int Merchant Bank	3953	2994	3120	1854704	4336	0.76	0.002	581
Intercity Bank Plc	1024	3789	18430	1854704	25702	3.70	0.010	554
Marina Int Bank Ltd	3586	230	5475	1854704	11865	0.06	0.003	494
Nal Bank Plc	12515	1546	17021	1854704	27222	0.12	0.009	1089
NUB Bank Plc	3076	228	8565	1854704	11560	0.07	0.005	441
Platinum Bank Ltd	9011	812	20015	1854704	25027	0.09	0.011	885
Trust Bank of Africa Ltd	1020	58	73	1854704	4430	0.06	0.000	73
Zenith Int Bank Ltd	54420	1028	6405	1854704	193321	0.02	0.003	6405
Liberty Bank Plc	5899	5604	3266	1854704	3615	0.95	0.002	334
Reliance Bank Ltd	3260	91	7667	1854704	3260	0.03	0.004	322
Societe Bancaire Ltd	422	392	613	1854704	422	0.93	0.000	-42
Standard Trust Bank	35752	4837	103231	1854704	35752	0.14	0.056	4524
Oceanic Bank Plc	24827	576	68954	1854704	24827	0.02	0.037	3445
Capital Bank Int Ltd	7252	835	13054	1854704	17818	0.12	0.007	93
Co-operative Dev. Bank	5355	2695	4699	1854704	7161	0.50	0.003	-472
Ecobank Nig Ltd	13075	2012	28643	1854704	37642	0.15	0.015	1317
Habib Nig Bank Ltd	15056	2098	24034	1854704	37485	0.14	0.013	1283
NBM Bank Limited	6716	1274	9112	1854704	13855	0.19	0.005	-666
Nigeria Int Bank Ltd	21564	5623	42067	1854704	66247	0.26	0.023	5351
Stanbic Bank	3374	321	6815	1854704	12263	0.10	0.004	29
Standard Chartered Bank Ltd	9168	185	23526	1854704	34724	0.02	0.013	1565
Trans Int Bank Plc	9729	1419	14664	1854704	18799	0.15	0.008	593
Tropical Commercial Bank Plc	5797	1704	5764	1854704	8671	0.29	0.003	203

Data from Nigerian Banks for 2005

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	17942	1758	32608	2203915	66918	0.10	0.015	751
All StatesTrust Bank	23321	1789	41032	2203915	47429	0.08	0.019	361

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Afribank Int. Ltd	5773	1154	7678	2203915	10984	0.20	0.003	469
Afribank Nig Plc	30543	9192	61601	2203915	95754	0.30	0.028	530
Bank of the North Ltd	58006	44168	31760	2203915	44911	0.76	0.014	211
Co-operative Bank	14081	2569	16842	2203915	23690	0.18	0.008	237
Devcom Bank Ltd	3924	566	4692	2203915	8212	0.14	0.002	295
FBN (Merchant Bankers)	11647	4625	14547	2203915	20041	0.40	0.007	505
First Bank of Nig Plc	147511	32838	265378	2203915	377496	0.22	0.120	15145
First Interstate Merch Bank	3760	1032	6390	2203915	11267	0.27	0.003	-365
FSB Int Bank Plc	9588	3746	28405	2203915	41210	0.39	0.013	380
Guaranty Trust Bank	67179	2144	95564	2203915	167898	0.03	0.043	7004
Hallmark Bank Plc	44554	9066	65241	2203915	97336	0.20	0.030	1968
Int Trust Bank	3731	2850	4038	2203915	3905	0.76	0.002	-570
Investment Banking & Trust Co	13670	183	10886	2203915	34568	0.01	0.005	3013
Lead Bank Ltd	8273	1684	5540	2203915	13430	0.20	0.003	-578
Lion Bank Plc	6981	1437	9651	2203915	14824	0.21	0.004	99
Magnum Trust Bank Plc	10834	1124	17903	2203915	26994	0.10	0.008	663
MBC Int Bank Ltd	6206	341	12003	2203915	17748	0.05	0.005	371
New Africa Merchant Bank Plc	627	444	1358	2203915	2029	0.71	0.001	78
New Nigeria Bank Plc	5129	695	17032	2203915	21694	0.14	0.008	505
Omegabank Plc	7709	1842	13303	2203915	19097	0.24	0.006	734
Pacific Bank Ltd	1814	566	3085	2203915	4494	0.31	0.001	326
Prudent Bank Plc	13123	1000	22623	2203915	31991	0.08	0.010	743
Regent Bank Plc	2751	77	4668	2203915	6293	0.03	0.002	-75
Trade Bank Ltd	11235	917	14068	2203915	12785	0.08	0.006	-1109
Union Bank of Nig Plc	95356	16672	200511	2203915	398271	0.17	0.091	11953
Union Merchant Bank	4551	1441	5034	2203915	11359	0.32	0.002	-216
United Bank of Africa Plc	70086	2476	205110	2203915	248928	0.04	0.093	6239
Wema Bank Plc	54493	8310	61285	2203915	97909	0.15	0.028	1002
Diamond Bank Ltd	41805	1584	75166	2203915	125675	0.04	0.034	3522
Eagle Bank Ltd	1228	702	1177	2203915	1201	0.57	0.001	-345
Eko Int Bank Plc	8001	2159	14094	2203915	18856	0.27	0.006	620
Equitorial Trust Bank	23530	4705	34142	2203915	56034	0.20	0.015	2883
First City Monument Bank Ltd	12556	11120	26857	2203915	51318	0.89	0.012	1093
Fidelity Bank Ltd	15676	1784	20572	2203915	34953	0.11	0.009	1564
Guardian Express Bank Plc	6790	615	10053	2203915	14194	0.09	0.005	209
Int Merchant Bank	3938	3050	3259	2203915	6789	0.77	0.001	1211
Intercity Bank Plc	15340	4058	24743	2203915	33179	0.26	0.011	459
Marina Int Bank Ltd	3907	446	6982	2203915	11242	0.11	0.003	138
Nal Bank Plc	15306	1001	17747	2203915	44123	0.07	0.008	299
NUB Bank Plc	5156	446	13406	2203915	18751	0.09	0.006	625
Platinum Bank Ltd	19850	1237	21893	2203915	51671	0.06	0.010	1055
Trust Bank of Africa Ltd	2060	73	3860	2203915	6968	0.04	0.002	412
Zenith Int Bank Ltd	125531	3037	233413	2203915	329717	0.02	0.106	9165

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Fountain Trust Bank	8909	1439	9064	2203915	12461	0.16	0.004	-1015
Standard Trust Bank	39856	5126	104173	2203915	145940	0.13	0.047	2565
Oceanic Bank Plc	79762	22047	167401	2203915	217803	0.28	0.076	7265
Equity Bank of Nig Ltd	17105	2548	26063	2203915	36284	0.15	0.012	1100
Intercontinental Bank Ltd	55306	2707	110014	2203915	164348	0.05	0.050	6706
Nigeria Int Bank Ltd	30675	3087	44969		86979	0.10		4366
Ecobank Nig Ltd	22367	3236	32452		67653	0.14		2265

Data from Nigerian Banks for 2006

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	60941	6830	110879	3912542	174554	0.11	0.028	1119
Afribank Plc	48224	10940	94816	3912542	131270	0.23	0.024	3695
First Bank of Nig Plc	190004	14347	391169	3912542	538145	0.08	0.100	19831
Guaranty Trust Bank Plc	86958	3481	212834	3912542	305081	0.04	0.054	10025
IBTC Chartered Bank Plc	58132	8065	57073	3912542	110782	0.14	0.015	5418
Intercontinental Bank Plc	170035	11097	252281	3912542	360903	0.07	0.064	11030
Union Bank of Nig Plc	134864	18804	275457	3912542	517564	0.14	0.070	12350
Wema Bank Plc	75383	21681	85605	3912542	120109	0.29	0.022	7200
Bank PHB Plc	41841	4700	109870	3912542	156000	0.11	0.028	3484
Diamond Bank Plc	81306	3376	144570	3912542	223048	0.04	0.037	5292
Equitorial Trust Bank	37095	7516	72767	3912542	109740	0.20	0.019	2510
Fidelity Bank Plc	46398	7737	78648	3912542	119986	0.17	0.020	3587
First Inland Bank Plc	50663	23826	61380	3912542	106252	0.47	0.016	10308
First City Monument Bank Plc	26311	7240	70297	3912542	106611	0.02	0.018	3640
Unity Bank Plc	58666	21643	79683	3912542	131030	0.37	0.020	2370
Zenith Bank Plc	204057	4349	392864	3912542	608505	0.02	0.100	15154
Oceanic Bank Plc	105828	6912	310333	3912542	371587	0.07	0.079	11614
Skye Bank Plc	87379	15661	125472	3912542	174197	0.18	0.032	2091
Sterling Bank Plc	48207	9261	75026	3912542	111197	0.19	0.019	429
United Bank of Africa Plc	116963	9769	757407	3912542	851241	0.08	0.194	12514
Ecobank Nig Plc	54682	2384	84041	3912542	132091	0.04	0.021	5012
Nigeria Int Bank	38190	2700	61062	3912542	112272	0.07	0.016	10555
Stanbic Bank	13938	570	9008	3912542	65531	0.04	0.002	3622

Data from Nigerian Banks for 2007

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	118297	10546	205235	5647109	328615	0.09	0.036	8043
Afribank Plc	83760	12437	142277	5647109	182722	0.15	0.025	5081
Guaranty Trust Bank Plc	116682	2977	290792	5647109	478369	0.03	0.051	15350
IBTC Chartered Bank Plc	65107	8341	78316	5647109	146978	0.13	0.014	6185
Intercontinental Bank Plc	266665	13885	455701	5647109	638881	0.05	0.081	22316
Union Bank of Nig Plc	167819	18443	417406	5647109	619800	0.11	0.074	15320

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Wema Bank Plc	91490	22693	125476	5647109	165082	0.25	0.022	1879
Bank PHB Plc	106234	6076	307887	5647109	378949	0.06	0.055	10159
Diamond Bank Plc	102775	6390	211635	5647109	312250	0.06	0.037	8793
Equitorial Trust Bank	39890	7348	82577	5647109	130440	0.18	0.015	3878
Fidelity Bank Plc	76999	6762	176681	5647109	217144	0.09	0.031	4403
First Inland Bank Plc	50804	22331	130807	5647109	181308	0.44	0.023	3236
First City Monument Bank Plc	86824	3247	187991	5647109	262806	0.04	0.033	10675
Zenith Bank Plc	224347	6042	568012	5647109	883941	0.03	0.101	23289
Oceanic Bank Plc	349953	11614	690395	5647109	1030441	0.03	0.122	22341
Skye Bank Plc	115212	6762	269316	5647109	446114	0.06	0.048	7519
Sterling Bank Plc	54999	9041	106934	5647109	145975	0.16	0.019	605
United Bank of Africa Plc	334919	14690	897651	5647109	1102348	0.04	0.159	22827
Ecobank Nig Plc	121023	4842	222885	5647109	311396	0.04	0.039	10096
Nigeria Int Bank	44984	2598	79135	5647109	135879	0.06	0.014	8413

Data from Nigerian Banks for 2008

	GLA	PBD	BTD	NBTD	GTA	RNL	STD	PBT
Access Bank	255896	11300	351789	8610622	1043465	0.04	0.041	19042
Afribank Plc	131343	12027	278476	8610622	335695	0.09	0.032	12361
First Bank of Nig Plc	447061	9293	661624	8610622	1165461	0.02	0.077	38020
Guaranty Trust Bank Plc	297611	6081	357006	8610622	718000	0.02	0.041	27199
Intercontinental Bank Plc	429116	17674	1037420	8610622	1331404	0.04	0.120	9960
Union Bank of Nig Plc	272967	28122	649334	8610622	907074	0.10	0.075	29746
Bank PHB Plc	321443	8562	717929	8610622	1036586	0.03	0.083	25806
Diamond Bank Plc	240479	9034	403710	8610622	603327	0.04	0.047	15059
Fidelity Bank Plc	239676	8963	379729	8610622	533122	0.04	0.044	15796
First Inland Bank Plc	76444	16111	320012	8610622	444194	0.21	0.037	1109
First City Monument Bank Plc	193247	6682	251580	8610622	465211	0.03	0.029	18438
Skye Bank Plc	254162	9651	501596	8610622	784878	0.04	0.058	20425
Sterling Bank Plc	73342	7555	184730	8610622	236503	0.10	0.021	7790
United Bank for Africa Plc	435237	13489	1258035	8610622	1520093	0.03	0.146	45305
Zenith Bank Plc	427140	13409	1161476	8610622	1680302	0.03	0.135	48940
Standard Chartered Bank Ltd	62884	1368	96176	8610622	160279	0.02	0.011	11281