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POST-BANK CONSOLIDATION: A debacle in the survival of SMEs in Nigeria "An Empirical Study"

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ABSTRACT

The contention of this paper is to examine the impact of post-bank consolidation on the performance of Small and Medium Scale enterprises (SMEs) in Nigeria, with special reference to Lagos State. To examine the meritorious advantages of bank consolidation (mergers and acquisitions) in the shareholders wealth creation. To assess the trends, if any, of post-bank consolidation on the economic development of Nigeria and to highlight the ancillary benefits that may have accrued to the economy and SMEs as a result of post bank consolidation. The data procurement was based on survey of Neolithic literatures as well as primary sources, through dissemination of questionnaires based on the concept of the subject matter. A sample size of 50 was drawn from the supra-population of the study within Ikeja Local Government Area in Lagos State, using random sampling techniques. The mean, standard deviation and coefficient of variation were also applied in analysis of data collected. On-line discussions with the respondents was equally adopted which aimed at enlarging the scope of coverage in data collection. The analysis of the study reveals that SMEs in Nigeria, with reference to Lagos State metropolis, do not have better access to finance through banks, due to neo-reorganization in banks as a result of post bank consolidation. It was revealed that SMEs do not have absolute rapport with the financial institutions due to their financial background in Nigeria. They are financially handicapped which limits their size and the capacity to embark on bank loans with high interest rate. The researchers, therefore, are of the opinion that the government should enable the SMEs by providing enabling ground to a better access with financial institutions as regards bank loan at an affordable securities. The paper highlights the supra-environment in which the SMEs operate in Nigeria and their attendant limitations which are assumed do not harness the future survival of the SMEs in the long run.

Keywords: *Consolidation, performance, SMEs neo-reorganization survival, rapport background, Neolithic-literatures.*

INTRODUCTION

In most of the developing countries, the corporate world is usually characterized by low investment rate occasioned by inadequacy of investable funds and poor economic conditions. Many of such nations therefore feel the need to revitalize their economies by embarking on economic reform programmes expected to boost the level of activity in the economy (Olaleye, 2002).

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Several strategies are available in most of the developing countries to solve the problems of SMEs failures and access to funds. One often which has been found most useful in many developed economies and is gradually gaining ground in many developing economies, is through consolidation (merger and acquisition). Thus, the Nigerian banks have witnessed massive turn around in the light of this strategy. These reforms have, brought out the vital roles the banks are expected to play in the development of the economy such as the provision of adequate loans and financial support to SMEs.

Hence, the promotion of small businesses is a cornerstone of economic policy for a large number of industrialized countries. Public support for small enterprise appears to be based on the widely held perception that small business sector is an incubator of economic growth, a place where innovation takes place and new ideas become economically viable business enterprises. (Craig, Jackson & Thompson, 2005).

In line with the above statements, it is obvious that the need for a study of this nature cannot be overemphasized because of the new look of the Nigeria banks in providing the needed funds to small and medium scale enterprises.

It is a common knowledge that the small business enterprises have the potential of lifting the economy out of the doldrums in which it is presently languishing (Ajonbadi, 2002). The opportunities are simply enormous. However, the cry has been the lack of investible funds. This is more so, when allegations have been raised against the Nigerian government and the Nigerian banks in particular, that business policies have been largely made to favour the large scale to the detriment of the SMEs sub-sector. Hence, SMEs do not have better access to funds.

Also, SMEs firms are mostly likely to suffer severe problems of asymmetric information because of their size and background and the lack of formal credit-rating measures for firms. Also, many economists most notably Slightz and Weiss (2007), contend that private lending institutions may indeed fail to allocate loans efficiently because of fundamental information problems in the market for small business loans. Slightz and Weiss argue that banks consider both the interest rate they receive on the loan and the riskiness of the loan when deciding to make a loan. Thus, the inability to merge these two factors together hinders SMEs in accessing the needed funds. Thus, there is need for this study.

In order to achieve the objectives of this research study, the research study attempts to provide answers to the following research questions:

- Does SMEs have better access to funds due to bank consolidation?
- Does post-bank consolidation have impact on SMEs output?

Re-Statement of Objectives, Hypothesis and Scope

The main objective of this study is to examine the impact of post-bank consolidation on the financing of SMEs in Lagos-State. Thus, in order to achieve the above objectives, the following specific objectives, shall serve as our guide;

- To examine whether SMEs have better access to funds due to the bank consolidation
- To enumerates possible recommendations and solutions that may prove useful in better financing of SMEs through the post-bank consolidation.

Ho: SMEs do not have better access to funds due to bank consolidations

Hi: SMEs has better access to funds due to bank consolidations

Ho: Post-bank consolidation does not have impact on SME's output

Hi: Post-bank consolidation has impact on SME's output

The study covers post-bank consolidation and SMEs in Nigeria, particularly in Lagos-State and does not extend to other sectors. This study is restricted to selected SMEs in Lagos-State. The study covers a representative numbers of the generality of SMEs in Ikeja in Lagos. This is the commercial nerve centre of the city. The study was focused on the customers, i.e the SMEs operators.

NEOLITHIC SURVEY

This section provides an in-depth review of the existing literature on post-bank consolidation and the financing of small business enterprises. This is to identify their areas of convergence and divergence.

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According to Oke (1997), consolidation is simply another way of saying survival of the fittest that is to say a bigger, more efficient, better-capitalized, more skilled industry; consolidation is part of the natural evolutions of industries it is primarily driven by:

- Business motives and/or market forces.
- Regulatory interventions.

Consolidation is a term used by the Central Bank of Nigeria (CBN) to describe the coming together of some banks within the country to become one bank and be able to meet CBN's requirement for capitalization to a minimum of N25 billion (16 million US dollar)

According to Sobek (2000), the most frequent words used during the second half of the 90ies in reports on banking were "merger" and "acquisition". Acquisition which is sometimes referred to as "take over" is taken to mean the process of combining two or more companies which requires the assets and liabilities of the other in exchange for cash or shares, good and or debentures. To be specific, the Company and Allied Matter Decree 1990 refers to acquisition as "take-over" and defines it as the acquiring by one company of sufficient shares in another company to give the acquiring company control over other company.

Sobek (2000), was of the opinion that the main reason, which is common for mergers and acquisitions, is the effort to improve the financial situation of the company concerned and to gain a better position on the market.
Thus, the main reasons for bank mergers is to reduce costs, extend the range of products and service increase, the market share, participate in the process of privatization (in transition economies), diversification, improvement in solvency and transfer of know-how etc.

There is no universally accepted definition of the term either nationally or internationally. Most classifications of business units are based on some quantitative parameters. For instance, the United States of America Committee for Economic Development defined a small business as one which possesses the following qualities; owners are managers required capital is supplied by owners, local area of operation relatively small size (Lawal et al., 1997). In Nigeria the definition of SMEs differs from one institution to another. In addition it has been reviewed from time to time based on the exchange rates and the level of inflation. The Central Bank of Nigeria (CBN) 1996 Monetary Guidelines defined a small business as one in which total costs excluding cost of land but including working capital is not exceeding ten million naira. The Nigerian Economic Reconstruction Fund (NERFUND) (2004), defined small and medium scale business as those whose fixed assets other than land including the cost of investment do not exceed ten million naira.

Post-Banking Sector Consolidation

According to Akintunde (2007), at the close of the consolidation process, 25 strong banks emerged from the process out of 89 banks then in existence while 14 banks, which failed to meet the directive, had their licenses revoked by the CBN. The failed banks were African Express (AFEX) Bank, All States Trust Bank, Assurance Bank, City Express Bank, Gulf Bank, Eagle Bank, Fortune International Bank, Hallmark Bank, Societe Generate Bank of Nigeria, Lead Bank, Liberty Bank, Metropolitan Bank, Trade Bank and Triumph Bank. As a way of lessening the sufferings of depositors of the failed banks, the CBN through collaboration with the Nigeria Deposits Insurance Corporation (NDIC) adopted purchase and acquisition (P&A) in the liquidation of the banks. Already four of the affected banks have been acquired by the stronger banks; while another two banks are set to be acquired. Ecobank acquired All States Trust Bank, which has seen the latter's depositor's commenced banking with the former: Afribank Nigeria Plc has also acquire Lead Bank and Assurance Bank, and United Bank for Africa (UBA) has taken over Trade Bank. Also, UBA acquires Metropolitan Bank.

Unugbro (2008) sees recapitalization as the result of an injection of capital into a company either through raising the level of the current debt or equity. This implies making the company more solid or stronger by increasing its capital base. The capital base is made up of the paid up capital (ordinary shares plus non redeemable preference shares) and reserves unimpaired by losses.

PROBLEMS OF FINANCING SMEs IN NIGERIA:

Ogunuba et al., (2004), countries all over the world, no matter the stage of their development recognize the importance of promoting small and medium scale firms as the engine of growth and industrialization. Past studies (Obasan 1998 & Osuagwu, 2002) of SME development and their problems have concluded that they suffer from identical weaknesses in developing countries. There are three major problems affecting the growth of SMEs namely: inadequate access to finance, unfavorable macroeconomics environment and poor infrastructure facilities.

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Banks in Nigeria are known to be highly liquid and report that they would like to make loans available to SMEs but they are put off by the very risky nature of SMEs in Nigeria. Because banks do not provide the required remit to SMEs, they rely on personal assets for working capital thus making it difficult to operate at full capacity and increase output and sales. The shortage of finance also limits investment of improve technology and to expand operations. The source of major risk according to banks in Nigeria are lack of information on the SMEs true financial conditions and performance, the judicial system is reportedly inefficient, banks can not easily enforce contracts, the business environment is generally, risk prone and uncertain and firms are not able to service debts.

DATA EXHIBITION

The focus of this research study is to investigate the effectiveness of post-bank consolidation on SMEs performance in Lagos State. The survey research design was employed in this study. Questionnaire was the main research instrument used to collect data from respondents. A sample size of 50 was drawn from the population of study using simple random sampling techniques. However, 48 of the questionnaire administered were duly completed and returned.

The whole of data collected through the administered questionnaires was subjected to detailed analysis in this section. Mean and standard deviation are the statistical tools used to analyse the collected data.

There was 96% level of success in the administration of the questionnaire. The analysis of biography data revealed that majority of the participating respondents was male which constitutes (29) 60.4%, while their female counterparts were (19) 39.6%.

In order to provide answers to the research questions, the descriptive statistic and t-value revealed this:

HYPOTHESIS ONE

Table 1

Response	**X**	**F**	**FX**	**$X-\bar{X}$**	**$(X-\bar{X})^2$**	**$F(X-\bar{X})^2$**
SA	5	23	115	1	1	23
A	4	13	52	0	0	0
U	3	3	9	-1	1	3
D	2	8	16	-2	4	32
SD	1	1	1	-3	9	9
	48	193				67

Source: field survey, 2011

$$\text{Mean} = X = \frac{\sum f\bar{x}}{\sum f} = \frac{193}{48} = 4.0$$

Standard Deviation

$$\sigma = \sqrt{\frac{\sum f(x-\bar{x})^2}{\sum f}}$$

$$\sigma = \sqrt{\frac{67}{48}}$$

$$\sigma = \sqrt{1.396}$$

$$\sigma = 1.18$$

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HYPOTHESIS TWO

Table 2

Response	X	F	FX	$X-\bar{X}$	$(X-\bar{X})^2$	$F(X-\bar{X})^2$
SA	5	10	50	1.3	1.69	16.9
A	4	24	96	0.3	0.09	2.16
U	3	6	18	-0.7	0.49	2.94
D	2	5	10	-1.7	2.89	14.45
SD	1	3	3	-2.7	7.29	21.87
	48	177				58.32

Source: field survey, 2011

$$\text{Mean} = \bar{X} = \frac{\sum fx}{\sum f} = \frac{177}{48} = 3.7$$

Standard Deviation

$$\sigma = \sqrt{\frac{\sum f(x-\bar{x})^2}{\sum f}}$$

$$\sigma = \sqrt{\frac{58.32}{48}}$$

$$\sigma = \sqrt{1.10}$$

$$\sigma = 1.10$$

SUMMARY OF HYPOTHESES

Table 3

S/n	Sample Size	Hypotheses	Mean	Standard Deviation	Co-efficient of Variance
1	48	Hypothesis 1	4.0	1.18	29.5%
2	48	Hypothesis 2	3.7	1.10	29.7%

Source: field survey, 2011

From the Table above, the mean or the average weight of the first hypothesis is 4.0 and the rate of dispersion is 1.18 and the co-efficient of variance is 29.5%. i.e. 29.5% of relationship. Thus, from the analysis SMEs do not have better access to funds due to bank consolidations. Also, in the second hypothesis, the mean is 3.7 and the standard deviation is 1.10 and the co-efficient of variance is 29.7%. Thus, Post-bank consolidation does not have impact on SME's output.

REMARK:

It has been observed that SMEs has an important role to play in the development of economies. It is in recognition of this that successive governments have made attempts to put in place structures to ensure adequate funding of the SMEs in order to give the much-needed boost to the economy. Be that as it may it was also observed that though multifarious, the efforts of government at putting in place these structures failed to yield the required results. Agency after another has been successively created to address the issues of funding but one

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after the other they have been bedeviled by lack of adequate structures and strategies, corruption and loss of focus. This has made the growth of SMEs in Nigeria much uncoordinated and slow leading to the low rate of standard of living in the country. Entrepreneurs are therefore left on their own to source for the required funding for their businesses. It was also observed that banks are not favourably disposed to providing funds to SMEs because most of them lack the necessary collateral security to ensure the safety of such loans in case of default. In addition most of the small business lacks the necessary management structures and documentation to make them attractive to the banks. In some cases where such loans have been given in the past, the loans have been mismanaged by the entrepreneurs who put them into other uses such as burial, and marriage ceremonies. It was also observed that exorbitant interest rates discourage entrepreneurs from taking loans for their businesses. Since the government institutions and the banks have grossly failed to provide the much needed funding for SMEs, the entrepreneurs resort to the use of personal saving, accumulated over the years to set up and sustain their businesses. However, there is just a limit to the sustainability this can give to the need of the business especially for expansion.

However, most of the entrepreneur's studies agree that their businesses thrive on their personal savings (Ajonbadi, 2002). However, they agreed strongly that this source of funding was grossly inadequate to meet the need of sustaining business growth and expansion. Hence, the following are recommended:

- The current consolidation of the banking industry is a step in the right direction. After the consolidation the Central Bank should ensure that banks put in place adequate structures for risk analysis and management to ensure their ability to recover their loans.
- Banks should train entrepreneurs on basis of business management to ensure that they are better prepared and positioned to qualify for loans from banks. This will not only ensure the growth of SMEs but increase the standing and profitability of banks.
- The Central Bank should embark more on an awareness creation drive to enlighten people that loans taken from government agencies are not shares of the National cake but they need to be repaid through appropriate management of the funds. Entrepreneurs should be trained on financial investments and intelligence.

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