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Impact of Mergers and Acquisitions on the Performance of Manufacturing Firms in Nigeria

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Abstract

This research study examined the impact of mergers and acquisition on the performance of manufacturing firms in Nigeria. A total of thirty-five (35) companies formed the population of this study and questionnaire was used to collect data for this research work. Data generated from the study were analysed descriptively using simple percentages. From the research findings, we formed the opinion that merger and acquisition greatly affect the performance of manufacturing companies in terms of profitability. Also, increase in capital when companies merge together, leads to increase in profit because large capitals increase the business potentials. Skilled manpower leads to increase in dividend per share. Also when companies merged and acquired, they tend to overcome competitors, and this increases sales performance.

Based on our findings it was recommended that- there should be adequate supervision of personnel in their various assignments in order to achieve the objectives of the merger and acquisition: and staff should be trained and retrained on regular bases so as to reduce waste and increase productivity.

Key Words: Merger, acquisition, performance, manufacturing firms

Introduction

In today's globalized economy, competitiveness and competitive advantage have become the fashion for corporate organization around the world. Corporate organizations worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and grow profitably. In all human activities, there are usually successes and failures. Businesses are no exception. In periods of boom, as Nigeria experienced in the mid-seventies, many businesses and individuals thrived in abundance and squad a mania (Utomi, 2000). At such times, employment, production, income and business generally were at peak levels (Adetona, 2002). During the peak period, businesses do not think of means of survival and sustenance. Economic planners make unrealistic projections and assumptions and business sector has access to cheap credits and investment funds.

However, when the boom days were over and recession took over, their doom days came and business failure became inevitable as a result of adverse macroeconomic condition. The bottom line is that things and time had become bad for everyone and every organization. Consequently, expansion is hindered; profits and operating earnings shrink and so on. According to Ogunbanjo (2000) Nigeria situation in late seventies was precarious because of economic malaise, fueled by unfortunate political environment and inconsistent economic policies over the years, thus, the economy started to experience a recession, which is a starting point of economic downturn technically referred to as depression.

In order to survive, company executives, government and economic planners started to think of various measures, such as Structural Adjustment Programme (SAP); obviously, manufacturing firms were badly affected because of unstable economic situation to the extent that some went into liquidation, other stagnated while some surviving ones are trying to adapt a change. In order to reposition firm to enjoy a powerful competitive advantage, change is a must (Adetona, 2004). This is necessary if an organization wants to survive the overwhelming challenges it faces now and in the future. Although the rationalization of the economy is ordinarily a continuous process, the economic recession experienced in few years and the introduction of SAP have heightened the need to restructure and reposition several existing businesses. This may require business line diversification either backward or horizontal integration and/or divestment of old lines of business. Whichever of these strategic changes a company chooses, it is believed to offer significant benefit to both buyers and sellers. According to Ndanusa (2004), the reason for the slow pace of merger and acquisitions in Nigeria may be attitudinal. The Nigerian entrepreneur in rivers state is egoistic and therefore wants to be identified with the company he established even if it is not doing well.

In spite of their anticipated benefit, mergers and acquisition still remain a relative untrammelled aspects of Nigerian corporate practices as the number of businesses that have resorts to this form of reorganization for corporate survival are much fewer than the trend in the industrialized free market economics, where the concept dates back to 1880. Firms in the United States of America employed the strategy to acquire market power. Sherman Act (1820) and Clayton Act (1914) were thus passed for the purpose of regulating mergers and acquisitions that threaten competition. Nevertheless, the trend persisted. The interesting practice of mergers and acquisition in Nigeria is that they normally involve companies listed on the Nigeria Stock Exchange taking over unlisted companies or between companies with common connection with a foreign multinational. There are two kinds of change that may occur in the firm or company. These are evolutionary change and revolutionary change. The former is gradual and subtle while the latter is dynamic and dramatic, and that is what merger and acquisition are advocating among businesses (Edem, 1994).

The question that readily comes to mind is whether this re-engineering approach has really improved the manufacturing sector and the economy. Reports indicate that many manufacturing firms were subjected to various risks associated with growth which resulted to decline in profit leading to illiquidity and folding-up business activities thus compelled the manufacturing firms to adopt for survival strategy. Soludo (2004) opined that for weak firms to survive and improve on performance, they need to consolidate their capital through mergers and acquisitions. However, practical experiences have shown that merging and acquisition of firms greatly impacts on the structure and operations of these firms. It is on the basis of this that this study is undertaken to examine the impact of merger and acquisition on the performance of manufacturing firms. Based on the above, the following questions are asked:

(i) to what extent does increase in capital impact on the profit of manufacturing firms?

(ii) to what extent does large scale production affects earnings per share?

(iii) to what extent does competition affects the sales performance of the company?

(iv) to what extent does skilled manpower affects dividend per share?

Literature Review

Basically mergers and acquisitions simply refer to the coming together of two or more enterprises into a single entity. According to Ernest and Young (1994:23) mergers is defined as the fusing of two or more companies whether voluntary or enforced. Mergers and acquisition also refers to the aspect of corporate strategy, corporate finance management dealing with the buying and selling, dividing and combining different companies and similar entities that can aid, finance or help an enterprise to grow rapidly in its sector or location of origin or a new location without creating a subsidiary. As a result of mergers and acquisition, two firms cooperate for the purpose of achieving certain objectives which may be called a strategic alliance. Alashi (2003) suggest that alliances are more flexible unions of which, two or more organization combined by treaty agreement, memorandum of understanding (MOU) for a specific period or purpose.

Ahmed (2000) views mergers as a unification of previously separate companies into a single corporation. Mergers and acquisition is usually a scheme that carefully planned to achieve a synergistic effect (Oye, 2008). According to Olutola (1999:58) mergers and acquisition transaction are often driven by regulatory economic and financial consideration. As in most business decision, one or all parties to the amalgamation can perceive value in the linkage of the business being combined or targeted. Moreover according to the Companies and Allied Matters Act (CAMA) 2004, states that merger means any amalgamation of the undertakings or any part of undertaking or interest of two or more companies (Ahmed, 2000).

Mergers and acquisitions can be express in the form of vertical/horizontal integrated and conglomerate merger/take over. Vertical integration refers to the combination of two firms, which are in the same industry but at different stages in the process of producing and selling of products. This form of integration occurs when a manufacturing firm merged with another company in the same industry and at the same level. The type of business combination between Liver Brothers Plc and Lipton Tea is an example of acquisition. Conglomerate is used to describe the type of merger between companies in related lines of business. The purpose of this form of mergers and acquisition is for diversification (Oye, 2008).

Mergers and acquisition is one of the survival strategies of a business. As a result of mergers and acquisition so many businesses in Nigeria has been expanded (Omole, 2004). Moreover, the history of merger and acquisition activities in Nigeria can be traced to 1885-1 905. However, Nigeria recorded the first merger in 1982, when United Nigeria Company Limited made a bid for united Nigeria Life Assurance Company Limited. Between 1950s and early 1960s the economy and political instability in Nigeria and the oil exploration of 1970 brought about the need for merger and acquisition. According to Syng (2007), the history of merger and acquisition activities in Nigeria cannot be separated from oil boom era. The oil boom crested wide spread imbalance in the economy, instead of making the economy self-reliant it resulted to external control.

Omole (2004) stated that the first mergers proposal in Nigeria came before the Securities and Exchange Commission (SEC). He also observed that majority of the mergers and acquisitions in Nigeria involve foreign companies although before 1968, there were no statutory rules specifically regulating mergers and acquisition activities Nigeria

However, procedures and modalities of achieving mergers and acquisitions were defined in section 1997 to 1999 of the companies Act of 1968. Presently mergers and acquisitions have assumed an increasing dimension in Nigeria. Mergers and acquisition also lead to vibrant and market competition. Therefore mergers and acquisitions occur as a reaction to unexpected shocks to industries.

Mergers and acquisition has so many advantages: According to Wyatt (1993) when two firms merged together as one it will lead to lowest cost of capital, for instance a big name as perceived by investors as financially balanced, may raise funds at lower cost. As a result of merging, the size will give the opportunity for rational diversification for the purpose of risk reduction. Whenever two firms are merged together as one such merging will lead to a large firm, therefore since large firms have a greater degree of market influence that small ones, hence this larger firm will have monopoly power. Large scale production may lead to lower unit cost than small scale ones. Since the merging of two firms may lead to elimination of competition, there will be increased sales. The goodwill of the company taken over can be enjoyed by the new owner. However care have to be taken here so as to make sure that the taken over company is not completely absorbed within the identity of the major company. This can be overcome by using the names of both companies. This in turn should lead to savings in the amount of money spent on fixed assets that is capital expenditures. The large company can employ specialist, for all-important functions and this will result to a more efficient organization.

According to Olutola, (1999), mergers and acquisition also have some disadvantages: Whenever two companies or firms merge together it leads to a large company, as a result of this amalgamation there will be problem of personnel. The problem of integration occurs or arises due to the fact that amalgamation does not stop at agreement but the new company has to be merged in such a way that it operates efficiently and contributes towards maximizing profits. Variations could exist in the accounting systems of the various companies or firms and there is always the problem of reconciliation. The terms of agreement have to be reached at, although it is not always easy since one party has to forfeit one thing or the other.

Methodology

The accessible population for this study consists of all manufacturing companies operating in River State. A total number of thirty-five (35) companies formed the population of this study. The data for this study were collected mainly from primary source through the use of questionnaire**.** In constructing the questionnaire, the researchers took into consideration the hypotheses earlier postulated in this study.

A total of seventy (70) questionnaires were distributed to the two groups of respondents (managers and supervisors). Thirty-five (35) questionnaires were administered to the managers while the other thirty-five (35) were given to the supervisors in manufacturing companies. Fifty-five (55) copies were retrieved from the respondents, the researcher find out that twenty-five (25) copies of the questionnaires were correctly and completely filled by each group of the respondents making a total of fifty (50) questionnaires. Therefore, analysis was based on fifty (50) correct copies. This information is contained in table 4.1 below:

Table 1: Questionnaire distribution and retrieval

Respondents	Questionnaires Distributed	Questionnaires Retrieved	Questionnaires Used for Analysis	Percentage
Managers	35	26	25	50
Supervisors	35	29	25	50
Total	70	55	50	100

Source: Field Work (2014)

Results

In this section, the data generated from this study were analysed and results were presented.

Research Question 1: To what extent does increase in capital affect the profit performance of companies?

Table 2: Extent to which increase in capital affects the profit performance of companies

Responses	**Managers**	**Supervisors**	**Total**	**Percentage**
To a large extent	15	11	26	52
To considerable extent	-	6	6	12
To moderate extent	7	4	11	22
To a low extent	3	4	7	14
Total	25	25	50	100

Source: Survey Data 2014

Table 2 above indicates that 26 (52%) of the respondents revealed that increase in capital affects profit performance to a great extent; 6 (12%) stated a considerable extent; 11 (22%) showed a moderate extent; while 7 (14%) opined a low extent in their responses that increase in capital greatly affects the profit performance of the firms.

Research Question 2: To what extent does large-scale production affect earnings per share?

Table 3: Effect of large scale production on earnings per share

Responses	**Managers**	**Supervisors**	**Total**	**Percentage**
To a large extent	13	12	25	50
To considerable extent	8	10	18	36
To moderate extent	3	2	5	10
Tot a low extent	1	1	2	4
Total	25	25	50	100

Source: Survey Data 2014

Table 2 above shows the extent to which large scale production affects earning per share. 50% of the respondents indicated "to a great extent, 36% indicated to a considerable extent, 10% of the respondents indicated to a moderate extent, while 5% indicated to a low extent in their responses to the question asked.

Research Question 4: To what extent does competition affects the sales performance of the company?

Table 3: Extent to which competition affects sales performance

Responses	Managers	Supervisors	Total	Percentage
To a great extent	11	9	20	40
To considerable extent	6	9	15	30
To moderate extent	7	5	12	24
To a low extent	1	2	3	6
Total	25	25	50	100

Source: Survey Data 2014

Table 3 above contains responses received from the respondents on the extent to which competition affects the sales performance of the company. In the above table, 40% of the respondents said "to great extent, 30% of the respondents to a considerable extent, 24% of the respondents said to a moderate extent while 6% of respondents said to low extent.

Research Question 5 - to what extent does skilled manpower affects dividend per share?

Table 5: Extent to which skilled manpower affects dividend performance

Responses	Managers	Supervisors	Total	Percentage
To a great extent	7	4	11	22
To considerable extent	9	10	19	38
To moderate extent	5	6	11	22
To a low extent	4	5	10	20
Total	25	25	50	100

Source: Survey Data 2014

From the table above, it is observed that 11 (22%) of the respondents indicates that skilled manpower affects dividend performance to a great extent; 19 (38%) showed a considerable extent; 11 (22%) revealed a moderate extent; while 10 (20%) stated a low extent of the effect of skilled manpower on dividend performance in the company.

Conclusion and Recommendations

In spite of their anticipated benefit, mergers and acquisition still remain a relative untrammelled aspects of Nigerian corporate practices as the number of businesses that have resorts to this form of reorganization for corporate survival are much fewer than the trend in the industrialized free market economics though it is of so much benefit to a business. Such benefits are synergy, tax yield, resources re-distribution, increase market share, access to modern technology, diversification and cost saving.

From the research findings, we formed the opinion that merger and acquisition greatly affect the performance of manufacturing companies in terms of profitability. Also, increase in capital when companies merge together, leads to increase in profit because large capitals increase the business potentials. Skilled manpower leads to increase in dividend per share. Also when companies merged and acquired, they tend to overcome competitors, and this increases sales performance.

There is no doubt from the outcome of this study and other evidence that there are benefits of merger and acquisitions in manufacturing companies. Based on our findings in this study, the following recommendations were made.

1) There should be adequate supervision of personnel in their various assignments in order to achieve the objectives of the merger and acquisition
2) Staff should be trained and retrained on regular bases so as to reduce waste and increase productivity.

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