# FINANCIAL PERFORMANCE OF ACCESS BANK BEFORE AND AFTER ACQUISITION OF DIAMOND BANK

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## ABSTRACT

The competitive and volatile business environment has fundamentally transformed how businesses operate. Businesses now recognize the environment as a vital factor in discussions on achieving long-term survival and sustainable competitive edge. This study investigated Access Bank's financial performance before and after the acquisition of Diamond Bank. A quantitative research design was employed, using annual reports from 2016 to 2022 to analyze financial ratios. The research utilizes independent t-tests and correlation analysis. The t-test revealed no significant difference in Access Bank's financial ratios before and after the acquisition, specifically with regards to Return on Assets (ROA) and Return on Equity (ROE). Furthermore, the correlation analysis showed a moderately strong positive linear relationship between ROE and ROA within Access Bank. This suggests that the acquisition did not lead to significant changes in the bank's financial performance, but there is a consistent relationship between these key financial indicators.
**Keyword**: Acquisition, financial performance, return on asset, return on equity

## INTRODUCTION

There has been a remarkable surge in global competition. And this competition is characterized by hyper-competition that span various sectors. To enhance their financial performance, organizations implement diverse strategies. The significance of financial performance cannot be overstated, as it serves as a measure for company's well-being within the market and its comparative performance relative to industry peers (Mustapha & Akinsanya, 2017). Companies encounter restricted prospects for organic growth. They therefore recognize mergers and acquisitions as key to expansion.

The process of deriving value from merger or acquisition encompasses two distinct dimensions: enhancement of a company's profitability and augmentation of shareholder wealth (Osifalujo et al., 2020). Companies consistently employ acquisitions as a strategic approach to enhance their competitive edge as it facilitate expansion and improves their market presence. Furthermore, acquisitions allow companies to venture into new geographical markets, thereby promoting growth through the utilization of economies of scale and broadening of customer base. The enhancement financial performance via acquisitions is predominantly perceived as a management strategy. Management perceives acquisitions as a means to curtail costs and expenses while simultaneously maximizing shareholder value (Udodiugwu, 2022).

Globally, the banking sector holds a fundamental position within an economy, playing a pivotal a role in the economic development process. The banking sector channels funds from surplus economic units to deficit ones, hence, facilitate investment. It simplify payment systems to guarantee seamless transaction in the economy, mainly via electronic payment methods. Monetary authorities, in many instances, employ banks to implement a variety of monetary policies aimed at fine-tuning a country's economic stability. Not surprisingly, governments worldwide consistently work toward developing an efficient banking system to catalyze macroeconomic policies and enhance productivity (Osifalujo et al., 2020).

Banks play an indispensable role in driving a nation's economy, emphasizing the necessity of restructuring the sector to ensure its efficient financial performance and to prevent banking crises. The overhaul of the banking sector in Nigeria is a vital element of the government's strategic plan, with the objective of repositioning and aligning the Nigerian banking industry within the financial context globally. The implementation of regulations in the Nigerian banking sector has led to substantial transformations over the years, involving alterations in the ownership structure, range and scale of operations and number of institutions. The challenges presented by the financial sector has been transformed by these changes, the global expansion of operations, technological progress, and the adoption of prudential and supervisory standards in accordance with international standards (Mustapha & Akinsanya, 2017).

The 2004 Nigerian Banking Sector Reform, initiated and executed by the federal government was to restore an effective financial industry. This reform has brought about a transformation in the industry, resulting in the emergence of new leaders and frontrunners. Consequently, there is a persistent trend of employing acquisitions as a method to achieve consolidation, particularly in the wake of the 2005 consolidation effort. Before the reform in 2004, Nigerian banks' performance could be characterized by several issues, including inadequate capitalization, widespread bankruptcy, vulnerability to financial emergencies, economic volatility, operational challenges, and limitations on expansion due to substantial fixed and operating costs. The industry additionally faced issues of internal misconduct, loss of confidence among investors and customers, and extended wait times for customers in banking halls (Etim & Umoffong, 2020).

Despite years of post-merger and acquisition experiences following the 2004 consolidation effort in Nigeria, the anticipated advantages of acquiring banks have proven to be elusive. With an emergence of a subsequent wave in 2011 with unanticipated acquisitions, during which First City Monument Bank, Access Bank, Sterling Bank and Eco Bank took over Fin Bank, Intercontinental Bank, Equitorial Trust Bank and Oceanic Bank to tackle their financial challenges. The anticipated benefits of bank acquisitions in Nigeria following the consolidation exercise in 2004 have remained elusive even after several years of post-merger and acquisition experience. This is evident in the fact that, following the succession of mergers and acquisitions in 2005, there were further unanticipated rounds of acquisitions within the industry in 2011 and 2019. This recent phase of consolidation entailed the acquisition of Diamond Bank which was the consolidation of three banks (Diamond Bank, Lion Bank and African Int'l Bank) initially in 2005 now acquired by Access bank in 2019. Given the recent development, it is imperative to assess the impact of acquisition as a maneuvering strategy and its impact on pre- and post-acquisition performance of Access bank during the period spanning from 2016 to 2022. The specific objectives of the study therefore, were to:

a) assess the difference between Access Bank financial ratios before and after acquisition.
b) analyze the correlation between financial ratios employed to determine Access Bank's performance.

The study formulated the following hypotheses:

$Ho_1$: Access Bank's financial ratios show no significant difference in financial ratios before and after the acquisition.

$Ho_2$: There is no correlation among the financial ratios employed to evaluate Access Bank's performance.

## LITERATURE REVIEW

### Theoretical Framework

Various theoretical frameworks have been applied to comprehend banks' performance. This study specifically looked at bank concentration theory and efficiency theory of mergers and acquisitions.

### Bank concentration theory

This theory is rooted in the economies of scale idea. It suggests that mergers and acquisitions of banks are mainly for the pursuit of efficiency, ultimately leading to a higher degree of control of economic activities by larger financial institutions. The theory, as proposed by Demirguc-Kunt and Levine (2000), suggests that increased bank consolidation contribute to banking sector stability. Larger banks are believed to diversify better, reduce fragility, and result in more stable banking systems. Also, concentrated banking systems are thought to enhance profits, thus reduce vulnerability of banks. These profits act as a cushion for setbacks and enhance banks' overall value. Additionally, a banking landscape dominated by a few large institutions is easier to monitor, making corporate control more effective and mitigating the risks of financial spread. In summary, this theory emphasizes how mergers and acquisitions, driven by the pursuit of efficiency and economies of scale, can lead to more stable and profitable banking systems with enhanced risk mitigation and better corporate control (Osifalujo, Isiaka & Olufemi, 2020).

### Efficiency theory of mergers and acquisitions

The efficiency theory of mergers and acquisitions, also known as Value-increasing theory revolves around the pursuit of financial, operational and managerial synergies. These synergies have prompted an extensive examination of corporate performance. The theory holds that mergers and acquisitions are carefully strategized and implemented to minimize costs through economies of scale (Porter, 1985; Shelton, 1988). Efficiency theory of mergers and acquisitions posits that companies adopt this strategy to accomplish a reduction in production costs, boost output, improve the quality of product, gain access to new technologies, or introduce innovative products.

Consequently, it is anticipated that following a merger and acquisition, companies will experience overall business expansion and attain enhanced financial performance. Junni and Teerikangas (2019) distinguishes two prominent efficiency theories underpinning mergers and acquisitions: the Synergistic and Disciplinary theories. According to the Synergistic theory, acquiring companies merge with compatible, high-performing firms to achieve efficiency improvements. In contrast, Disciplinary theory suggests that firms who acquire target underperforming companies to enhance their performance by fully unlocking their potential.

According to Etim and Umoffong (2020) merged banks achieve more profit compared to other banks. These improvement in efficiency are especially notable when the banks involved in the merger are comparatively inefficient before the combination takes place. This study primarily adopted the efficiency theory as it clearly underscores the significance of acquisitions in increasing the profitability of the bank, market share which banks find it to be a catalyst for stimulating enhanced growth. This theory was adoption for the study to support the core objective of the study.

### Concept of Acquisition

Acquisition refers to the takeover of one business entity by another. It involves the management (control) of a smaller company being taken over by a larger company, so that the assets and liabilities of the smaller, are absorbed by the larger company. The result of acquisition is not always the emergence of a new entity; an example in the Nigerian banking sector is Access Bank's absorption of the defunct Diamond Bank. Since its acquisition in 2019, Diamond Bank has ceased to exist under Nigerian law.

An acquisition strategy can likely shorten the process of (expensive) internal development of new solutions, while effectively increasing a firm's footprint (Kwon et al., 2021). Access Bank possesses strong risk management culture and capital management expertise whilst Diamond Bank had strong retail banking expertise and strong digital offerings which Access Bank has leveraged on. The acquisition created an avenue for Access Bank to be one of Nigeria's leading banks, with 29 million clients base and more than 32000 point of sale (POS) terminals (Access Bank group, 2020).

**Acquisition and Performance of Deposit Money Banks**

Osifalujo et al. (2020) examined merger and acquisition on the performance of deposit money banks in Nigeria: Pre and Post Analysis. The study utilized total deposit, capital structure, profit after tax asset profile and total deposit as performance measures for before and after the merger and acquisition periods. Data were sourced from the published financial statements of Intercontinental Bank Plc and Access Bank spanning from 2005 to 2017. Ordinary Least Square method was adopted for analysis. The findings showed that Access Bank outperformed both in the pre-merger and post-merger periods. The study concluded that mergers and acquisitions exert a significant impact on the performance of deposit money banks in Nigeria. It further recommended that banks should consider merging or acquiring one another, as this strategy has proven effective in rescuing struggling or weakened banks.

Etim and Umoffong (2020) delved into the impact of merger and acquisition strategies on the performance of selected Deposit Money Banks (DMBs) in Nigeria using purposive sampling approach to select three Deposit Money Banks, namely FCMB, UBA and Access Bank, which had effectively implemented merger and acquisition strategies. Secondary data from the banks' published annual financial reports spanning a 20-year period from 1996 to 2015 were gathered. Descriptive statistics using multivariate Analysis of Variance (MANOVA) was employed to examine differences in means between the pre-merger and post-merger periods. The study revealed that merger and acquisition strategies had a positive impact on the performance of the selected Deposit Money Banks in Nigeria because notable improvements were observed in gross earnings, profit after tax (PAT), and earnings per share (EPS) values, with post-merger performance surpassing pre-merger levels.

Mustapha and Akinsanya (2017) evaluated the impact of acquisitions on the performance of Nigerian banks by analyzing secondary data extracted from NSE Books spanning from 2008 to 2015. The data was subjected to analysis using independent t-tests and correlation assessments. The findings indicated no statistically significant difference between the adopted financial ratios of the sampled banks before and after acquisitions took place. As a result of these findings, the study suggests that bank management should exercise caution and that it's important to recognize that not all acquisitions automatically result in improved performance.

## MATERIALS AND METHODS

Quantitative research design was employed in this study, given its focus on gathering numerical data and drawing generalized conclusions about the performance of Access Bank following the acquisition of Diamond Bank in 2019. Secondary data was relied upon in the study. The study utilized the Annual Reports of Access Bank where the financial ratio data were extracted for the period between 2016 and 2022. The study duration spans six years, encompassing the period from 2016 to 2022. This timeframe is divided into three distinct segments with the pre- and post-acquisition period, each consisting of three years. The first segment, the pre-merger period, spans from 2016 to 2018, the base year of 2019 when the acquisition happened and while the second segment, the post-merger period, encompasses the years from 2020 to 2022. Purposive sampling technique was employed to select Access bank for the study.

The analytical method employed for this study incudes independent t-test and correlation analysis. An independent t-test was used to evaluate variations in financial ratios between the pre-acquisition and post-acquisition performance of Access Bank. Additionally, the study employed correlation analysis to ascertain the degree of association between the financial ratios examined in this study. There are two pivotal financial metrics used to assess Access Banks' financial performance: Return on Assets (ROA) and Return on Equity (ROE).

ROA is a measure of the earnings derived from a bank's asset investments. It serves as a fundamental indicator of profitability. To calculate ROA, the net income is divided by the total assets. This ratio quantifies the profit earned for each unit of assets, shedding light on the bank's adeptness in harnessing its financial and tangible investments to generate profits. In shorthand, it is symbolized as ROA.

ROE pertains to the earnings derived from a bank's shareholders' equity investments. Shareholders typically scrutinize this ratio to gauge their return on investment. A business boasting a robust ROE is more likely to possess the capability to generate internal cash flows. The formula for ROE entails dividing the income net of all taxes by the total company's equity, signifying the return generated by the capital invested by stakeholders. ROE serves as a gauge of how efficiently a firm's management deploys the funds contributed by its shareholders. In concise terms, it is written as ROE.

## RESULTS

### Hypothesis One

The Independent sampled T-test was adopted to analyze the difference in Access Bank's financial ratios before and after the acquisition.

### Table 1: T-Test (ROE)

**Paired T-Test Report**

| | |
|---|---|
| Dataset | Untitled |
| Paired 1 Variable | ROE_PRE |
| Paired 2 Variable | ROE_POST |
| Paired Difference | (ROE_PRE) - (ROE_POST) |

**Descriptive Statistics**

| Variable | Count | Mean | Standard Deviation of Data | Standard Error of Mean | T* | 95.0% LCL of Mean | 95.0% UCL of Mean |
|---|---|---|---|---|---|---|---|
| ROE_PRE | 3 | 0.1433333 | 0.0305505 | 0.01763834 | 4.3027 | 0.06744167 | 0.219225 |
| ROE_POST | 3 | 0.1366667 | 0.02081666 | 0.0120185 | 4.3027 | 0.08495522 | 0.1883781 |

**Two-Sided Confidence Interval of the Mean Difference**

| | | | | | | | 95.0% C. I. of Mean Diff. | |
|---|---|---|---|---|---|---|---|---|
| Statistic | Count | Mean Difference | Standard Deviation | Standard Error | T* | DF | Lower Limit | Upper Limit |
| Mean Difference | 3 | 0.006666667 | 0.02516611 | 0.01452966 | 4.3027 | 2 | -0.05584943 | 0.06918276 |

**Paired-Sample T-Test**

| Alternative Hypothesis | Mean Difference | Standard Error | T-Statistic | DF | Prob Level | Reject H0 at α = 0.050? |
|---|---|---|---|---|---|---|
| Mean Diff. ≠ 0 | 0.006666667 | 0.01452966 | 0.4588 | 2 | 0.69139 | No |

Source: NCSS Printout, 2023.

Table 1 presents variations in standard deviation, standard mean error and mean values for return on equity before and after Access Bank's acquisition of Diamond Bank. According to the table, the mean return on equity for Access Bank showed a decrease post-acquisition. This suggests that Access Bank's return on equity declined following the acquisition of Diamond Bank. The table indicates a p-value of 0.69, signifying that there is no statistically significant difference in return on equity between the banks before and after the acquisition, using a significance level of 0.05. These findings indicate that Access Bank experienced a decrease in return on equity after acquiring Diamond Bank.

## Table 2: T-Test (ROA)

**Paired T-Test Report**

| | |
|---|---|
| Dataset | Untitled |
| Paired 1 Variable | ROA_PRE |
| Paired 2 Variable | ROA_POST |
| Paired Difference | (ROA_PRE) - (ROA_POST) |

**Descriptive Statistics**

| Variable | Count | Mean | Standard Deviation of Data | Standard Error of Mean | T* | 95.0% LCL of Mean | 95.0% UCL of Mean |
|---|---|---|---|---|---|---|---|
| ROA_PRE | 3 | 0.01666667 | 0.005773503 | 0.003333333 | 4.3027 | 0.002324491 | 0.03100884 |
| ROA_POST | 3 | 0.01 | 0 | 0 | 0.0000 | 0.01 | 0.01 |

**Two-Sided Confidence Interval of the Mean Difference**

| | | | | | | | 95.0% C. I. of Mean Diff. | |
|---|---|---|---|---|---|---|---|---|
| Statistic | Count | Mean Difference | Standard Deviation | Standard Error | T* | DF | Lower Limit | Upper Limit |
| Mean Difference | 3 | 0.006666667 | 0.005773503 | 0.003333333 | 4.3027 | 2 | -0.007675509 | 0.02100884 |

**Paired-Sample T-Test**

| Alternative Hypothesis | Mean Difference | Standard Error | T-Statistic | DF | Prob Level | Reject H0 at α = 0.050? |
|---|---|---|---|---|---|---|
| Mean Diff. ≠ 0 | 0.006666667 | 0.003333333 | 2.0000 | 2 | 0.18350 | No |

Source: NCSS Printout, 2023.

Table 2 display variations in standard mean error, mean values and standard deviation for ROA before and after Access Bank's acquisition of Diamond Bank. As per the Table, the mean ROA for Access Bank exhibited only a marginal decrease post-acquisition. This suggests that Access Bank did not experience an increase in ROA following the acquisition of Diamond Bank. The Table presents a p-value of 0.18, indicating that there is no statistically significant difference in ROA between the banks before and after the acquisition, using a significance level of 0.05. Based on this result, the null hypothesis was accepted, concluding that there is no significant difference in Access Bank's financial ratios before and after the acquisition using ROA and ROE as supported by Adaramola and Oluwagbuyi (2014) where the acquisition of banks failed to produce the expected results.

### Hypothesis Two

Correlation analysis was employed to determine whether a connection exists between financial indicators of Access Bank adopted for this study to determine if a connection exists between the financial indicators of Access Bank adopted for this study.

**Table 3: Corrélation Matrix**

**Correlation Matrix Report**

Dataset Untitled

**Pearson Correlation Report**

Row-Wise Missing Value Deletion

| Variables | ROE | ROA |
|---|---|---|
| **ROE** | 1.0000 | 0.6547 |
| **ROA** | 0.6547 | 1.0000 |

**Coefficient Alpha**

| | |
|---|---|
| Cronbach's Alpha | 0.4286 |
| Standardized Cronbach's Alpha | 0.7913 |

Source: NCSS Printout, 2023.

Table 3 shows a result of 0.6547, this means a moderately strong positive linear relationship between the ROE and ROA of Access bank. The result indicates that as the ROE increases, the ROA tends to increase which implies a positive association of both financial indicators. As well no positive correlation among the financial ratios at a 5% significance level. The Cronbach's Alpha of 0.4286 shows a low consistency for the measurement of pre-and post-performance of Access Bank. This means that the ROE and ROA might not have been a good measure of Access Bank's post-performance after the acquisition of Diamond Bank. We therefore reject the null hypothesis. Hence, there is a significant relationship between the financial ratios utilized to measure Access Bank's performance.

## CONCLUSION

This research investigates the pre- and post-acquisition performance of Diamond Bank by Access Bank plc. With the aid of annual reports and financial information available, our empirical analysis investigates whether there has been an improvement or otherwise in the performance of Access Bank since the acquisition in 2019 till present. Return on assets and return on equity were the financial indicators adopted as the measure of the financial performance of Access bank plc. Evidences from the statistical analysis using t-test revealed that there is no significant difference in Access Bank's financial ratios before and after the acquisition using ROA and ROE, whilst the correlation analysis indicated that there exist a moderately strong positive linear relationship between the ROE and ROA of Access bank. The result indicates that as the ROE increases, the ROA tends to increase which implies a positive association of both financial indicators.

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