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The Effect of Corporate External Restructuring on the Performance of Financial Institutions in Nigeria: A Review

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ABSTRACT

The need for financial institutions anywhere in the world cannot be over-emphasized. The daily business transactions carried out by individuals, firms and corporate entities underscores the need for a better and performing financial institutions in Nigeria .This paper specifically focused on Banks as the leading financial institution in Nigeria, the problems and challenges associated with the financial systems in Nigeria before the intervention of the Apex regulatory body (Central Bank of Nigeria) through the recapitalization directive, the effect of the recapitalization and restructuring process on the industry and the role of the Central Bank of Nigeria in sustaining, maintaining and enforcing the recapitalization directive.

Keywords: External restructuring, Financial institutions, Recapitalization, Banks.

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1. INTRODUCTION

One of the key areas of economic growth and development in which every country must strive to foster is the financial and monetary sector. As it stands, no development- oriented country will shut its doors towards the propagation of financial independence and liberation within its territory. This is one of the reasons why developed nations expend more towards ensuring a better financial system where citizens, individuals and corporate bodies participate freely by making use of available channels in facilitating their daily businesses and transactions. It also underscores the reason why every developed or developing country take adequate steps towards having firm grip and control of all relevant activities taking place within its financial system to access and evaluate the status of the system (where necessary), to maintain certain standards already in place (where appropriate), to checkmate and ills and compliment inadequacies where need be.

Largely because of the role they play in ensuring circulation of funds and making cash readily available to businessmen and women, financial institutions remain indispensable in every society at every point in time. There are quite a number of game players and stakeholders in the financial institutions; for example the Mortgage Institutions, the Insurance companies, the co-operative and thrift societies, the micro-finance institutions, statutory bodies providing financial services among others, but this study is centered on banks as the leading financial system pilot that provides financial services for arguably the greatest number of persons, bodies, individuals, entities and even governments within the country.

They carry on the business of receiving deposits on current account, savings account, or other similar account, paying or collecting cheques, drawn by or paid in by customers; make provisions for finance or such other business as the governor may further designate (Banks and Other Financial Institutions Act, 2007).

(Obadan, 1997) as quoted in Christian and Ezeji (2015) noted that that the economic well-being of a nation is a function of advancement and development of her banking industry.

There have been series of restructuring within the Nigerian banking system since December, 31st 2005 till now. The mandatory recapitalization process stipulated by the Apex financial regulating body (Central bank of Nigeria) on July. 6, 2004 charted a new course in the banking system of the country which was followed by an unprecedented process of merger and acquisition that took place in the industry, thereby reducing the number of banks. Recapitalization of the Nigerian banking sector became necessary owing to the high concentration of the sector by small banks with capitalization of less than $ 10 million, each with expensive headquarters, separate investment in software and hardware, heavy fixed cost and operating expenses, and with bunching of branches in few commercial centers- leading to very high average cost for the industry (Soludo, 2004) as cited in Abel (2007). The events that followed the recapitalization mandate as stipulated by the Apex regulatory body has presented itself has a traceable link to the tide of external restructuring within the banking sector in modern times.

This paper seeks to examine the problems and defects obtainable within the banking system before the recapitalization directive from the Central bank of Nigeria, the effect of the recapitalization and restructuring process on the industry and the role of the Central Bank of Nigeria in sustaining, maintaining and enforcing the recapitalization directive.

2. OBJECTIVES OFTHE PAPER

The general objective of this paper is to consider the effect of corporate external restructuring on the performance of financial institutions within Nigeria as a country. However, specific emphasis will be placed on the following:

1. The problems and challenges of the banking industry prior to the restructuring and recapitalization mandate
2. The effect of the recapitalization and restructuring process on the performance of banks within the banking industry
3. The role of the Central Bank of Nigeria in sustaining, maintaining and enforcing the recapitalization directive.

3. CONCEPTUAL DEFINITIONS

Corporate Restructuring: This is the process of rearranging one or more aspects and structure of a company (Bhadmus, 2013). Crum and Goldberg 1988, as cited in University of Groningen Research Database (2016) posited that it entails discrete decisive measures taken in other to increase the competitiveness of the enterprise, and thereby to enhance its value.

It is the process of modifying corporate operations of a firm in a bid to respond to a current situation leading towards the collapse of the organization, or to further strengthen the firm against competition by increasing the wealth, asset, capital or financial strength of the organization.

External Corporate Restructuring: This is a transaction whereby assets or operations of two or more companies not previously under common ownership or control are combined, whether by merger, acquisition, or sales/purchase of assets (Cornell University Law School, 2016). It is simply the process of a corporate firm reshuffling its operations by combining efforts with another or other organizations towards increasing its capital and asset stock.

Recapitalization: Recapitalization literarily means increasing the amount of long term finances used in financing the organization and equally increasing the debt-stock of the company or issuing additional shares through existing shareholders or new shareholders or a combination of the two Adegbaju and Olukoyo (2008). Basically, it is a reformative step aimed at shoring up the capital of the company through the use of corporate restructuring medium to meet up with organizational finances.

4. METHODOLOGY

An exploratory review method was used to examine the problems and defects obtainable within the banking system before the recapitalization directive from the Central bank of Nigeria, the effect of the recapitalization and restructuring process on the industry and the role of the Central Bank of Nigeria in sustaining, maintaining and enforcing the recapitalization directive. Secondary data such as journal articles, expert opinions, bank documents, other research work and CBN reports were used in this work.

5. LITERATURE REVIEW

Over the years, much attention and scholarly works have been dedicated to researching on banks and the business they carry on. The daily requirement to use funds in transactions and business operations anywhere in the world justifies the unqualified attention paid to banks as financial institutions. A cursory look at the history pages reveals that banks in Nigeria evolved as a result of foreign participation in the control, running and administration of the Nigerian territory.

Banking business in Nigeria dates back to 1892 when the African Banking Corporation (ABC), commenced the activities of banking in Lagos. The ABC was a South African based bank which came to Nigeria and took over business from the Elder Dempster Merchants, which hitherto had been carrying on quasi banking business before then (Olubisi, 2015). The author further noted that the African Banking Corporation (ABC) was closely followed was the establishment of the British Bank of West Africa (BBWA) which commenced activity fully in 1894 in Lagos after starting as a Trust Fund in 1893. Indigenous banks also evolved in a bid to ensure indigenous participation in economic activities, and after failed attempts (by Industrial and Continental Bank in 1930, Mercantile bank in 1936), the Agbonmagbe Bank came up in 1945 (Research Faculty Publications, 2015). Quite a number of banks came up after the above-stated periods which are not the focus of this study, but the activity that led to their collapse is what this study seek to highlight.

6. DISCUSSIONS

6.1. Problems and Challenges in the Banking Sector before Recapitalization

Basically, a lot of problems led to the unfortunate tide of history in the banking sector before recapitalization but chief among them was the absence of regularized administration and corporate governance. The failed banks during the pre-restructuring era had two things in common – small size and unethical practices; which was why out of the 89 banks that were in existence as at July 2004, when the banking sector reforms were announced, no fewer than 11 banks were in distress (Umar, 2009).

Nasiru *et al.* (2012) referring to Sanusi (2002) as cited in Musa (2010) collectively noted that one major cause of the distress in the sector was that the increase in the number of banks overstretched the existing human resources capacity of banks which resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others. It was further noted that most if not all of the banks that failed in Nigeria failed due to non-performing loans, many of which were bad debts attributable to moral hazards. According to (CBN and NDIC Annual Reports 2002-2006) as quoted in (Nasiru Musa Yauri, Joshua Musa, Nasiru Abdulsalam Kaoje), only ten banks out of the 89 in operations were thriving.

Also, bank owners to the temptation of adopting imprudent and counter-productive lending strategies particularly the use of adverse incentives such as insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets as against the interests of the bank's creditors which, if unsuccessful, would jeopardize the solvency of the bank (Brownbridge, 1998).

The relatively high percentage of unskilled and unqualified manpower within the banking industry before recapitalization also contributed to the stagnant state of development; leading to a situation where personalities with no financial knowledge history or standing will be placed in top-most managerial post on grounds of favoritism above the qualified few. The attention was virtually shifted away from the actualization of a standardized banking system where experts and professionals can come together to checkmate irregularities and abnormalities, to a system where even the qualified few are not recognized not to talk of providing room for supervision from them.

Continuity was also another major problem with the early banks in Nigeria. Umar (2009) noted that between 1994 and 2003 a space of nine years, no fewer than 36 banks in the country went into extinction due to insolvency. He further noted that the year 1998 witnessed an unprecedented downslide in the Nigerian banking industry as 26 banks closed for operations that year, while about four non performing banks also closed for operations between the year 2000 and 2003. This problem was associated to a lot of factors; chief among them was little capital base of most of the banking firms (Olubisi, 2015). Capital base is the minimum share capital required of a firm or corporate entity to have and maintain during the time in which the business remains a going concern. It is a term used to describe the funds that a company generates as the result of public offerings that a corporation makes (WiseGeek, 2015). It is that part of the firm's capital that should not be tampered with a view to reduce or bringing it down because the interest of the creditors (secured or unsecured), the interest of the members and shareholders depends on it. It is for this reason that companies with little capital base remains less attractive to investors and partners and hinders the growth of the specific sector where such companies are found; and consequently weakens the developmental strength of the economy in the long run.

These problems and challenges thrived partly due to no regularized administrative system and laid down rules of corporate governance as earlier noted, and partly because most of the banks during the pre-capitalization era were private companies limited by shares. All these factors contributed to the inevitable downfall of the banking industry during the Era before 2005 and in addition to weakening the financial security of the country, citizens, individuals, corporate entities and even common traders lost confidence in the financial system.

6.2. The Effect of the Recapitalization and Restructuring Exercise on Banking Performance

It was for these obvious reasons above discussed that the apex bank decided to boost the financial sector and bring it back to the required standard, hence recapitalization became the unobjectionable solution to the problem. Also premised on the fact that strong and virile economy depends to a very large extent on a robust, stable and reliable financial system (most especially the banking sector), the Apex financial regulatory body handed down a recapitalization mandate in 2004 with a stipulated deadline of December 2005 which paved way for series of corporate external restructuring within the banking system and consequently changed the position of things from what it used to be, to something close to what it should be.

Soludo (2004) opines that the Central Bank of Nigeria (CBN) choose to begin the Nigerian banking section reform process with the consolidation and the recapitalization policy through mergers and acquisitions. This was noted by the author has a move to curtail the financial system's decay, to bring back and restore citizens', individual, corporate entities' and general public confidence in the system, to build strong, reliable, capable, competent and competitive players in the global arena, and to ensure longevity and higher returns to investors.

In a bid to meet up with the minimum capital base of N25billion as required by the apex regulatory body, a lot of banks fused together and presented themselves as one. This option was highly necessary in view of the fact that it was almost (if not impossible) for single-owners and individual private entities to sustain the ownership of their banks in view of the capital base at the material time. The act of coming together to present a better, reliable and more viable financial force summarizes the whole process of external corporate restructuring.

It take the form of mergers, acquisitions, take-over , but the common factors are that there would be consolidation of resources towards shoring up the capital base and financial strength of the organization, there would be combined manpower, resources and expertise who would serve as a preferable force towards managerial challenges; even though at the expense of some workers. External corporate restructuring are corporate engineering mechanisms that can be used in salvaging, resuscitating and keeping alive corporate entities where need be or to further strengthen the financial position of a corporate firm where such firm intends to enlarge it coast, capital base and operations. In the case of the Nigerian banking sector, the former seems to be the case and hence there came the directive of the Apex financial regulating body to increase the share capital to N25,000,000,000 (twenty five billion naira) from N2,000,000,000 (two billion naira).

At the aftermath, the following banks met the recapitalized benchmark of N25 Billion Minimum Capital Requirement and the Banks Constituting Each Group:

S/N	Consolidated Bank	Capital Base (N Billion)	Constituent Bank(s)
1.	Access Bank Plc.	28.5	Access Bank, Marina International Bank & Capital Bank
2.	Afribank Plc	29	Afribank&Afribank international (merchant Banker)
3.	Diamond bank	33.25	Diamond Bank and Lion Bank
4.	Eco Bank Nigeria	Over 25	Eco Bank Nigeria
5.	Equitorial Trust Bank	26.5	Equitorial Trust Bank and Devcom Bank
6.	First City Monument Bank	30	FCMB Cop Development Bank and NAMB Limited
7.	Fidelity Bank,	29	Fidelity Bank, FSB international Bank and Manny Bank
8.	First Bank Plc	44.62	First Bank of Nigeria, FBN (Merchant Bankers) Ltd , and MBC International Bank
9.	First Inland Bank	28	First Atlantic Bank, Inland Bank, IMB International Bank and NUB international Bank
10.	Guaranty Trust Bank	34	Guaranty Trust Bank
11.	IBTC, Chartered Bank	35	IBTC, Chartered Bank and Regent Bank
12.	Intercontinental Bank	51.5	Intercontinental Bank, Equity Bank, Global and Gateway Bank
13.	Nigerian International Bank	25	Nigerian International Bank
14.	Oceanic Bank	31.1	Oceanic Bank & International Bank
15.	Platinum Bank	26	Platinum Bank & Habib Bank
16.	Skye Bank	37	Prudent Bank, EIB International Cooperative Bank, Bond Bank & Reliance Bank
17.	Spring Bank	Over 25	Citizen International Bank, Guardian Express Bank, ACB International Bank, Omega Bank, fountain Trust Bank &Trans International Bank.
18.	Stanbic Bank	25	Stanbic Bank
19.	Standard	26	Standard Chartered Bank
20.	Sterling Bank	25	Magnum Trust Bank, NAL Bank, Indo-Nigeria Bank & Trust Bank of Africa
21.	United Bank of Nigeria	50	United Bank of Africa & Standard Trust Bank
22.	Union Bank	58	Union bank, union Merchant Bank, Universal Trust Bank &Broad Bank
23.	Unity bank	30	Intercity bank, First Bank, Tropical Commercial Bank, pacific Bank, Centre Point Bank, NNB International Bank, Bank of the North, SpcieteBencaire&New Africa Bank
24.	Wema Bank	26.2	Wema& National Bank
25.	Zenith bank	38	Zenith bank

Source: compiled from CBN press release (3/1/06), Financial Standard (16/1/06), and the Comet (3/1/06) as presented by Adeyemi (2006).

Owolabi and Ajayi (2013) relying on the extracts of the published annual returns of Access bank highlights the positive effects of the merger and restructuring exercise:

Banks' Account Statement Before The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
2004	5,515,086	637,413	2,702,830
2005	7,494,855	501,515	14,071,924

Banks' Account Statement After The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
2007	27,881,451	6,083,439	28,384,891
2008	57,627,098	16,056,464	171,002,026

Okpanachi (2010) computed the WEMA bank Plc financial efficiency based on their published annual reports and accounts as follows:

Banks' Account Statement Before The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
2003	9,716,374	1,477,775	7,215,393
2004	12,856,096	967,148	8,040,348

Banks' Account Statement After The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
2007	26,430,982	2,554,098	25,182,705
2008	51,279,366	4,217,641	31,061,406

In the same vein, Onikoyi (2012) accessed the pre and post-merger financial efficiency of Skye Bank Plc based on their annual audited financial statement, and his findings were as follows:

Banks' Account Statement Before The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
	(=N=m)	(=N=m)	(=N=m)
2007	39,367	5,517	77
2008	74,615	15,126	97

Banks' Account Statement After The Restructuring Exercise

YEAR	GROSS EARNINGS	PROFIT AFTER TAX	NET ASSET
	(=N=m)	(=N=m)	(=N=m)
2003	4,334	576	389
2004	5,252	610	810

The findings from the statistical data are that the process of external corporate restructuring has not only further secured the deposit of customers, brought-back confidence in the financial sector, but has ultimately beefed up productivity and efficiency in the banking industry. The increased capital-base of these banks have given them more financial capacity to diversify and engage in other constructive financial services like establishing discounting houses, firm of registrars, firm of pension managers and administrators, firm of trustees etc. According to Adebayo and Obademi (2012) increase in the capital base of commercial banks have not only enhance revenue generation but acts as a hedge against future losses, mitigated economic slow-down, guarantee security of the shareholder's capital, and have also resulted in drastic changes in terms of asset structure, liquidity and capital structure of these banks.

Furthermore, (Enyi, (2007) as quoted in Oleka and Mgbodile (2014) noted that in addition to the above hallmarks, there are perceived significant positive impact of the reform on the dividend per share of the banks and there is a positive relationship between the dividend per share which measures the rate of returns available to shareholders as dividends and the shareholders' funds. The authors further noted from their analysis of the recapitalization exercise that the shareholders received higher dividend after recapitalization than before the reform exercise. They equally noted that there is a significant positive relationship between the shareholders' fund and the earnings per share of banks and that banks earned more income on earning assets after the recapitalization than before the exercise and the reform encouraged more yields on earnings assets.

After the recapitalization process, the Apex body through it Governor, Professor Charles Soludo, released the following evaluative report of the effect of the restructuring and recapitalization exercise that took place on the banking industry as captioned below. Though not shying away from the policy and shareholders integration challenges, the effect were positive indications of the fact that a sustained external corporate restructuring within the banking sector can enhance the effectiveness and performance of banks within the country. The details are as follows-

- "The liquidity engendered by the inflow of funds into the banks induced interest rate to fall drastically while an unprecedented 40% increase has been recorded in lending to the real sector.
- With higher single obligor limit, our banks now have greater potential to finance big ticket transactions.
- Already, more banks now have access to credit lines from foreign banks (one recently received $250 million from two foreign banks--- this is unprecedented.
- Ownership of the banks has been diluted. This will in no small way tame the monster of insider and corporate governance abuse.
- With virtually all the banks now publicly quoted, there is wider regulatory oversight; with the SECURITIES AND EXCHANGE COMMISSION and the NIGERIAN STOCK EXCHANGE joining the team. Regulatory resources would now be focused on fewer and more stable banks.
- Depositor confidence is bound to be greater and interest rate on deposit lower due to "safety in bigness" perception by depositors.
- The banks will of course enjoy economies of scale and consequently, pass on the benefit in the form of reduced bank charges to their customers.
- The capital market deepened and consciousness about it increased significantly among the population. The market has become more liquid and the total capitalization markedly increased." (Soludo, 2006).

The report as contained evidenced the improvement in respect of most of the challenges that faced the banking sector before the moment of restructuring as previously highlighted.

6.3. The Role of the Central Bank of Nigeria in Sustaining the Positive Effect and Developement

Now that there abound appreciable benefits from the restructuring exercise, the next on the agenda will be to phantom a system of maintenance and sustenance of the new developments within the sector and this task is germane to the survival and continuity of the improved heights of financial administration. In other to do this, standard regulations must be put in place to guarantee a continued increase and returns on shareholders' investment.

Adegbaju and Olukoyo (2008) noted that to generate more profit, the banks need a good regulatory environment that will enable the banks to expand their scope of business but strictly within the financial service industry.

They further noted that with good regulation and supervision, corporate governance will be enhanced and unnecessary cost and expenses will be cut down and the profit will increase.

To maintain the standard, the Central Bank of Nigeria came up with certain yardstick to guide the banking affairs of the country in a bid to rightly structure the industry (Soludo, 2006). Some of the measures were highlighted as follows:

- A new Draft Code of corporate governance for banks has been issued to the industry in the spirit of transparency and constructive consultation. At a later date, a stakeholder's forum will deliberate on the new Code of Conduct before we finalize it.

- The CBN will closely monitor the banks to ensure that the provisions of the merger schemes documents are complied with.
- The CBN maintains a black book of discredited practitioners in the system. The black book is being automated for easy identification of persons on the list. Meanwhile, the list of debtors of banks is being screened to ensure that no non-performing debtor is left on the Boards of the 25 banks.
- Zero tolerance regarding infractions; misreporting; non transparency; etc., which forms part of the agenda in the reform programme which was intend to strictly apply now that the first phase(Recapitalization) of the programme has been concluded.

In addition, the supervisory measures themselves will undergo reforms and the prudential supervision arm of the CBN will migrate to a risk-based approach to supervision.

The report also noted that a post consolidation due diligence exercise is slated to be carried out on all the banks within the first quarter of 2006. These are basic roles to be played by the Central Bank of Nigeria towards maintaining the efficiency and improved performance in the banking industry.

7. CONCLUSION

The paper reviewed the effect of external corporate restructuring (that is, the process of mergers and acquisitions) on banks as financial institutions within the Nigerian banking industry. The study presents restructuring within the banking sector as the saving grace for failed banks and non-performing banks. Acting on the mandatory directive of the central bank of Nigeria, the restructurings as carried out by various banks were channeled towards shoring up the capital base of all firms seeking to carryon banking business in Nigeria to at least N25 billion naira from the N2 billion naira as previously obtainable.

With a deadline in view, the race to meet up with the stipulated capital base forced many existing banking firms towards restructuring in a bid to keep their firms as a growing concern. This mandated steps ushered in a new and better system of finance and banking atmosphere within the sector with both instantaneous and futuristic effect.

Among other effects, the increase in payment of dividends to members, access to credit lines from foreign banks, change of status of most banks to public companies in other for them to be public quoted companies, wider regulatory oversight with Securities and Exchange Commission and Nigerian Stock Exchange joining the Central Bank of Nigeria in attaining the improved height, increased confidence of depositor and potential users of the banking system, etc., among others are significant positive effects geared towards performance within the sector.

8. RECOMMENDATIONS

Having noted all the above, duty dictates that the job is far from being over, and emphasis and attention should be placed on sustaining the development towards continuity. In achieving this feat, the Central bank of Nigeria must exercise its supervisory power and the risk-based approach as adopted by the apex bank should be channeled towards ensuring sustainability.

The government also has a role to play in providing necessary infrastructure to ensure that it support the CBN in every possible way to put in place good corporate governance that will allow for transparency and minimize irregularities within the banking industry.

Proper enlightenment should be given to the members and shareholders of the banks in respect of their responsibility to choose on merit the alter egos and the directing minds of their company that will run the affairs of the banks to ensure productivity and returns on their investments.

Due diligence and transparency should be practiced within all levels of banking operations and whistle-blowing mechanisms used be employed to enhance, checkmate and monitor the progress within the system.

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