E-ISSN: 1115 - 8530 P-ISSN: 3026-8958
MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT
VOL. 05 NO. 7 – JULY, 2024

IMPACT OF HORIZONTAL INTEGRATION STRATEGIES ON ORGANIZATION PERFORMANCE: A CASE OF INTERCONTINENTAL BANK AND ACCESS BANK PLC

GBADEBO, ADEGBOLABO OLUWAGBEMIRO; & AKANO, MICHAEL ADEOLU
Ajayi Crowther University, Oyo, Oyo State, Nigeria.
Corresponding Author: *adegbolabo.gbadebo@gmail.com*

Key Words: Horizontal Integration, Mergers And Acquisition, Shareholders' Funds, Consolidation

Abstract

Generally, integration strategies, encompassing a range of approaches aimed at aligning organizational functions, processes, and resources, have emerged as crucial drivers of organizational success. This abstract delves into the theoretical foundations of horizontal integration strategies and their implications for organizational effectiveness and performance improvement. Through an extensive review of literature and empirical evidence, this paper examines the relationship between horizontal (mergers and acquisition) integration strategy and financial performance. The study used bank's profitability indices – profit after tax (PAT), shareholders' fund (SHF) and total assets (TOA) data of a period spanning 2005 to 2019 for Intercontinental Bank Plc and Access Bank Plc to investigate the effect of merger and acquisition on the growth and profitability of Access Bank Plc. Between 2005 and 2019, Access Bank Plc, acquired Intercontinental Bank Plc. The performance indices of the studied Banks before and after acquisition and merger, were extracted from the Banks' Annual Reports, subjected to statistical analysis for paired mean comparison, trend analysis (regression) and coefficient of determination using Microsoft Excel Statistics Toolkit. The study also established the growth pattern and significant differences in banks' performances before and after the acquisition. The findings revealed that Access Bank Plc had a double benefit from the acquisition of Intercontinental Bank Plc. Mean PAT, SHF and TOA were N11.90b, N128.50b and N644.50b, respectively before acquisition of Intercontinental Bank Plc, whereas they were N50.60b, N325.02b and N2242.23b, after the acquisition. Consequently, Access Bank Plc became bigger with more branches, Automated Teller Machines and customers. Besides, it transformed from its traditional wholesale banking institution to a balance financial service provider.

Introduction

Prior to the merger, Intercontinental Bank was a large financial services provider in West Africa. As of December 2008, the bank's shareholder's equity was valued at approximately US$1.7 billion (NGN:261 billion) according to The Banker, 2009. In 2009, after a special audit of the commercial banks in Nigeria by the Central Bank of Nigeria, the country's banking regulator, found nine of the banks to be under-capitalized and badly managed. Intercontinental Bank Plc. was one of the troubled banks. Following the injection of capital by the Federal Government of Nigeria, to maintain solvency, the troubled banks embarked on re-capitalization through participation by new investors.

In 2011, Access Bank began talks with the Central Bank of Nigeria to acquire Intercontinental Bank. Further to the approval of the shareholders of Intercontinental bank and Access Bank, court sanction of the Federal High

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Court of Nigeria and approval of the Central Bank of Nigeria and the Securities & Exchange Commission, Access Bank plc completed recapitalization of Intercontinental Bank and the acquisition of 75% majority interest in Intercontinental Bank. In effect, Intercontinental Bank (including all its assets, liabilities and undertakings) became a subsidiary of Access Bank plc. Aluko & Oyebode acted as Transaction Counsel to Access Bank plc in connection with its acquisition of Intercontinental Bank plc.

LITERATURE REVIEW

Integration strategies, encompassing various approaches such as mergers, acquisitions, alliances, and supply chain integration, have gained significant attention as organizations seek to improve efficiency, competitiveness, and overall performance. This literature review aims to explore the impact of integration strategies on organizational performance by synthesizing findings from relevant academic studies and empirical research.

Horizontal Integration:

Horizontal integration refers to the consolidation of organizations operating in the same industry or sector. Research by Gaughan (2010) suggests that horizontal integration can lead to economies of scale, increased market share, and enhanced competitiveness. However, Chand and Katou (2007) argue that the success of horizontal integration depends on effective post-merger integration strategies, including cultural alignment, communication, and leadership.

Vertical Integration:

Vertical integration involves the integration of different stages of the production or distribution process within the same industry. A study by Dyer and Singh (1998) highlights the potential benefits of vertical integration, such as improved coordination, cost savings, and quality control. However, Teece (1982) emphasizes the importance of strategic alignment and coordination among vertically integrated activities to achieve performance gains.

Cross-Functional Integration:

Cross-functional integration focuses on aligning various functional areas within an organization, such as marketing, operations, and finance. Research by Venkatraman (1989) suggests that cross-functional integration can lead to improved decision-making, innovation, and overall organizational performance. However, Kogut and Zander (1996) argue that cross-functional integration requires effective coordination mechanisms and communication channels to realize its potential benefits.

Supply Chain Integration:

Supply chain integration involves collaboration and coordination among various entities within the supply chain, including suppliers, manufacturers, distributors, and retailers. A study by Frohlich and Westbrook (2001) highlights the importance of supply chain integration in improving operational efficiency, responsiveness, and customer satisfaction. However, Simatupang and Sridharan (2002) emphasize the challenges associated with supply chain integration, such as information sharing, trust building, and alignment of incentives.

Overall, the literature suggests that integration strategies can have a significant impact on organizational performance by enhancing efficiency, coordination, and competitiveness. However, the success of integration initiatives depends on various factors, including strategic alignment, effective communication, cultural compatibility, and coordination mechanisms. Further research is needed to explore the complex relationships between integration strategies and organizational performance across different contexts and industries.

VARIABLES TO MEASURE ORGANIZATIONAL PERFORMANCE DUE TO MERGER AND ACQUISITION INTEGRATION STRATEGY

Measuring organizational performance following a merger and acquisition (M&A) integration strategy requires a comprehensive approach that considers various aspects of the merged entities' operations, financial health, employee satisfaction, and market positioning. Here are some variables commonly used to measure organizational performance in the context of M&A integration:

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Financial Performance Metrics:

Revenue Growth: Measure the increase or decrease in combined revenue post-merger.

Profitability: Assess changes in profitability margins such as gross profit margin, operating profit margin, and net profit margin.

Shareholders' Fund: represents the residual interest in the assets of an organization after deducting liabilities

Total Assets (TOA): Evaluate the return on investment from the M&A transaction compared to initial projections or industry benchmarks.

Market Performance Metrics:

Market Share: Analyze changes in market share within the industry or specific market segments.

Competitive Positioning: Assess changes in the competitive landscape and the organization's positioning relative to competitors.

Customer Satisfaction: Measure changes in customer satisfaction levels post-merger.

Operational Performance Metrics:

Efficiency Ratios: Evaluate operational efficiency using metrics such as inventory turnover, asset turnover, and receivables turnover.

Production Output: Measure changes in production output or service delivery efficiency.

Supply Chain Integration: Assess the effectiveness of integrating supply chains and logistics post-merger.

Employee Engagement and Satisfaction:

Employee Turnover Rate: Monitor changes in employee turnover rates following the merger.

Employee Satisfaction Surveys: Conduct surveys to gauge employee satisfaction, morale, and engagement levels.

Talent Retention: Measure the retention of key talent and assess any talent drain post-merger.

Cultural Integration:

Cultural Alignment: Evaluate the alignment of organizational cultures and values post-merger.

Employee Integration: Measure the success of integrating employees from both organizations and fostering a unified culture.

Leadership Effectiveness: Assess the effectiveness of leadership in driving cultural integration and managing change.

DATA COLLECTION & DATA SOURCE

Indices of performance including Profit After Tax (PAT), Shareholders' Fund (SHF) and Total Assets (TOA) reported by the Access Bank Plc six years before and after the acquisition of Intercontinental Bank Plc (i.e. 2006 -2017) Bank's performance data were collected through secondary sources, that is, from the Annual Reports and Accounts of the Access Bank Plc the Intercontinental Bank Plc. The Annual Reports are reliable statutory reports, and they are a true representation of the official reports of banks. Consequently, they are reliable documents of any business entity that is accessible to the public. PAT, SHF, and TOA data collected were subjected to both descriptive and inferential statistical analysis using Statistical Toolkit of Microsoft Excel to establish trends and significant differences in banks' performance, pre, and post-merger/post-acquisition. Correlation and regression analysis were done to establish relationships and trends in performance respectively.

RESULTS AND DISCUSSION

DATA PRESENTATION

Table1 Performance data for Intercontinental Bank Plc, Access Bank Plc and Diamond Bank Plc for 2005 to 2019*§

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

	Intercontinental Bank Plc				Access Bank Plc		
Year	PAT	SHF	TOA		PAT	SHF	TOA
2005	5.02	32.58	164.35		0.50	14.07	66.92
2006	8.60	53.91	360.90		0.74	28.89	174.55
2007	14.81	155.87	663.54		6.08	28.38	328.62
2008	34.77	200.41	1392.21		16.06	172.00	1043.47
2009					22.01	173.15	647.57
2010					12.9	182.80	726.90
2011					13.60	185.80	945.90
2012					31.60	187.00	949.40
2013					31.10	237.60	1516.80
2014					39.9 2	274.20	1981.00
2015					58.90	360.40	2411.00
2016					76.60	421.70	3094.90
2017					65.50	469.20	3499.70
2018					68.1	440.80	3968.10
2019					73.6	542.90	6311.00

** PAT= Profit after tax; SHF = Shareholder funds; TOA = Total asset*
§ All values are expressed in N'Billion

The results presented in Table 1 shows the performance data recorded in the Annual Reports of the two Banks selected for the study before the acquisition and merger arrangements. The results showed that the two Banks had their performance indices increased progressively between 2005 and 2008. However, Intercontinental Bank Plc. showed remarkable higher values in the indices than the Access Bank.

Table 2. t-Test: Paired Two Sample for Means of Performance indices of Intercontinental Bank Plc and Access Bank Plc*

	PATI	PATA	SHFI	SHFA	TOAI	TOAA
Mean	15.8	5.845	110.6925	60.835	645.25	403.39
		53.01		5539.47		193624
Variance	176.297	5	6472.017	8	290134.5	3
Observations	4	4	4	4	4	4
Pearson Correlation	0.99277		0.777942		0.989557	
Hypothesized Mean Diff.	0		0		0	
Df	3		3		3	
	3.257391*		1.920633$^{n.s}$		3.993058	
t Stat	*		s		*	
P(T<=t) one-tail	0.02361		0.075272		0.014068	
t Critical one-tail	2.35336		2.353363		2.353363	
P(T<=t) two-tail	0.04723		0.150544		0.028136	
t Critical two-tail	3.18245		3.182446		3.182446	

*****PATI = PAT Intercontinental Bank; PATA = PAT Access Bank; SHFI = SHF Intercontinental Bank; SHFA = SHF Access Bank; TOAI = TOA Intercontinental Bank; TOAA = TOA Access Bank.
******Significant (P>0.05); n.s. Not Significant (P<0.05)

Indeed, the results of significance in Table 2 showed that PAT and TOA of Intercontinental Bank Plc were significantly higher (P>0.05) than those of the Access Bank. Also, Intercontinental Bank's SHF was higher but

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

not significantly different from the Access' (P<0.05). The results were suggestive of a better performance by the Bank before the acquisition by Access Bank. Also, it appeared that the acquisition plan of Access Bank Plc was a good decision and a good move. Consequently, the performance of Access Bank Plc before and after the acquisition of the Intercontinental Bank Plc was reviewed by comparison of the values of the three indices from the financial year 2005 to 2019.

Table 3. t-Test: Paired Two Sample for Means of performance indices of Access Bank Plc before and after acquisition Intercontinental Bank Plc**

	PAT/BF	PAT/AF	SHF/BF	SHF/AF	TOA/BF	TOA/AF
Mean	11.89833	50.6	128.503	325.0167	644.5017	2242.13
Observations	6	6	6	6	6	6
Pearson Correlation	0.580798		0.8285		0.725195	
Hypothesized Mean Difference	0		0		0	
df	5		5		5	
t Stat	-5.94369*		-7.61798*		-5.215*	
P(T<=t) one-tail	0.000963		0.00031		0.001712	
t Critical one-tail	2.015048		2.01505		2.015048	
P(T<=t) two-tail	0.001926		0.00062		0.003424	
t Critical two-tail	2.570582		2.57058		2.570582	

****PAT/BF = PAT before; PAT/AF = PAT after; SHF/BF = SHF before; SHF/AF = SHF after; TOA/BF = TOA before; TOA/AF = TOA after *Significant (P>0.05)

The results presented in Table 3 showed that the average mean values of PAT, SHF, and TOA of Access Bank Plc before the acquisition of Intercontinental Bank Plc were significantly (P>0.05) lower than mean values attained after the acquisition exercise. The remarkable enhancement of the Access Bank's performance within six years after the acquisition exercise supports the results earlier workers who showed that a positive relationship existed between merger and acquisitions and profitability with a positive effect on the shareholders' fund (Akpan, 2007; Joshua, 2010; Ikpefan & Kazeem, 2013; Onikoyi & Awolusi, 2014). However, the findings were contrary to those of Odetayo & Olowe, (2013) did not observe in a merger and acquisition a significant effect on the financial performance of banks.

SUMMARY, RECOMMENDATION AND CONCLUSION

SUMMARY

According to Nwude (2013), a merger is a strategic aspect of corporate strategy, corporate finance, and management, involving the combination of different companies to facilitate rapid growth within a specific industry without creating a new business entity. Through consolidation, one or more firms can merge to form a new organization, inheriting the assets and liabilities of the merging firms. The businesses joining in the merger are wound up, and the merger is completed when the shares are distributed among the owners of the newly formed, larger firm. Additionally, Ikpefan and Kazeem (2013) noted that a merger involves two businesses or firms of similar size and strength, deliberately deciding to form a culturally new business organization.

In the case of Access Bank Plc's acquisition of Intercontinental Bank Plc, the synergy theory was leveraged to increase its branch network, benefiting from economies of scale. This transformation allowed Access Bank to evolve from a traditional wholesale banking institution to a balanced financial service provider, with an expanded customer base and a diversified board possessing high-level management skills. As a result, Access Bank became one of the largest commercial banks in Nigeria, serving over 5.7 million customers with 309 branches and more than 1,600 ATMs (Wigwe, 2018). The key business segments of Access Bank Plc include corporate and investment banking, commercial banking, business banking, and personal banking.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

CONCLUSION

The growth patterns indicated by the three performance indices of Access Bank Plc, before and after the acquisition and merger exercises, suggest that Access Bank Plc reaped double benefits from the acquisition of Intercontinental Bank Plc. Firstly, the bank's profitability increased due to the enlargement of its market share, which includes shareholders' funds, an expanded customer base, increased profits, and total assets. Secondly, the bank grew in size, adding more branches, Automated Teller Machines (ATMs), and customers. Moreover, Access Bank transformed from a traditional wholesale banking institution into a balanced financial service provider.

REFERENCES

Angwin, D. N., Paroutis, S., & Mitson, S. (2007). The impact of merger on the strategy of a UK retail bank: a longitudinal case study. Long Range Planning, 40(3), 279-304.

Berglof, E., Burkart, M., & von Thadden, E. L. (2002). The effects of deregulation on bank governance: Evidence from the European Union. Economic Policy, 17(34), 361-395.

Buono, A. F., & Bowditch, J. L. (1989). The human side of mergers and acquisitions: Managing collisions between people, cultures, and organizations. Jossey-Bass.

Mitchell, M. L., & Mulherin, J. H. (1996). The impact of industry shocks on takeover and restructuring activity. Journal of Financial Economics, 41(2), 193-229.

Ravenscraft, D. J., & Scherer, F. M. (1987). Mergers, sell-offs, and economic efficiency. Brookings Papers on Economic Activity, 1987(3), 849-907.

Simpson, J. (2014). The impact of airline mergers on quality: a review of the evidence. Journal of Air Transport Management, 36, 78-84.

Singh, H., & Montgomery, C. A. (1987). Corporate acquisition strategies and economic performance. Strategic Management Journal, 8(4), 377-386.

Zollo, M., & Singh, H. (2004). Deliberate learning in corporate acquisitions: Post-acquisition strategies and integration capability in US bank mergers. Strategic Management Journal, 25(13), 1233-1256.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]