SURVIVAL STRATEGIES IN A DISTRESSED ECONOMY

A CASE STUDY OF NAL MERCHANT BANK PLC

BY

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ABSTRACT

The instability and inconsistency of higher policy decisions, and imperfect application of instruments of control, coupled with political instability and absence of democratic rule that characterized the Nigerian economy makes the business environment highly unpredictable which makes planning near impossible. This coupled with the licensing of additional banks and other financial institutions have not only intensified competition, but have made it highly unpredictable with the attendant pressure on interest rates.

Considering the disruptions that are characteristic of the Nigerian economic environment, particularly as it affects the financial services industry, have made it. necessary for organizations to respond strategically to change. This does not however automatically lead to competitive success or even survival. The need to evolve strategies that will ensure the continuity of the institution becomes more apparent especially for a merchant bank like.NAL Merchant Bank Pic that have been at the pioneering stage of the industry; and the effects of the policy changes impacted more significantly than commercial banks.

DECLARATION

This project is the product of my own research work. It has not been presented previously for the award of any higher degree.

All quotations, sources of information and materials are duly acknowledged by means of reference.

ISA LAWAL K/SAURI

23/09/2008
DATE

CERTIFICATION

This project titled "SURVIVAL STRATEGIES IN A DISTRESSED ECONOMY: A CASE STUDY OF NAL MERCHANT BANK PLC" prepared and submitted by Isa, Lawal K/sauri meets the regulation governing the award of A Masters Degree in Business Administration (MBA) of Ahmadu Bello University (ABU) Zaria. It is therefore approved for its contribution to knowledge and literary presentation.

Name & Signature of Supervisor	Date
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DEPT OF BUSINESS ADMIN. INSTITUTE OF ADMIN. A.B.U. ZARIA
8/04

DEDICATION

It is to the memory of Kasim, my late son I dedicate this work. Your 214 days have made a lot of difference in my life. It is also dedicated to the memory of 'late' Continental Merchant Bank Plc, another organisation that have made a difference in my worldly endeavours.

ISA, LAWAL K/SAURI

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CHAPTER ONE

1.0 General Introduction

1.1 Introduction

The Nigerian economy have been characterized by instability and inconsistency of higher policy decisions and imperfect application of instruments of control, in recent times. This coupled with political instability and absence of democratic rule that have eluded the country in the last fourteen years or so.

The financial service industry went through considerable strain as a result. The withdrawal of public sector funds from commercial and merchant banks, classifiction of BAS and CPS as risk assets, and payment of interest on current accounts. All these were introduced in 1989. This was in addition to the increase in Minimum Rediscount Rate (MRR) and Capital Adequacy Ratio (CAR). There were rampant application of stabilisation securities as introduced in 1990 with the aim of mopping-up excess liquidity in the system. Towards the end of that year, prudential guidelines came into effect to improve the technical solvency of banks. In addition, the CBN set a ceiling of 21% interest rate applicable on loans effective January, 1991.

The licencing of additional banks and other financial institutions have not only intensified competition, but have made it highly unpredictable with the attendant pressure on interest rates. The rising rates of interest further restricted traditional banking activities. In all, profitability of the traditional fund-based activities of banks shrunk.

The Nigerian banking industry as a result of the above, have been afflicted by a deepening crisis of confidence in the last five years. This is manifested by widespread distress which has hampered the performance of its traditional functions such as the mobilisation of savings, promotion of investment and growth and enhancement of the payment system.

The regulatory authorities have adopted a number of measures to deal with defaults and distress in the banking sector. These include the appointment of traditional supervisory boards for some distressed banks, closure/liquidation and acquisition of some others in distress, and the trial of bank officials and defaulters under the Failed Bank Decree.

The regulatory authorities also adopted a policy towards strengthening the capital base of existing banks in the light of the Naira exchange rate depreciation, the persistence of inflationary pressures, the erosion of the capital funds of banks by non-performing credits, as well as the need to ensure consistency with international standards. This is more so as information technology is turning the whole world into a global economic village. Thus, the minimum paid-up capital requirement of both commercial and merchant banks was increased, early in 1997 to a uniform minimum level of N500 million from N50 million and N40 million respectively, in 1991. Existing banks are however given a period of two years expiring 31st December, 1998, to meet this requirement. The level of compliance in the industry to this requirement is yet another sore point. The regulatory authorities are yet to take a decisive position on non-compliant banks going by 1999 Federal Government Budget breakdown.

Considering the disruptions that are characteristic of the Nigerian economic environment, particularly as it affects the financial services industry, have made it necessary for organisations to respond strategically to change. This does not however automatically lead to competitive success or even survival. Companies must think strategically in addition to being flexible, to bring good ideas to the market place ahead of competition. The banks must search for a favourable competitive position with the aim of establishing a profitable and sustainable edge over the forces that determine industry competition. This is because competition is at the core of the success or failure of any organisation.

1.2 Statement of the Problem

The banking industry is undergoing a lot of changes. The industry went through considerable strain mainly as a result of measures adopted by the monetary authorities. This situation was significantly affected by the licencing of a substantial number financial institutions, the effect of which was to increase the already intense competition.

Competition which is at the core of the success or failure of a firm, determines the appropriateness of its activities that can contribute to its performance such as innovation, a cohesive culture, or good implementation. Formulating a strategy of survival in a continuously changing industry is not an easy task. This is because of the contending forces constantly confronting each other, and which in itself produce other changes.

The ability to contain these contending forces in the industry and be able to survive needs a dedicated management team that would be able to steer the company not only towards survival, but towards a position

of leadership. This is through establishing a profitable and sustainable position in the industry.

1.3 Purpose of the Study

The existence of any organisation beyond the life span of its individual owners is the paramount objective of its establishment. It is established with the inherent purpose of lasting forever. This may not be stated but its endeavours are targeted to achieve this. It is in recognition of the role played by NAL Merchant Bank in its endeavours as the pioneer merchant bank that this study is undertaken.

In specific terms, the purpose of this study is to, among other things,

a) Survey the evolution the merchant banking sub-sector have gone through;
b) The effect of the changes in the financial services industry on the economy;
c) Review the state of competition in the financial services industry;
d) Review how NAL Merchant Bank is competing in the industry in an effort to stake out a position for itself.

1.4 Significance of the Study

As long as organisations will conduct business, some will be outstanding successes while others will be dismal failures. Some companies will act with purpose and direction, and others will just drift; some are adept at seizing new opportunities while others watch passively or let them slip through. Some firms perform well because of good internal management, others barely survive because of inefficiency and misdirected operations.

Based on the above preamble this study is significant first to the researcher because of the immense knowledge gained about the financial services industry in general and merchant banking business in particular. Furthermore, the researcher will be provided with an insight into the problem of distress and possible solutions especially as it relates to the financial service industry.

The research will be significant particularly to financial institutions and other organisations in general in strategy formulation in the 21st Century. The research will help financial institutions take a position within the industry that will lead to a superior performance in spite of the flood of new entrants. The research will enable existing companies in any industry to view new entrants not as a threat but as an opportunity to enhance the performance of the industry as a whole.

The research is significant as a guide to source of information for other research or strategy and distress. It will also serve as a guide to the services and mode of operations of merchant banks.

To regulatory authorities, the research will serve as a pointer to how best to apply control mechanisms in financial institutions supervision. It is the researcher's view that the market forces are always the best means of controlling money supply, exchange rate and other macro-economies factors in any economy.

On the whole, this research is significant as a pre-requisite for the award of Masters Degree in Business Administration. It exposes the researcher to some more practical aspects of managing a business and how best a company should compete in a constantly changing business environment.

1.5 Scope and Limitations of the Study

But for the historical development of merchant banks in Nigeria the scope of this research will be limited to the period between 1989 and 1998. The period is very significant in the history of the Nigerian financial system. The financial services industry witnessed the highest growth ever in terms of the number of firms within it. It also witnessed its greatest upheaval within the period. The industry was most active in the period.

The study focussed on NAL Merchant Bank because of the following obvious reasons:

(1) The bank is the oldest and pioneer merchant bank in the country;

(2) It is the only first generation merchant bank that have not been liquidated or have not gone through business misfortune that could be termed distress. The first generation merchant banks are considered by this research to be those established before 1979. They are those whose mutual ownership was a collaboration between foreign banking interest and government;

(3) NAL Merchant Bank is the largest merchant bank in terms of branch spread. It has seven offices strategically located at Kaduna, Kano, Abuja, Owerri, Ibadan, Port Harcourt and the Head Office at Lagos.

(4) It was also the first merchant bank with government ownership to be privatised by the Technical Committee on Privatisation and Commercialisation (TCPC).

The study is limited to NAL Merchant Bank because of time constraint. An overall appraisal of the financial services industry will not permit the researcher to pin-point the salient issues on survival strategy.

For the purpose of this study, the researcher relies heavily on secondary sources of data for the simple reason that there is enough disclosure requirement for a publicly quoted company like NAL Merchant Bank.

The nature and purpose of this study does not require seeking for any primary source of data. I should be quick to point out however that there are certain information which was made available to me through discussions with some staff of the bank. This could be termed privileged but at the same time, have not violated such staff oath of secrecy.

The study is limited to the examination of the factors that shape competition for survival in an industry and how an understanding of these forces could help shape strategy.

1.6 Definitions of Terms and Concepts

The research will attempt a definition of some key terms and concepts that are considered important to this topic. In line with this, we will start with some concepts that form the topic: "Survival Strategy in a Distress Economy..." We will start with what strategy is all about.

(i) **Strategy:** The Longman Dictionary of Contemporary English (1978) defined *strategy* as a "a particular plan for winning success in a particular activity, as in war, a game, a competition or for personal advantage". In business or management, the above definition could be applied to mean the process of establishing an organisation's long term direction set specific performance objectives and the means of achieving them in the light of all the relevant internal and external circumstances. Strategy has therefore become the most fundamental and most important aspect of management.

(ii) **Distress:** This means a considerable discomfort or suffering caused by lack of money or basic necessities of life. The term *distress* in banking refers to a condition of enormous pain in the operational activities of a bank. It is a severe financial, operational and managerial weakness. This results into:

a) negative or low net interest margin, i.e. the difference between a bank's cost of funds and its prime lending rate;

b) inadequate cash reserves or liquid assets to cover short-term liabilities;

c) increase in no-performing loans;

d) cost of funds above the industry average;

e) large volume of volatile deposits that results into mismatch of tenor.

A bank is considered distressed when it has low capital adequacy, poor assets quality highly incompetent management, weak earning potentials and insufficient liquidity.

iii) **Merchant Banking:** This by its very nature has no working definition. Merchant is defined as one who buys and sells goods in large amounts in foreign countries. Merchant banks are therefore generally referred to as wholesale banks who provide more of a long-term financial services to a select, high networth clientale. Such services include among others, loan syndication, stock broking, corporate finance, equipment leasing, debt factoring, cash management services, bankers acceptances etc. Merchant banks are referred to as investment banks in the United States of America and Acceptances Houses in the United Kingdom. Their mode of operation is however the same all over the world.

iv) **Universal Banking:** This term has been receiving prominence in recent times as a result of the aftermath of the distress in the financial services industry. Universal banking which is also known as multi-purpose banking has various definitions.

The narrow definition reflects universal banking to the ability of a bank to engage in a wide range of financial services and in particular securities business and underwriting activities. This arrangement encompasses the integration of banking and securities business. Distinction could be made here in terms of the banking structure where the banks could engage in securities business on their own books, through downstream subsidiary, or as a group in which the bank as a member engages in securities through a subsidiary of the holding company of the bank.

The broad definition of universal banking refers to the ability of a bank to own and control non-financial entities in addition to engaging in a wide range of financial activities. The major focus here is on financial-commercial linkages. There are two distinct types of linkages-upstream (the ownership of financial institutions by a commercial concern) and down stream (the ownership of commercial concerns by financial institutions).

The third type of universal banking is the Japanese Keiretsu Model where financial institutions and non-financial institutions have some linkages that may not include direct ownership of one by the other.

Universal banking in the Nigeria context is emphasized more on the narrow definition of the term. The call for universal banking is actually to provide for a level playing ground for both

however mean that the broader definition of universal banking does not exist in spite of the legal implications.

v) **Inflation:** This is a situation of continuous rise in the general price level or persistent fall in the value of money. There will be a fall in the value of money or a rise in the general price level if the supply of money outstrips the supply of goods and services that money will buy.

The causes of inflation could be more properly divided into monetary, fiscal and supply causes. The monetary causes focus on the role the government, the Central Bank and other banks could play in causing inflation. The fiscal causes relate to the manipulation of taxes, government expenditures, national debt etc. The supply causes look at the laws of supply and demand to explain changes in the value of money.

The interplay of these causes were manifest during the period under review by this study. The inflationary pressures eroded the capital base of banks and other financial institutions thereby agriviting the distress in the financial services industry.

CHAPTER TWO

2.0 REVIEW OF RELATED LITERATURE

2.1 Introduction

A lot of literatures have been written about strategy on the one hand and distress on the other. My approach to literature review will give preference on literature touching on the salient issues on strategy. Emphasis will be given to literature on financial institutions while reviewing the Nigerian economy and attempt will be made at defining distress. A "free-flow-statement" will be used to deal with issues in this chapter in which passages may be quoted in full to avoid half reported facts or confusing ideas.

2.2 Strategy Defined

Strategy as a management tool have been defined as the establishment of an organisation's long-term direction, set specific performance objectives, develop ways of achieving the set objectives in the light of all relevant internal and external circumstances and undertake to execute the chosen plans.

In his book "Competitive Strategy..." (1980), Michael E. Porter identified two central questions that underlie the choice of competitive strategy. The first is the attractiveness of the industry for long-term profitability and the factors that determines it. The second is the determinants of relative competitive position within an industry.

Professor Porter is of the opinion that neither question is sufficient by itself to guide the choice of competitive strategy. Both industry attractiveness and competitive position can be shaped by a firm. While

industry attractiveness is partially a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive. At the same time, a firm can clearly improve or erode its position within an industry through its choice of strategy. Competitive strategy then not only respond to the environment but also attempt to shape that environment in a firm's favour.

The book present an analytical framework for understanding industries and competitors, and formulating an overall competitive strategy. It described the five competitive forces that determines the attractiveness of an industry and their underlying causes, as well as how these forces change over time and can be influenced through strategy.

The book also identified three broad generic strategies for achieving competitive advantage. The first generic strategy is the cost leadership strategy. Here the firm sets out to become the low-cost producer in its industry. The second generic strategy is differentiation. Here the firm seeks to be unique in its industry along some dimensions that are widely valued by customers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet these needs. The means for differentiation are peculiar to each industry. It can be based on the product itself, the delivery system, the market approach and a broad range of other factors. The third generic strategy which is a bye-product of the first two is focus strategy. This has two variants, cost focus and differentiation focus. While the cost focus seeks a cost advantage in its target segment, the differentiation focus seeks differentiation in its target segment. This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within the industry.

Mr. Porter also shows how to analyse competitors and to predict and influence their behaviors, and how to map competitors into strategic groups and assess the most attractive position in the industry. He posited that industry structure is the determinant of the degree of strength of the five competitive forces. He applied the framework to a range of important types of industry environments which includes fragmented industries, emerging industries, industries undergoing a transition to maturity, declining industries and global industries. The framework aims, in the process, to raise the odds of discovering a desirable strategic innovation.

Finally, the book examines the important strategic decisions that occur in the context of an industry, including vertical integration, capacity expansion and entry.

In another book titled "Competitive Advantage..." (1985), Michael Porter takes the framework in his earlier book as a starting point. The central theme of this book is how a firm can actually create and sustain a competitive advantage in its industry. The aim of the book is to build bridge between strategy and implementation. It described the way a firm can choose and implement a generic strategy to achieve and sustain competitive advantage. This could be either through cost advantage or product differentiation.

The book addresses the interplay between the types of competitive advantage and the scope of a firm's activities. He opined that the basic tool for diagnising competitive advantage and finding ways to enhance it is the value chain, which divides a firm into the discrete activities it performs in designing, producing, marketing and distributing its

products. The scope of a firm's activities, which he termed competitive scope can have a powerful role in competitive advantage through its influence on the value chain.

A firm's narrow scope can create competitive advantage through tailoring the value chain, while its broader scope can enhance competitive advantage through the exploitation of inter-relationships among the value chain that serve different segments, industries or geographic areas.

The organisation of Porter's book is in four parts with fifteen chapters. Part one describes the types of competitive advantage and how a firm can achieve them. Part two discusses competitive scope within an industry and its effect on competitive advantage. Part three addresses competitive scope in related industries or how corporate strategy can contribute to the competitive advantage of business units. Part four develops overall implications for competitive strategy, including ways of coping with uncertainty and to improve defined position.

The book concluded with the treatment of defensive and offensive strategy. On defensive strategy, it describes the process by which a firm's position is challenged and the defensive tactics available to deter or block a competitor. On the offensive strategy, it shows how to attack an industry leader. It outlays the conditions a firm must meet to challenge a leader and the approaches to changing the rules of competition in order to do so successfully. The same principles involved in attacking a leader can be used in offensive strategy against any competitor.

In a write-up on an overview of strategic management, Mr Fredrick W. Gluck (1988) started by looking at environmental changes and management response. He considered such changes as slower growth rate, intense global competition, burgeoning automation, obsolescence caused by technological change, deregulation, chaotic money market and major changes in macro-economic and socio-political systems. He is of the opinion that the impact of these discontinuities on industry after industry runs broad and deep. Destablisation and fluidity have become the norm in business.

As a result, there are many more strategic alternatives for all types of industries. People constantly coming up with new ideas of making products and services, and getting them to market. Barriers to entry into an industry are more difficult to maintain and new competitors are coming from unexpected directions. Competition in consequence, is not only palpably intense but unpredictable.

Gluck reviewed strategic planning in the seventies and post-seventies era. He pointed out that planning in the seventies was based on the experience curve theory where a market share leader would enjoy an inherent cost advantage over smaller competitors. Relaying on the experience curve theory in the post-seventies era will make companies rigid in their thinking and loose the flexibility that is crucial to turning change into opportunity or even effectively responding to it.

He posited that strategically managed companies accept change as a permanent condition and recognizes that unwillingness or inability to change will make it a loser. Thus it has to continually adjust its competitive strategy as the market place demands it.

Closely related to Gluck's Paper is a paper titled "Strategic Management: What it is whose responsibility it is and why it matters" (1988) by Keneth H. Olsen. The paper scrutinized management practices of successful and unsuccessful enterprises in an effort to learn the really important managerial do's and don't's that separate the winners from the loosers. He zeroed some notable managerial differences of the successful and unsuccessful organisations.

High-performing organisations have a clear sense of direction while low-performing organisations are characteristically so absorbed in the latest crisis, tending to administrative details that they neglect the task of thinking deeply about where the organisation will be in the future.

High-performing organisations have an abundance of skilled entreprenuership, with an unmatched knowledge about customer needs and behavior, market trends and emerging opportunities. In contrast, poorly run enterprises are neither customer-driven nor opportunity-driven. They have less perspective about customer needs and attitudes, their instinct is to react to market trends rather than initiate them.

High-performing companies are committed to having a first-rate strategic action plan that is aimed at achieving superior financial performance and a strong dependable competitive position. The weak performing orgnaisations on the other hand are pre-occupied with paper work deadlines and often under-estimates the strength of competitors and over-estimates their abilities.

He is of the view that well-run firms are strongly result-oriented and performance conscious. The poorly-run organisations in contrast excuse weak performance on the basis of such uncontrollable factors as a

depressed economy, slack demand, strong competitive pressures, rising costs and unforseen problems.

Best-performing organisations are deeply involved in implementation of the chosen strategy and making it work as planned. In contrast, bad performing organistions are engaged in machinations of corporate bureaucracy and administrative procedures.

2.3 A Review of the Nigerian Economy

The Nigerian economy in the last ten years or so has been characterised by instability and inconsistency of higher policy decisions and imperfect application of instruments of control. This is typified by the unending movements of macro-economic variables away from budgetary targets and the low performance of other sectors of the economy.

My approach in dealing with this subject matter will be slightly different from the usual one which the nature of the topic may suggest. My preference on literature regarding the Nigerian economy would be to lay more emphasis on the financial institutions sector with particular reference to the merchant banking sub-sector.

In a book titled "25 years of Merchant Banking in Nigeria" (1985), Wole Adewumi started by looking at the concept of merchant banking in the two major economies of the world- the United Kingdom and United States of America. He looked at the way the institution evolved over the past two centuries or so. He traced their origin to pure merchant companies. The process and period of transition from merchanting to banking differs from one organisation to the other. In general however, he opined that the process started with the merchants engaging entirely in international trade. These basic trading contracts enabled the

merchants to acquire comprehensive and respectable knowledge of overseas business conditions and of the developing countries in general. In turn this knowledge was put into use in two ways which led to the merchants becoming active bankers.

Mr. Adewumi went further to look at the evolution of merchant banking industry in Nigeria, tracing it to 1960 when the two companies that started merchant banking were registered. They later merged together in 1969 due to limited business opportunities for the two, and to eliminate undue competition. Other reasons for the merger was for synergy. He also looked at the emergence of other merchant banks beyond the merger of 1969 and analysed the structure and ownership of the industry.

Adewunmi analysed the operations of merchant banks and made comparison of the performance of some of the merchant banks in Nigeria. As a basis of his comparison, he used such indices as capital base, capital adequacy ratio, assets and liability composition, profitability and liquidity ratios.

At a seminar organised by FITC for Bank Directors, Mr. J.O. Sanusi (1993) delivered a paper titled "Developments in the Banking and Finance Industry:..." in which he listed some major legislation and developments within the industry. He approached the topic of ownership structure in the industry under some distinctive periods.

The first was what he called "the era of monopoly of foreign banks" which covers 1894 to 1930 which forms the foundations of modern banking in Nigeria. The period was characterized by the total dominance of foreign banks. Commercial banking activities began in

1894 with the Bank of British West Africa (now First Bank). The leading growth sector then was commerce which was synonymous with the importation of consumer goods and exportation of agricultural and other primary goods as raw materials for the colonial home industries. Local business entrepreneurs were discriminated against with respect to bank facilities. This led to a frontal attack from the indigenous populace to redress the situation.

This led to the second era in which there was an indigenous attempt at modern banking. A number of factors contributed to this development. The initial impetus could have been derived from the attempt to redress the discrimination suffered by indigenous entrepreneurs from the foreign banks. Beyond that, the 'rush' syndrome, whereby the example or success of a pioneer into a protected industry leads to a rush by others, could have taken over. However, these banks collapsed just as easily as they were established.

The third era was that of regional government incursion into banks. With the enactment of the first banking legislation of 1952, whatever the basis of existence of the private indigenous banks was removed. It was under this environment that the regional governments bought out some existing private banks or established their own. The banks affected are: National Bank of Nigeria- Western Regional Government, Agbonmagbe (now Wema) – Western Regional Government, African Continental Bank – Eastern Regional Government, Bank of the North – Northern Regional Government.

Thus, by independence in 1960, the structure of banking ownership in Nigeria was between foreigners on one hand and regional governments

on the other. Banks were either wholly foreign owned or owned by the regional governments.

At the post independence era of 1960 to 1975, the Central Bank Act of 1958 have really taken effect to control the activities of banks and to specify entry conditions. The banks for the purpose of analysis, could be grouped into local and foreign promoted banks. The local banks were driven by the co-operative spirit and they were established to serve the development of the co-operative movements. The promoters were the State Governments. Most of such banks have changed from the co-operative origin to commercial banking focus. In the case of the foreign banks, all were fully owned subsidiaries of foreign banks. An interesting aspect of these foreign banks was the variety in the countries of origin including the Middle East, India and predominantly, American.

The era of Federal Government dominance coincided with the introduction of the second phase of the indigenization Decree. Banking was classified under schedule 2 of the Decree, under which at least 60% of the equity of such enterprises must be Nigeria-owned. At the same time Government decided to take control of certain critical sectors of the economy including banking, insurance and oil sectors. There were 23 banks (18 commercial, 5 merchant) operating in Nigeria in 1977 when the Decree was promulgated. Of these, 11 were wholly indigenous, owned by State Governments. The remaining 12 were fully owned by subsidiaries of foreign banks. Although attempt was made by some banks to indigenize part of their shareholding e.g. FBN and NAL, the enactment of the Decree and the Federal Government stance on taking over a commanding height of the national economy led to the indigenisation of 60% of the equity of these foreign banks. By that single act, the Federal Government became the largest single

shareholder in the industry and this situation did not change materially until recently.

Mr. Sanusi stated further that the creation of additional States in 1976 increased the impetus for promotion of banks by State Governments. The introduction of SAP added a lot of glamour to the banking industry. Thus, the industry witnessed a steady growth in terms of the number of banks operating in the country.

Mr. Sanusi opined that the implication of these changing structure of ownership is that response of foreign shareholders immediately after the indigenization Decree of 1977 was a gradual management control withdrawal, a gradual flight of good experienced personnel and the Nigerian banks no longer enjoyed the favoured treatment of being full subsidiaries of these foreign banks.

2.4 Depressed Economy Defined

Depression have been defined as a period of reduced business activity and high unemployment. The global economy have been experiencing a major crisis of low level of productive capacity and actual recovery was sluggish for most of the period in review; that is 1989 to 1998. The industrial countries were characterized by flagging demand and low investor confidence. Similarly, in many of the developing countries, growth has been adversely affected by a rather turbulent international environment. The crash of the industrialized economies of Asia and part of Latin America has not been encouraging.

The slow growth in the economies of the industrial countries has led to a decline in demand for the export commodities of African countries with serious consequences on the terms of trade of these developing

countries. Furthermore, the conflicts in Yugoslavia, Sierra Leone and other politically volatile areas of Africa and indeed the world, have diverted the attention and efforts of the developed countries from the deteriorating economies of the developing countries, as much attention is now focussed on the resolution of these conflicts.

In addition and relation to the global causes of the economic depression, the Nigerian economy is mono-cultural which means that it largely depends on one export commodity for its foreign exchange earnings, and that is crude oil. The international price of oil have been experiencing some downward fluctuations. This has adversely affected the economy with the attendant effects of under-utilization of installed capacity in the economy. This is because of the import-oriented nature of our industries. The low exchange rate of the Naira against major currencies of the world have not helped matters.

G.O. Nwonkwo (1994) writing in a paper titled "Raising confidence in the banking industry", acknowledged that the banking crisis is not the first occurrence but rather the third. He pointed out that like the previous two, the current crisis started with the indigenous banks. He opined that mismanagement and meddlesomeness of the state-owned banks where Board changes with every change in government and appointments were more for political exigencies than professional competence and merit.

Nwonkwo highlighted some of the factors that accelerated the crisis including rapid multiplicity of banks without corresponding increase in supervisory capacity that resulted in a multiplicity of supervisory lapses. Another is that there was no corresponding increase in professionally trained manpower and executive capacity that resulted into acute competition for manpower and recruitment of non-professionals as

bankers. This gives rise to sharp practices and the result was that rather than engage in real banking, a number of banks became traders and foreign exchange brokers. Poor loan management became the order of the day resulting into huge un-collectable bad and doubtful debt portifolio, over-trading and financing mismatch.

Nwonkwo maintained that in an effort to reduce supervisory lapses, the regulatory authorities embark on an indiscriminate use of stabilization securities to check a perceived excess liquidity. The regulatory laws imposed severe responsibilities on the Directors of banks such that part-time Directors found themselves equally responsible under the law like executive directors thereby demanding more involvement in the affairs of the banks and a 'piece of the action' which resulted in Board-room squables that polarized the Board and management.

The macro-economic reforms of 1986 further accelerated the crisis. The reforms resulted in massive devaluation of the Naira which shoot-up manufacturing input (that are largely import dependent) prices and engineered greater domestic capacity under-utilization. The result was a generalized inability of borrowers, be it corporate, governmental or individuals to repay loans and advances obtained from banks.

In a similar paper titled "installing sanity in the banking industry" (1995) Alhaji M.I. Yahaya traced the historical evolution of banking business in Nigeria as far back as 1892 with the establishment of British Bank for West Africa (BBWA). He opined that banks like other institutions do not operate in isolation. They influence and are being influenced by their operating environment. He pointed out that the environment is the singular factor responsible for bank distress and failures in Nigeria. He classified the environment into the internal which

relates to such factors as competition, ownership and management. The external environment relates to macro-economic factors like exchange rate, the rate of growth of the GDP, inflation rate etc.

Alhaji Yahaya (1995) is of the opinion that the conservative nature of the financial services industry does not allow quick response to the ever changing policies of the supervisory authorities that was characteristic of the period 1989 to 1998.

Yahaya (1995) posited that in spite of the internal and external problems facing the financial services industry, there exist some numerous prospects and opportunities for the entire industry in the economy. He concluded however that there is need to harness these opportunities properly to boost the profitability and stability of the entire industry.

Francesca Cunniaghams' (1998) paper titled "How to avoid Going Burst" identified cash flow problem as the major cause of organisational failures. She is of the opinion that insolvency could be avoided through early remedy of the following danger signs:

(a) Growing bad and uncollectable debt;

(b) Extended lines of credits or ever green credits;

(c) Diminished liquidity; and

(d) Too much exposure to one obligator customer

Cunningham stated that when the above danger signs started to show, that is when objective consultants can be of help. She is of the view that business should speak with their consultants to assess the situation and try to work out the nature of the problem. A good rescue package can take several forms like a merger and/or acquisition, re-capitalisation, or just chasing debt.

Cunningham paper concentrated on small and medium companies and proffering remedies that will enable enterprises to avoid folding up. Although her focus is on small and medium enterprises, the rescue package she provided is ideal for the banking industry. Her ideas on having an external consultant to access company problems on time is another dimension to checking distress on time and possibly avoiding it in the first place.

Like other papers on distress, Dr. Ochi Ochinivu's paper agreed (1995) that poor management, deteriorating asset quality, mismatch between assets and liabilities, over-trading, insider abuse and meddlesomeness as some of the causes of crisis in the industry. The paper titled "Failure Resolutions Strategies for Containing and Miminising Financial Sector Crisis" opined that a study of the operational system and output of banks should be undertaken. This is to determine the appropriate measures to address bank failures. The study should include:-

(i) An assessment of the capital adequacy of the banks for its level of operations;

(ii) An assessment of insider and/or connected credits;

(iii) An appraisal of the quality of earnings by source, the relative importance of earnings and trends for at least the last three years;

(iv) A comparison of the income and expenses of the banks and trend over three year period;

(v) An appraisal of the extent to which these banks comply with the recommended corrective measures by bank examiners;

(vi) An evaluation of the adequacy and utilization of human and material resources to determine their effectiveness.

In a write-up titled "Leading to Leadership..." Tony Osime (1994) aimed at reviewing how companies should compete without being detrimental to the industry as a whole. That is companies can compete

in a positive way both to the individual company and the industry. He opined that although new competition can be a threat, they can also provide an opportunity to enhance the position of the company and the condition of the industry. Good competitors take actions that work towards a natural evolution of the market. This could result into a number of strategic benefits.

They can improve the competitive position of existing participants in a number of ways. They can cushion sharp change in demand, the ability to differentiate and serve an unattractive segments. Good competitors could also improve competitive position by improving the labour market, lowering risk of adverse legislation and increase motivation.

Osime is of the view that increased competition can improve the structure of the industry through increased industry demand, improved risk sharing and industry standards. Good competition could also improve market development by helping standardize technology and promote the image of the industry. This will in turn help share the cost of market development.

Mr. Osime concluded that being a good competitor in an industry involves understanding how good competitors can enhance the competitive position of the existing companies in the industry. It also means knowing how good competitors can improve the structure of an industry and develop the market. Once these are known, the next step is to actively pursue these goals which can be achieved first for the company and then, by way of leadership role, for the industry.

SUMMING UP

It is pertinent to briefly sum-up what have been reviewed so far in this section.

First it is generally agreed that organizations are established to survive forever. It is also generally agreed that just like individuals, organizations do experience some mishaps in the course of their existence. In view of this, it is expected that for organizations to survive such mishaps, it has become necessary for such organizations to be able to evolve strategies that will enable it atune to the ever changing world of business.

Secondly, for the mere fact that the recent distress situation in the banking sector is the third in the series of upheavals that have bedeviled the industry, is enough to let the existing players sit up for future occurrence. It is also important to note that the banking industry influences and is being influenced by the economy as a whole. This is similar to the way the global economy influences and is being influenced by the different economies of the world. This has therefore made competition difficult to predict and its effect numerous. Thus, the norm now is not for companies to maintain a national standard but rather a global standard because competition and its effect can come from varied angles.

Thirdly, it has become significant for players in the banking industry to view competition as good and also to play it good. The mere fact that some organizations in the industry are undergoing distress situation does not mean that others are vindicated. The loss of customer confidence does not affect only the distressed banks, but the industry as

a whole. Likewise the loss of investor confidence. In fact this has affected the whole of the Nigerian economy.

2.5 Historical Development of Merchant Banking in Nigeria

Merchant banks or Acceptance Houses (as referred to in the United Kingdom) and Investment Banks (as referred to in the United States of America), evolved on a sound footing in Nigeria in 1960. This was with the incorporation of Nigeria Acceptances Limited and Philip Hill (Nigeria) Limited. Merchant banking by its very nature has no working definition. They are generally referred to as wholesale banks who provide more of long-term financial services to a select high networth clientele. Such services include, among others, loan syndication, stockbroking services, corporate finance, equipment leasing, debt factoring, cash management services, Bankers Acceptances etc.

The two institutions voluntarily merged in 1969 to form what is today called NAL Merchant Bank Plc. One reason why they chose to merge was the fact that the two were engaged in the same field of business, and more importantly, because there was not enough business for both. So it made good business sense to come together rather than engage in fruitless competition. This is because of the perceived benefits of reduced overhead cost, reduced or eliminated competition derivable from the merger. The ownership structure of the two merging organizations which was substantially British must have facilitated the merger and the impending banking Decree of 1969 could have given impetus to it.

At the end of the merger, a share each was issued in the new institution for every share they held in the old ones. Thus the value of the share

capital of the new organization was equal, deliberately, to the combined share capital of the two merging institutions as follows:-

1)	Philip Hill (Nigeria) Limited -	£450,000:00
2)	John Holt (Liverpool) Limited -	£200,000.00
3)	C.T. Borrowing & Co. Limited-	£50,000.00
4)	Bankers International Luxemburg	£50,000.00
TOTAL:		**£750,000.00**

Source: 25 years of Merchant Banking in Nigeria- Wole Adewunmi.

The 1969 Banking Decree stipulates that the minimum paid-up share capital of any expatriate bank is 750,000 pounds which was higher than the share capital of either organisations, but which coincidentally meet-up with the total paid-up share capital of the new merging organisation. The Decree must have precipitated the merger in the first place. The name NAL was retained for the organisation because it was more Nigerian than any of the merging organisations. It .is pertinent to mention here that while merchant banking business started only in 1960, commercial banking activities have been on since 1864.

That NAL merchant bank remained the only licensed merchant bank operating in Nigeria until 1973 was because of scarce business opportunities for merchant banks and the paid-up capital requirement. The United Dominion Trust Bank Limited was incorporated in 1973 but could only commence business with the new name of Nigerian Merchant Bank Limited in 1977. Five merchant banks were licensed in 1974 but only two opened for business that year. These are First National City Bank of New York and First National Bank of Chicago which later changed its name to International Merchant Bank. Two others commenced operations in 1975. These are ICON Limited

(Merchant Banks) and Chase Merchant Bank which later changed its name to Continental Merchant Bank. There were 5 merchant banks operating in Nigeria by 1977. This was the year the Nigerian Enterprises Promotion Decree (Indigenisation Decree) was promulgated amending that of 1972.

The Decree classified industries into different schedules. Banking was classified under Schedule 2 of the Decree, under which at least 60% of the equity of such enterprises must be Nigeria-owned. At the same time Government decided to take control of certain critical sectors of the economy including banking, insurance and oil sectors. Although there were attempts before the Decree by some of these banks to indigenize parts of their shareholding, e.g. First Bank and NAL Merchant Bank, the enactment of the Indigenisation Decree of 1977 and the Federal Government's stance on taking over a commanding heights of the national economy led to the indigenisation of 60% of the equity of these foreign banks. Since there was Nigerian shareholding in some of the banks by that time, what the Federal Government did was to acquire enough shares in all the foreign banks to ensure the minimum 60% Nigerian participation. By that single act, the Federal Government became the largest single shareholder in the industry and this situation did not change materially until recently. By extension, the Federal Government became the dominant shareholder in the merchant banking sub-sector.

It was not until 1979 that there occurred another entry into the Nigerian merchant banking arena. The Nigerian-American merchant Bank with Nigerian private investors was established. This entry was significant in the history of merchant banking in Nigeria because it was the first Nigerian merchant bank organised by private Nigerian investors in

collaboration with foreign banking interest. Prior to this, all others were organised between foreign banking interests and Government interest. From 1982 onwards, there was increased proliferation of merchant banks in the country. This may serve as a pointer to the increased business opportunities open to merchant banks. The opening of more branches by the existing ones gave impetus to the increase in the numbers.

In 1983, the first wholly indigenously promoted private bank in Nigeria, First City Merchant Bank Limited (FCMB) began operation in the country. The success of FCMB proved both to Nigerian entreprenuers and the authorities that Nigerians could successfully run their own banks. The post-SAP era proved a fertile time to practice the new found ability and confidence of Nigerians to manage their own banks. Almost all the banks approved since 1987 have been wholly Nigeria-owned. Thus the industry is now predominantly Nigerianized.

By the end of 1998, there existed 39 fully operational merchant banks in the country. This was after the collapse of so many that have been key players in the development of merchant banking in Nigeria.

The period 1990 to date is another turning point in the history of merchant banking services in Nigeria. While it witnessed an unprecedented growth ever, it also witnessed the most chaotic period ever. The first casualty in the merchant banking business was the revocation of the licenses of Financial Merchant Bank Limited, Kapital Merchant Bank Limited and Alpha Merchant Bank Limited, and the suspension of their Board of Directors. In its place, an Interim Management Board was appointed to oversee their affairs with a view to making them viable for disposal to willing investors. Century Merchant

Bank was among another set of eleven banks which the CBN obtained a court order in 1995 to acquire at a nominal fee of N1.00, as provided in Section 36 of the Bank and Other Financial Institutions Decree No.25 of 1995.

The call for a uniform level playing field started during the distress period. The call from the merchant banks was to be allowed participation in the clearing process and also to source for smaller deposits. This prompted the CBN to reduce the amount of deposits merchant banks can source from N50,000.00 to N10,000:00 in 1995. The call from the commercial banks on the other hand was to be allowed to undertake such activities as loan syndication, management leasing, debt conversion programme, etc that are the exclusive preserve of merchant banks. This led to the clamour for what is called universal banking.

Universal banking which is also known as multi-purpose banking has various definitions. The narrow definition neglects universal banking to the ability of a bank to engage in a wide range of financial services and in particular securities business. The broad definition refers to the ability of a bank to own and control non-financial entities in addition to engaging in a wide range of financial activities. The major focus here is on financial-commercial linkages. There are two distinct types of linkages – upstream linkages (through which banks are owned by commercial concerns) and down stream linkages (through which banks own commercial concerns). The emphasis in Nigeria is more on the narrow definition of universal banking even though saliently there exists the broader aspect of universal banking. For example the Dangote Group which is a commercial concern owns Liberty Merchant Bank

Limited. The result of underwriting have also resulted into some banks to own stakes in some commercial concerns.

However, in spite of the earlier calls by bankers for a uniform level playing ground for both commercial and merchant banks, and in spite of the go-ahead given by the regulatory authorities for banks to operate without demarcation, no merchant bank is yet to attend the clearing house. No commercial bank has also encroached into areas dominated by merchant banks. Some have however established their own merchant banks. The financial system is characterized by an array of legislations on banking, insurance and securities businesses. There are three apex regulatory authorities. Separate licenses must be obtained to engage in banking, insurance and securities business while there has been no conscious effort to harmonize the requirements for grant of licenses by the apex regulatory authorities.

The history of merchant banking have been crisis ridden, and to survive in the industry, merchant banks in particular have to consistently formulate strategies that will make them stand out of the crowd.

CHAPTER THREE

3.0 RESEARCH METHOD AND SOURCES OF DATA

3.1 INTRODUCTION

For the purpose and nature of this study, the researcher used secondary sources of data for the obvious reason that there is enough disclosure requirements for a publicly quoted company like NAL. The purpose and nature of the study does not require seeking for any primary source of data. However, there are instances where the researcher engaged some key officers of NAL Merchant Bank for a discussion to clarify certain issues and in some cases, make some revelations that ordinarily would not be contained in the bank's annual reports and accounts, or any other publication for that matter.

3.2.0 Method of Data Collection

The data in this dissertation is from 1989 to 1998 of the operations of NAL Merchant Bank Plc. The research used two sources to collect the data used in this project. This include the documentary and non-documentary sources.

3.2.1 **The documentary source:** This is my major source of secondary data involving research into published books, journals, newspapers, magazines and other materials. Data on NAL Merchant Bank was obtained through contents of its official documents like annual reports and accounts, seminar papers and workshops. Others include courses and workshops attended by the researcher on a general note relating to banking and merchant banking in particular.

3.2.2 **Non-Documentary Sources** This constitute my main source of primary data. It involves my private and telephone discussion with some officials of NAL Merchant Bank. However, some of our discussions were in confidence, and so limits my making direct references to them. The discussions were all the same quite educative.

My other sources of non-documentary sources of data are more or less participatory. I have been opportuned to work with one of the pioneer merchant banks as well as key players in the financial services industry. This opportunity has availed me with a wide range of visual materials and has given me focus and direction, which ordinarily, would not have been possible.

3.3 Method of Data Analysis

Since this research work is of case study nature, analysis of all data collected is focussed on NAL Merchant Bank Plc. Thus, while some data may be of a general nature to the merchant banking sub-sector, particular reference is made only to NAL Merchant Bank. Utmost care has been taken by the researcher to ensure that all data used applies only to NAL, or conclusions drawn is referred to the research object only. This does not however preclude the fact that certain data is of general nature to the entire merchant banks and in some cases the whole financial service industry.

3.4 Limitations of Research Instruments

The research instruments used have some limiting factors:-

The researcher could not make a direct reference to some of the discussions held with some top level officials of NAL Merchant Bank Plc because they were done in confidence. This is in spite of their

relevance and importance. In some instances, the officials were reluctant to divulge some information which they fear may get to its competitors.

Some of the lecture video series of Harvard Business School are protected by International Copyright Laws. However, it is even more difficult to make direct reference to such lecture series because the researcher does not have direct access to it to be presented as a reference material.

There is also the limitation of usage of secondary data as first hand information could not be achieved. I must however be quick to point out that the secondary data used in this research is reliable as it is authentic. Thus, conclusions drawn on the data is reliable.

CHAPTER FOUR

4.0 ANALYSIS OF DATA AND INTERPRETATION OF FINDINGS

4.1 *INTRODUCTION*

The manifest aim of this research work is to analyse survival strategy employed by NAL Merchant Bank Plc in a depressed situation the Nigerian economy finds itself. The banking industry as a whole is experiencing loss of customer confidence as a result of the distress the industry is going through. The data in this thesis covers the period between 1989 and 1998. This period is significant in the history of merchant banking in Nigeria and perhaps the Nigerian economy as a whole. The turbulent global economy, the unstable and often falling prices of crude oil in the world market and the effect of the Structural Adjustment Programme are most pronounced within this period. This is what advised the choice of the period for my analysis.

4.2 Distress in the Banking Industry

Distress in the banking industry is a condition of enormous inability in the operational activities of such banks. It is a severe financial, operational and managerial weaknesses, the indices of which are as follows:-

1. Large volume of volatile deposits
2. Negative or low net interest margin as a result of payment of interest rate on deposits/inter Bank takings than the industry average;
3. Increased non-performing loans
4. Large volume of volatile deposits

5. High staff turnover
6. Inadequate loan policies, etc.

The Nigerian Deposit Insurance Corporation (NDIC) designates a bank as distressed based on its 'CAMEL' rating system. That is they assess a bank's performance in five areas – its capital adequacy, asset quality, management competence, earnings strength and liquidity sufficiency. A bank in a cronic stage of distress is usually one in which the evaluation depicts poor condition in all or most of the five performance factors enumerated above. Such banks will have a gross under capitalisation in relation to their level of operation. They will have high level of classified loans and advances and inability to meet depositors demand for withdrawals. This is as a result of illiquidity that is as a result of distress borrowing and low earnings. All these are a reflection of weak management that manifest into poor credit quality, inadequate and/or inefficient internal control system, high rate of frauds and staff turnover.

The history of bank distress is not a recent development in Nigeria. Neither is it limited to the Nigerian banking environment. The phenomenon is a global problem, which has been experienced by several countries the world over. It featured prominently in the historical development of both the developed and the developing countries of the world. The causes, effects and remedies however vary from one country to another. The United Kingdom experienced the problem between 1973 and 1976. The United States had a fair share of the crisis between 1979 and 1987 when 1,506 thrift banks merged while 111 were terminated and 65 liquidated. Spain experienced bank distress between 1979 and 1983 when 52 out of 110 banks operating in the country were severely affected by the phenomenon. Other countries like Columbia, Chile, Philippines, Thailand and of recent Russia, Malaysia and Indonesia have their own experience at one point in time or the other. Here in Africa,

Guinea experienced banking crisis between 1982 and 1985 when 6 Government-owned specialised banking organisations which accounted for 95 per cent of total deposits of the banking system were out-rightly closed down as a result of poor management, complete lack of supervision and fraud.

In the Nigerian situation, the crisis was first experienced in the 1930s and the 1950s. Between 1929 to 1959, there was an indigenous attempt into modern banking. Between that period 26 indigenous banks were established. However, these banks collapsed just as easily as they were established. Of the 26 banks established, only 4 survived by independence in 1960. The four surviving banks are Bank of the North, National Bank of Nigeria, African Continental Bank and Agbonanaghe Bank (now Wema Bank). There was one common feature among all the four survivors, namely ownership by Regional/State Governments. In fact, it was the lifeline of support from the three Regional Governments that guaranteed the survival of these banks. It is most revealing to note that most of the banks that collapsed during this period have been replicated by new banks in the system today.

The collapse of these banks could be attributed to lack of proper banking legislation, inadequate capital, poor management and supervision and lack of skilled manpower. Of course these are some of the danger signs in any organisation or industry.

This last bank distress which is the third in the series, in the industry, started with the indigenous banks as a result of mismanagement and political meddlesomeness of the state-owned banks where Boards changed with every change in Government and appointments were more for political reasons than professional competence and merit. There was

also an upsurge in the increase of licensed banks without recourse to professionalism. There was also no corresponding increase in supervisory capacity, which caused a lot of supervisory lapses. The scramble for professionally trained manpower and executive capacity increased the cost of labour in the industry and in some instances, resulting into a fall back on other professions as bankers. This resulted into acute competition and sharp practices in the industry. Thus instead of doing real banking, a number of banks turned virtually into traders and foreign exchange brokers.

An attempt by the regulatory authorities to introduce some regulations and control like the prudential guidelines and stabilization securities exposed some major weaknesses in the system including poor loan management, huge un-collectable bad and doubtful debt portfolio, financing mismatches and unsound management practices. These policies rather than arrest the situation, further exacerbate the distress process and the attendant crisis of confidentiality in the entire system.

The macro-economic reforms in use since 1986 have largely contributed to the distress phenomenon in the banking industry. The reforms resulted in the massive depreciation of the Naira, which greatly affected the cost of manufacturing input that is largely dependent on imported raw materials. It also engineered a high domestic capacity under-utilization. These translated into a generalized inability of borrowers be it corporate, governmental or individuals to repay loans and advances obtained from banks. This informed the sharp increase in the poor asset quality of the banks and which greatly eroded the capital base of the banks resulting into panic or distress borrowing.

The increasing interest in banking are many, one of which is the deregulation which made bank licensing relatively easier. The highly publicized nature of perceived profitability of banks acted to draw many more individuals to the sector. There was stampede to enter into banking fuelled by high profit reporting based on imprudent accounting for non-performing assets as banks tried to match the higher performers. The coming into effect of Prudential Guidelines towards the end of 1990 was to improve the technical solvency of banks by standardizing the recognition of income and provision of non-performing accounts. This has greately put the banks in a difficult position in which one of the big three commercial banks in the country posted a huge loss for its 1990 Financial Year and by the end of their financial year end for 1991, they were able to turn the situation into a positive position. Most other banks could not however achieve that feat.

The distress officially culminated into the take over of five affected banks by the Central Bank of Nigeria in May, 1993. The affected banks were African Continental Bank Plc (ACB), New Nigeria Bank (NNB), Pan African Bank Plc (PAB), Co-operative and Commerce Bank Plc. (CCB) and Mercantile Bank. The action resulted into the dissolution of the Board of Directors of the Banks and the appointment of Interim Management Boards (IMB) for each of the five banks. Another decisive action was also taken in February, 1994 when the licenses of Republic Bank Limited and Broad Bank Limited were suspended following their persistent violations of the Banks and Other Financial Institutions Decree (BOFID) number 25 of 1991, and the rules, regulations and directives of the regulatory authorities, especially as they relate to the smooth operation of the clearing system. They were given three months to satisfy certain conditions for lifting of the suspension. It was only

Broad Bank of Nigeria Limited that satisfied the conditions and had its suspension order lifted.

Now the list of distressed banks is increasing by the day. Following the grave distressed financial conditions of Financial Merchant Bank Limited, Kapital Merchant Bank Limited, Alpha Merchant Bank Limited, and United Commercial Bank, the CBN ordered the immediate revocation of their licenses and the appointment of NDIC as the liquidator of all these five banks. By September 1995, the CBN had sacked the Boards of 17 distressed banks and replaced them with Interim Management Boards. It has also obtained a court order enabling it to acquire eleven banks at a nominal fee of N1.00 each as provided in Section 36 of the BOFID of 1991. The banks were so acquired to enable CBN/NDIC dispose off some to willing buyers/investors. However, only very few cases of such transactions have been successfully implemented, and most often, without the hand of CBN/NDIC. For example, Meridian Equity Bank (now Equity Bank Plc) was acquired by another indigenous merchant bank – Intercontinental Merchant Bank Plc.

One will expect the regulatory authorities to have taken a firm decision on the distress situation in the banking industry with a view to stemming it and prevent future occurrence. However, there were a lot of allegations of favouratism in the handling of distress banks in the country. The manner in which some banks were axed down in spite of positive efforts towards recovery, left much to be desired. The slow rate at which the issue is being treated made the distress situation difficult to be arrested. This has made it to spread faster across the industry. The payment of the minimum insured deposit of N50,000=00 could only take place in 1989 and is yet to be concluded. It is only this year that the

NDIC gave notice to depositors of seven banks to come forward to collect payment of liquidation dividend. The banks are Pinacle Commercial Bank Limited (PCB), Victory Merchant Bank (VMB), Merchant Bank of Africa (MBA), Prime Merchant Bank (PMB), Abacus Merchant Bank (AMB), Commercial Trust Bank (CTB) and Republic Bank Limited.

The declared dividends per Naira of excess on un-insured deposits is 19k/N for PCB, 37k/N for VMB, 10k/N for MBA, 20k/N for PMB, 15k/N for AMB, 34k/N for CTB and 13k/N for RBL. Now for the CBN/NDIC to declare dividend after so many years from the acquisition of these banks is an indication that the regulatory authorities do not have the capabilities to handle such a crisis situation in a decisive manner. It is pertinent to point out here that the regulatory authorities are silent as to the way and manner the assets of these banks were disposed. How far have they also gone towards the recovery of some of the bad and doubtful debt of these banks? In the first place, wouldn't it have been more rational to assist and allow these banks pursue a path of recovery rather than opt for the option of liquidation?

4.3 History, Structure and Operations of NAL Merchant Bank Plc

4.3.1 History of NAL Merchant Bank Plc.

The history of NAL Merchant Bank Plc is synonymous with the history of merchant banking in Nigeria. By writing the history of NAL, one is indirectly writing about the history of merchant banking. NAL as the pioneer merchant bank was established on November 25, 1960, as Nigerian Acceptances Limited. It was initially incorporated as a wholly owned subsidiary of John Holt (Liverpool) Limited, to carry on, among other things, the business of banking in Nigeria with speciality in

merchant banking. In July 1969, NAL voluntarily merged its operations with those of Financial Holdings (Nigeria) Limited then trading under the name Phillip Hill (Nigeria) Limited. There were a lot of reasons for the merger, one of which was the lack of enough business activity to warrant for competition. The ownership structure of the two merging organisations was substantially British, and so facilitated the merger. The Banking Decree of 1969 gave the merger an impetus as it had specified the minimum capital requirement, which independently none of the two meet. In November of the same year, 1969, NAL became the first Nigerian financial house to be granted a license to operate as a merchant bank in the country.

At the end of the merger, the name Nigerian Acceptances Limited was retained because it sounds more Nigerian than the names of the two merging organisations. The bank changed its name from Nigerian Acceptances Limited to NAL Merchant Bank Limited in July 1981. The bank subsequently acquired the status of a public limited liability company following a resolution to that effect by the shareholders in March 1992. Thus the name NAL Merchant Bank Plc.

The bank remained the only merchant bank operating in the country until 1973 when others were incorporated but could only start operation in 1975. The new entrants are chase merchant bank which later changed its name to continental merchant bank and Icon Limited (Merchant Banking). It is worthy to note here that most of the other organisations that pioneered merchant banking in the country have gone under leaving only NAL as the sole surviving pioneering merchant bank in the country.

The bank's Financial Year end is 31st of every March. They have a registered office at NAL Towers, 20 Marina, Lagos and their Registrar and Auditors are UBN Register Department and Price Water house respectively.

4.3.2 Structure of NAL Merchant Bank Plc

We will try and analyse the ownership structure as well as the organisational/management structure of NAL Merchant Bank.

It could be recalled that the ownership structure of NAL Merchant Bank after the merger was Philip Hill (Nigeria) Limited, 60% John Holt (Liverpool) Limited, 26.66% C.T. Borrowing & Company Limited, 6.67% Bankers International Luxemburg 6.67% = 100%.

However, the current ownership structure of NAL is as follows:-

NICON Insurance Plc.	30.1%
John Holt Group	10.0%
New Nigeria Development Co.	10.3%
Other Nigerian Citizens & Associations	49.6%
	100%

It is pertinent here to give a brief treatise on the institutional investors or owners of NAL Merchant Bank Plc.

- NICON Insurance Plc, the largest insurance company in Nigeria, is a public corporation established under Decree No 22 of July 1969. NICON handles all classes of insurance. The corporation also reinsures big risks on a reciprocal basis with local and overseas insurance companies. It has investments in such diverse areas as banking, tourism (Hotels), manufacturing and publishing.

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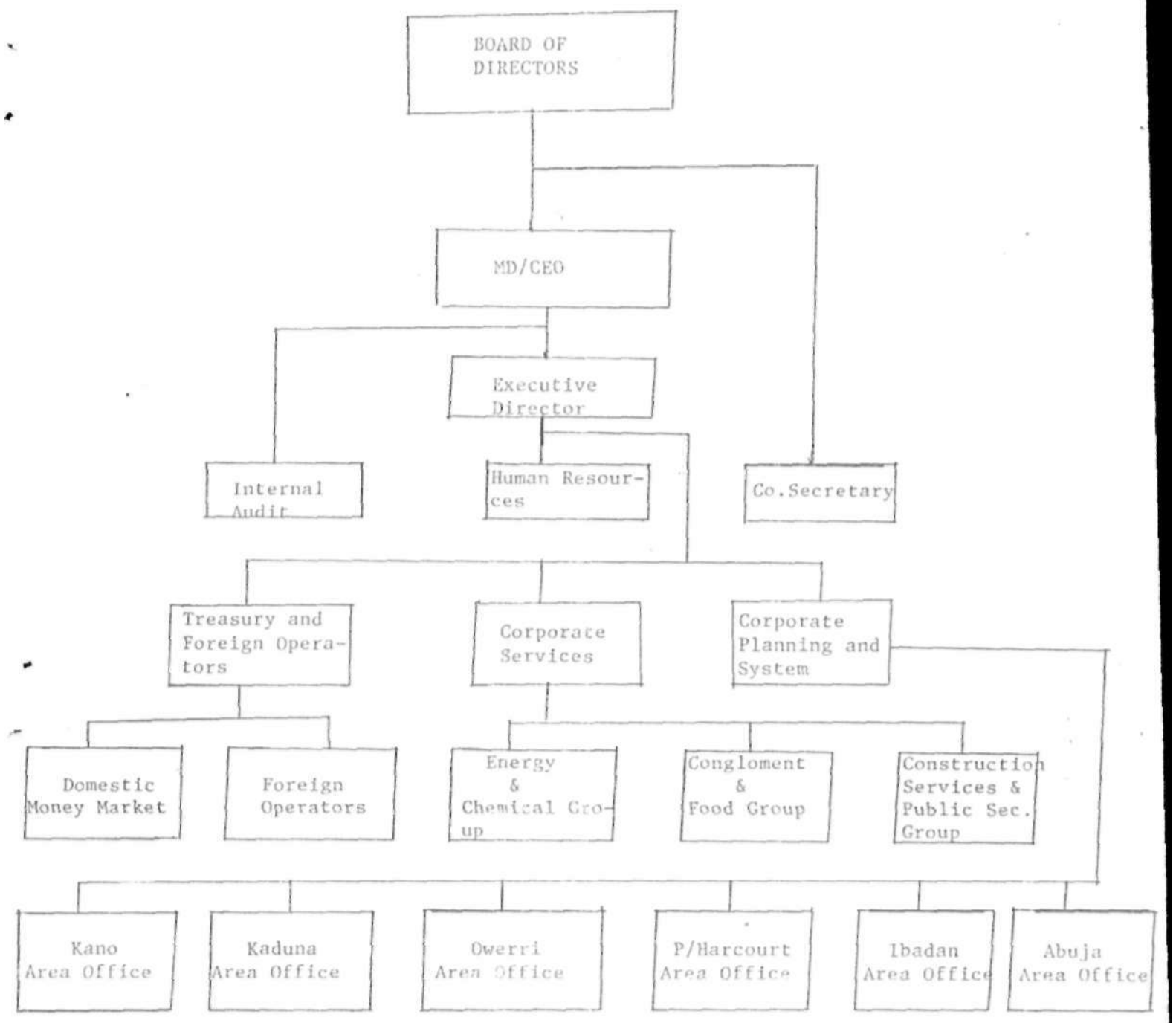
- NICON Insurance Plc, the largest insurance company in Nigeria, is a public corporation established under Decree No 22 of July 1969. NICON handles all classes of insurance. The corporation also reinsures big risks on a reciprocal basis with local and overseas insurance companies. It has investments in such diverse areas as banking, tourism (Hotels), manufacturing and publishing.

- John Holt Group which holds 10% of NAL's shares is based in Liverpool, England. They have a highly diversified commercial and industrial interests, not only in Nigeria but throughout most of the West Africa as well. In Nigeria in particular, these interest date back to pre-independence days. More significantly, the John Holt Group has been involved in a pioneering role in the development of the capital market in the country. In this connection, it is worthy of note that NAL was first established as a wholly-owned subsidiary of John Holt (Liverpool) Limited.
- The New Nigeria Development Company is a development company jointly owned by the governments of the northern States of Nigeria. Originally established by the government of the now defunct Northern Region. Its main objectives is to promote rapid economic development of the northern States. The NNDC have either participated directly or through Northern Nigeria Investments Limited, in a wide range of commercial and industrial ventures in Nigeria. It holds 10.3% of the called up shares of NAL Merchant Bank Plc.

The organisational/management structure of NAL Merchant Bank Plc is headed by a Board of Directors consisting of a chairman, the Managing Director/CEO, an Executive Director and seven other Directors representing various interest groups.

The Managing Director and Chief Executive doubles as the head of the management team as well as a member of the Board of Directors. He is answerable to the Board and serves as the Chief Accounting Officer of the Bank. He is assisted by an Executive Director. The organisational structure of the bank is as follows:-

ORGANISATIONAL STRUCTURE OF NAL MERCHANT BANK.



Each group is designated as a special business unit to provide a range of services from credit, capital market, export, international operations, financial advisory and other banking services to the industries grouped under it. The area offices also serve as Special Business Units (SBUs) to offer banking services covering their areas.

4.3.3 Operations of NAL Merchant Bank Plc

The bank following a recent strategic re-direction of its focus, is engaged primarily in investment banking and capital market activities. It however, continues to remain strong in wholesale banking operations including the granting of loans and advances, letter of credit transactions, equipment leasing, money market operations and other merchant banking activities.

In spite of the turbulent nature of the banking industry, the operating results of NAL Merchant Bank Plc have been quite impressive. The gross profit of the bank experienced an impressive growth between the period of 1989 to 1998. It rose from a total of N229,311,000 in 1989 to N1,566,993,000 by 1998. Profit after tax has also increased over the period from N33,940,000 in 1989 to N363,180,000 in 1998. There was however a slight drop in 1991 and 1994 as a result of the increase in loan loss provision.

The deposit base of the bank grew from N803,702,000 in 1989 to N3,699,101,000 in 1998. The shareholders funds have reached a total of N2,159,110,000 by financial year end 1997. Already, the bank has satisfied the minimum capital requirement of N500,000,000. The total assets of the bank grew from 1.4 billion in 1989 to 7.8 billion in financial year end 1998 with an average growth rate of about 11%. It is important to note that in spite of the drop in the total assets of the bank from N8.6 billion in 1997 to N7.8 billion in 1998, the gross earnings of the bank experienced a corresponding increase from N1.4 billion in 1997 to N1.6 billion in 1998. This increase is significant

because it will translate into an increase in the banks Return on Assets (ROA). This also serves as a sign of good management.

4.4 Services Provided by NAL Merchant Bank Plc

The mission of NAL Merchant Bank Plc is "to be a leader in the provision of excellent, broad based banking services to a select clientele, earning consistently high returns to the shareholders through a team of highly skilled professionals, using appropriate technology in a motivating work environment." In the pursuit of this mission, NAL provides a range of services which will be discussed here. It is however important to note that being a merchant bank, NAL's services are usually tailor-made to suit the need of its customers.

For easy analysis, we will group the services into six categories. The grouping will be capital market, financial Advisory Services, Investment Management, Internal operations, lending and treasury services. In each of these groupings, there are a wide range of services that the bank provides.

4.4.1 CAPITAL MARKET

The capital market is the long term financing end of the financial system. The functions of the capital market are:-

a) To provide opportunities for borrowing and lending for long term purposes;

b) Provide facilities for the quotation and ready marketability of shares and stocks and opportunities and facilities to raise fresh capital in the market;

c) Provide opportunities for share offers and investments;

d) Introduce code of conduct, check abuse and regulate the activities of the operations in the market;

e) Mobilisation of long term capital for economic development

It is in line with the functions of capital market enumerated above that we will discuss the services provided by NAL Merchant Bank Plc under the groupings mentioned earlier.

(i) **Company Floatation**

NAL Merchant Bank has been offering feasibility studies and Advisory services to groups and people that want to float a company. NAL have the reputation as an expert in company floatation and thus could be able to advise its clients and come up with a workable avenue to float a company.

Now the term *floatation* is also applied to the situation where a company seeks to obtain listing for its securities on the floor of the stock exchange. It usually involves the raising of funds by the company. Floatation are open for subscription by the public at large. NAL Merchant Bank have taken a lot of companies to the floor of the Nigerian Stock Exchange. A list of such companies is attached on Appendix A.

ii) **Public and private debt and equity issues**

Public issue is one service that is being offered by NAL Merchant Bank Plc. This implies offering a security, bet it debt of equity to investors other than the company's own stockholders or shareholders. Whenever NAL is making a public offer it is usually accompanied with a brochure giving details of the company's performance in the past, what the new money is needed for, and a forecast, based on past performance of the company's future. This will give a lucid picture of the company with an effort at giving the investor the chance to know what is at stake for him.

This forms part of the securities and exchange commission's disclosure requirement for any public issue.

In the case of private issues, NAL gives advice on the procedures, the drafting of relevant documents and selecting of individual and institutional investors. Some companies may prefer to raise new capital through private placements. This is true of most private companies who may not want a public dilusion of their ownership structure. Such companies whose shares are privately placed do not have their shares or debt instrument quoted on the stock exchange. But every effort is made to ensure that there is compliance to the rules and regulations governing such issues. In the last few years, private placements in the Nigerian Capital market, have been much more numerous than before. This is because of the aggressive marketing by individual financial institutions that have made a shift towards investment, banking and fee-based income transactions.

ii) **Stock Exchange Quotations**

Stock exchange quotation is similar to a public issue; the difference is that in the case of stock exchange quotation does not require the issue of new shares. This is only a move by a private company to want to be listed, and its shares or debt instrument quoted on the stock exchange. NAL offers this service to companies in terms of the documentation, the pricing of the shares or debt instruments and other requirements that will warrant approval for the quotation of the company.

4.4.2 **Financial Advisory Services**

This is a specialized, tailor-made service offered to customers with a view to revitalizing the operations of the companies.

(i) **Mergers & Acquisition**

The bank acts as a financial adviser to corporate management in identifying and evaluating merger and acquisition opportunities. It also helps in providing strategic, tactical and financial advice for achieving particular corporate objectives. Business line diversification either through backward or horizontal integration and/or divestment of old line of business could only be conceived through sound advice. Corporate acquirers benefit from improved competitive position through access to technologies, geographic diversification, broadened product lines and/or new business direction in a relatively shorter time than building new facilities.

(ii) **Project Finance**

The bank has special expertise in the project finance area and as financial adviser to large projects, can advise on the appropriate financing programme. It also provides guidance on the implementation of the financing including the syndication of medium and long term funds through the capital market. Here NAL determines the kind of financing mix that is most appropriate and advise the client. That is what percentage of the financing need should be in the form of capital and what percentage should be in the form of debt.

(iii) **Capital Reconstruction**

One of the bank's most valuable assets is its knowledge of events and developments of the financial markets and its ability to advise clients on such matters. This advice include guidance on company's optimal financial structure, proper type of funding instruments and market acceptance, also on the most efficient use of funds, government policy and regulations and an independent assessment of short and long term

economic prospects. This too is another specialized financial advisory service being offered by NAL Merchant Bank to its clients.

(iv) **Tax Planning**

This is another of NAL Merchant Bank's customized services. It is tailored towards companies that have a stockpile of unpaid taxes. This is then structured in such a way that it will look attractive when taken to the capital market.

4.4.3 **Investment Management**

(i) **Investment Advisory Service**

NAL Merchant Bank Plc offers investment advisory services to assist institutional fund managers and trustees of staff pension, endowment and unit trust funds in developing an overall investment strategy. A comprehensive investment management service is also provided for these categories of funds.

(ii) **Mutual Funds**

This is a multi optional investment fund in which the bank is at liberty to decide on the kind of investments to make for the customer. The customer in the same token, enjoys some of the bank's facilities at will, with his fund serving as a back-up collateral.

(iii) **Personal and Corporate Trustee Services**

The bank have expertise in the management of personal as well as corporate trustee funds. The bank normally represents its clients on trust on some personal estate or corporate entities.

(iv) **Portfolio and Funds Management**

NAL Merchant Bank Plc, being an expert in the capital market, is in a better position to manage portfolios either of personal or corporate action. Some high networth individuals and/or corporate bodies may hold a lot of shares in different companies, cutting across different sectors of the economy.

Portfolio management is a term used to describe what investment professionals do to earn their living. It is an attempt to achieve investment returns that differ from those implied by the market line. NAL Merchant Bank Plc employs a wide variety of investment philosophies and procedures. They predicate the ebb and flow of investments on business cycle analysis or the identification of technical trends. Portfolio holders may not be able to indulge in this kind of analysis and as such could not keep track of changing events affecting the various sectors of the economy, and by extension, their portfolio. This is where NAL comes in with its expertise to forecast more accurately than the market. Moreover, the difference in expectations is of sufficient magnitude to cover transaction costs and to allow for the error factor.

The fund management unit of NAL Merchant Bank Plc have the objectives of sourcing and managing funds on behalf of clients for a fee. There are two types of funds; pension funds and general investment funds. Pension funds are obtained from companies operating pension schemes. The amount under management increases as additional contribution are made into the scheme. General investible funds are obtainable from corporate bodies, government parastatals and high networth individuals.

Funds Management begins with canvassing for a mandate through the preparation of a fund management proposal. The following are often contained in such a proposal.

- Background information on NAL
- Securities to be invested in (money & capital Markets)
- Guaranteed minimum rate of return
- NAL fee structure, etc.

(v) **Venture Capital**

Venture capital is simply the financing of the start-up stage of a business through equity participation. This entails taking on very high risk. Venture capitalists also provide management back-up to such enterprises.

However, venture capital has of recent gone into areas other than 'seed' financing. NAL have provided expansion finance, technology spin-offs and buy out funds. A venture capital investment just like any other project, goes through four stages of growth and development. That is the stages of start-up, expansion, maturity and saturation stages. That is why management back-up always accompany venture capital financing in the form of monitoring and evaluation to see that the project has succeeded.

Venture capital financing is very beneficial to the Nigerian economy because it boosts the commercialization of research findings and encourages the utilization of local raw materials through adapted technology. Venture capital also enhances foreign exchange inflow through export production and attraction of foreign investors. It also assists the development of local technology and entreprenuership as well as provide additional employment opportunities.

4.4.4 International Operations

International operations involve services offered to clients that cut across international boundaries. We will recall that merchant banking emanated as a result of international trade and the international merchants metamophosed into

today's merchant banks due to their knowledge of international trade laws. One can conveniently conclude therefore that this is an area where NAL Merchant Bank have a solid history of performance. From its history of ownership by John Holt Group, Philip Hill, and CT Borrwoing & Co., who are all reknowned merchants, is an indication of NAL's long history of involvement in international trade.

(i) **Correspondent Banking**

NAL Merchant Bank Plc uses about four overseas correspondent banks for its foreign operations. This is to provide for flexibility for its customers engaged in foreign transactions. The correspondent banks are:-

(1) Australia and New Zealand Banking Group, London;

(2) Citibank, New York;

(3) Midland Bank Plc, London;

(4) United Bank for Africa Plc, New York

It is worth noting that the four banks are spread evenly between London and New York for the obvious reason that they are the financial capitals of the world. Another reason is that most of our trading partners are in Europe and the United States of America. As such it makes good business sense to locate correspondent banks in a place where such international transactions takes place. Another point worthy of note is that they use UBA foreign office as one of their correspondent banks because of their wide branch network in the country.

(ii) **Documentary Collection**

This is a service provided by NAL Merchant Bank to trading parties, buyers and sellers with a compromise between open account terms and payments in advance for settlement of their transactions. The collection service offered by the bank is a means by which a creditor in one country may obtain settlement from a debtor in another country through banking channels at minimum cost.

Documentary collection is a very good method of controlling the movements of goods by arranging for the bank to have control of the documents. The exporter sends the goods directly to the importer's country and instruct his bankers to arrange for the documents to be sent to the correspondent bank in the importer's country with the instruction to release the documents against acceptance or payment of a bill of exchange. Thus, the bank effect settlement to the exporter against presentation of documents relating to goods as specified by the importer.

Documentary collection is the collection of commercial documents (e.g. invoice, bill of lading, shipping documents etc.) with or without financial documents.

(iii) **Inward and Outward Remittances**

In inward remittance, NAL acts as the remitting bank, sending documents abroad or to local banks in Nigeria and obtaining payments through its agents.

In outward remittances, the bank acts as a collecting bank and receives documents and instructions from banks abroad on whose behalf it endeavours to collect money from the importer, remitting the proceeds to its principal, the remitting banks abroad.

(iv) **Letters of Credit**

Letters of credits are trade finance instruments that involves the provision of funds to one or more partners involved in an international trade deal so that the transaction can take place. It is an undertaking by a bank given to an exporter at the request of an importer to pay at sight or at determinable future date up to a stated sum of money, within a prescribed time limit and against stipulated documents.

NAL's letters of credits ensure guaranteed payment to exporter and contract fulfillment to importers. But like all other letters of credit, it does not offer protection against fraud as it deals only in documents and any discrepancy between documents and goods have to be resolved by the importer and exporter. There are different types of letters of credits which include revocable, irrevocable and confirmed letters of credits.

4.4.5 **Lending**

Lending is another major service offered by a bank. It is the major means of creating an asset by a bank. NAL Merchant Bank Plc offers a lot of financing options to its clients.

(i) **Asset-based Financing**

This is what is referred as warehouse financing. This is a form of medium term financing that is offered by NAL Merchant Bank Plc. It is a secure lending in which the bank finances a borrowers goods. A bill of sale and tripartite warehouse agreement gives the bank title to the goods until they are sold. The proceeds from the sales of goods by the borrower is used to pay back the bank facility. This kind of facility offers the client the opportunity to have possession of raw materials and other commodities when the price is low and its supply at its highest.

The bank on the other hand maintains control and ownership of the goods through a warehouse agent who releases the goods to the client upon a written instructions of the bank. By this arrangement, the bank is guaranteed of repayment of the loan. There is therefore reduced possibility of risk of default as the client makes periodic peacemeal repayments whenever he wants to deflate the stock of goods under the warehouse agreement.

(ii) **Development Financing**

NAL Merchant Bank Plc engages in development financing as a compliance to Government policies and regulations. With government emphasis on self sufficiency in food production and housing for all in the country, NAL as a lead merchant bank is committed to offering financial services to investors in these sectors and other sectors of the economy.

(iii) **Equipment Leasing**

Leasing is relatively new in the Nigerian financial system. NAL Merchant Bank Plc engages in lease financing activities. This involves the leasing of equipment to customers on a full pay-out basis. A lease is a contract between a lessor (here the bank) and a lessee (here the user of the equipment or assets) giving the lessee possession and use of a specific asset, owned by a lessor on payment of rentals over a period. It therefore provides a firm with the use and control of assets without receiving title to them. Leasing has become an increasingly important source of long term funds for large and small companies operating in the Nigerian environment. It therefore requires the financial expertise and strength of banks like NAL to manage and offer this kind of financial service.

There are basically three types of leases operational in Nigeria and by extension being offered by NAL Merchant Bank Plc.

1. **Operating Lease:** This kind of lease does not impose any long term obligation on either the lessor or the lessee and may usually be cancelled by either party after giving a certain stipulated notice.
2. **Service Lease:** Under this arrangement, the lessor provides both financing and servicing of the asset during the lease period.

3. **Finance Lease:** is a lease on fixed assets that may not be cancelled by either party. As a source of funds, the financial lease is basically the same kind of alternative as long term debt financing. This kind of lease is of primary concern to the financial analyst.

(iv) **Export Financing and Development:**

The Federal Government decided to promote and encourage non-oil export in a bid to generate more revenue and diversify its foreign exchange earnings which have been experiencing a sharp decline in recent times due to the falling price of crude oil in the international market.

In line with that effort, NAL Merchant Bank Plc have placed at the disposal of its numerous customers and all potential exporters the knowledge and experience it has acquired over the years through active participation in the financing and promotion of export trade. Their correspondent banks facilitate export processing and receipt of export proceeds.

(v) **Loan Syndication**

A syndicated loan is an agreement between two or more lending institutions to provide a credit facility to a borrower using a single comprehensive loan document to which all are parties.

NAL Merchant Bank Plc have 'lead managed' syndicated loans and have also participated in other loan syndication agreements managed by other banks. The market for syndicated loan began in response to the growing need for large sums of money by companies which ordinarily cannot be provided by a single bank. This is to avoid over exposure to a single borrower as well as to diversify risk.

Loan syndication offers a lot of advantages to both the borrower and the lenders. The borrower enjoys a more competitive pricing than only dealing with one bank. He also has access to a large amount with one single loan document. It also enables him to free up other credit lines and have simplified administration and negotiation procedures as the loan is managed by a single bank known as lead manager of the syndicated loan.

The advantage of a syndicated loan to the lenders include diversified risk and the potential to sell related bank products to the borrower and also the flexibility tailored to suit participating banks.

(vi) **Long Term Loans**

Long term loans are secured or unsecured business loans of usually two to ten years in maturity which are repayable according to a specified amortization schedule. For the most part, these loans are repayable in periodic instalments and the amortization schedule is designed to fit the borrowers projected capacity to repay as well as the needs of the lender.

Frequently, this schedule calls for equal periodic instalments, but it may be irregular with respect to amounts, or may simply call for repayment in a lump sum of final maturity.

Another aspect of a long term loan is an initial grace period when only interest is paid without principal repayment, i.e. moratorium is granted. NAL normally charges a certain percentage over its prime lending rate.

(vii) **Short and Medium Term Loans**

Short and medium term loans involves maturity of between less than one year to two years. While the need may be different, the conditions for term loan,

whether short, medium or long, are the same. They are also mostly secured in Nigeria.

NAL also offers revolving credit which possesses the characteristics of both the short term and long term credits. Here the borrower have complete flexibility in borrowing all or any portion of the total amount available and he can repay any amount any time during the life of the commitment. This means that revolving credits do not have repayment schedules per se, but that repayment is at the discretion of the borrower. However, the amount outstanding at the end of the revolving credit is due and payable or if stipulated may be converted into a term loan whose term and repayment schedule is stipulated in the original agreement.

4.6 Treasury Services

The treasury department of any bank is becoming increasingly the most important unit of the bank. It functions as the sole manager of the bank liquid assets in the most efficient and profitable manner. It also involves the minimization and neutralization of risks. The treasury department provides adequate funding to support the bank's assets, creating, operating and other activities at all times and at the least possible costs.

The treasury department also optimizes the returns (or yield) on the banks liquid assets, taking into cognisance statutory liquidity requirements in relation to available short-term investments opportunities. It develops strategies for strengthening the stability of the banks funding base. It also engages itself in a continuous monitoring of the financial markets in order to develop coherent and realistic funding/liability structure.

Given the above brief treatise of the bank's treasury department, NAL Merchant Bank Plc offers some services in line with the functions of its treasury deparment of these services are:-

(i) **Bankers Acceptances (BAS)**

Bankers Acceptances are negotiable instruments used to finance trade. They are discount instruments offered on behalf of clients (mostly companies) with recourse to the bank to pay at maturity on demand. It is usually with a tenor of between 7 and 180 days maturity. It is a discount instrument which yields slightly higher than bank deposits of comparable tenors. BAS are demands to pay that have been accepted by the bank. This means that even if the client is unable to pay at maturity, NAL is at obligation to pay the investor or is liable to discount it before maturity. Market for BAS is mostly provided by banks, institutional and private investors. The guarantee provided by NAL makes BAS issued by them to be highly marketable. This is because of the goodwill they have acquired over the years. The investor of the BAS will invest the discounted valued while he will receive the full value upon maturity. He has the option of presenting it to the bank also for discount if he cannot hold it to maturity.

(ii) **Call Deposits**

These are deposit accounts kept with the bank and can be called back either on demand or by giving the bank a notice of one day or seven days. As the tenure implies call deposits does not have secondary markets like BAS and as such can not be sold to a third party at a discount. Call deposits of NAL are available to individuals, private an public sector institutions. NAL's deposit accounts by other banks are referred to as interbank takings, but the terms and conditions are the same with other call deposits. The interest rate applicable to interbank takings are slightly higher than other private call deposits. This is because of the bargaining power of other bank treasurers who are also players in the market and are therefore conversant with the markets going rate.

(iii) **Commercial Papers (CPs)**

Commercial papers are simply short term IOUs used by a company. CPs have long been a short term source of finance to blue chip company. NAL market CPs on behalf of companies without any recourse to the bank. This means that CPs are unsecured promisory notes of borrowing companies placed through dealers (usually through reputable banks- in this case NAL), CPs have a maturity of between 30 to 270 days and do not usually have secondary market but are discount instruments just like BAS. They usually yield higher returns than BAS of comparable tenors to compensate for the higher risk of default and illiquidity.

(iv) **Domiciliry Accounts**

Domiciliry accounts are foreign currency denominated accounts maintained with NAL Merchant Bank Plc. Clients with such accounts have the option of making a withdrawal or deposits into their accounts with the local currency but to be reflected with the foreign currency with which the account was opened at a rate determined by NAL and the customer.

(v) **Foreign Exchange Transactions**

With increased deregulation of the economy, companies needing foreign exchange have to bid for it at a market determined rate. Thus, there was increased tempo in the foreign exchange market. There was intitially the Second Tier Foreign Exchange Market (SFEM), the Autonomous Foreign Exchange Market (AFEM) and now the Foreign Exchange Market (FEM). All these are markets where the Naira exchange for another foreign currencies like the Dollar and the Pound Sterling. As a result of the high inflation rate in the economy, the Naira was weaker against some other major currencies of the world.

NAL Merchant Bank makes bidding on behalf of its customers at the periodical foreign exchange market. These buildings are usually backed by Naira deposits with the bank. The proceeds of any successful bidding will be debited to the account of NAL Merchant Bank with the Central Bank of Nigeria (CBN). We will not engage ourselves with the intricacies of the foreign exchange market here. But we will point out that NAL Merchant Bank Plc, like other banks, always displays the current exchange rate of the Naira against other major currencies of the world on a daily basis.

(iv) **Money Market and Funds Management**

NAL Merchant Bank Plc have pioneered the development and introduction of a lot of money market products that are comparable to those available in any developed economies of the world. These money market products offer a lot of incentives and benefits to investors. Among such innovative products of NAL are the PIC and PEP.

(a) **PIC- Premium Investment Certificate**

This is a new product launched in the Nigerian money market with a minimum investment amount of N1 million and tenor of one year. The interest rate is negotiable depending on the amount of investment. Added to this is a premium rate of 3% per annum of investment amount as retirement and child educational gratuity. There is also a holiday grant of the Naira equivalent of between $375 to $50,000 depending on the amount invested. An air ticket grant of between N40,000 to N320,000 is another feature of the premium investment certificate. This too is dependent upon the amount of money invested. Total funds generated by the PIC amounted to over N1.6 billion by the end of 1998.

(b) **The PEP – Precious Earning Paper**

This product have a minimum investment amount of N100,000.00 with a minimum tenor of 90 days and has an optional insurance cover for death of 100% of the amount invested, and of the principal amount invested, or an additional 1.5% on the negotiated interest. Other features include:

- Accidental death grant of 100% of the amount invested, and is subject to a maximum of N3 million.
- Settlement of a medical bill on accident subject to a maximum of N100,000:00.
- Holiday grant of the Naira equivalent of $20-$5,000 subject to a maximum of N90/$.
- Air tick grant of between N12,000:= to N455,000 depending on the amount invested. PEP was launched in 1988 and have funds worth N159 million by the end of 1989.

(vii) **Time and Current Deposits**

These are deposits with the bank evidenced with a certificate. The deposit certificate are tradeable to a third party (in this case secondary market provided by the CBN), though rarely used. It is offered to individuals, private and public sector organisations and companies other than banks. These certificates of deposits have a minimum tenor of 30 days and have no maximum tenor. But generally they are not longer than six months. This is because of the fluid nature of the money market rates. The bank does not want to be tied down with a liability that could not be renegotiated. They could however be rolled over at the end of every maturity in which case both the bank and the investor are at liberty to renegotiate the terms to reflect market trends and desires. Interest is normally paid at the end of maturity. Time deposits may occasionally be issued on a floating rate basis when the maturity is longer than six months. These are

referred to as Floating Rate Certificates of Deposits. The minimum investible amount for deposit (Time) is N100,000=00

Given to the range of financial product being offered by NAL Merchant Bank Plc., there is hardly any area that has not been touched by the bank. A list of some of the capital market transactions handled by NAL is attached as Appendix One covering the period of 1989 and 1998. The list does not however constitute an exhaustive list but a few selected examples of some of the issues handled successfully by NAL Merchant Bank Plc.

It is important we point out here that only capital market issues are attached because there is enough disclosure requirement and so the bank is not disclosing information about its customers as such information have already been made public at the time of the issue. In fact the success of any capital market issue is dependent upon how widely it has been publicized.

We could not publicize the list of treasury and credit customers because the bank is bound by its oath of secrecy pertaining to such customers accounts. However, I will be quick to point out that the list is as rich as that of the capital market. It has, in its portfolio, an array of both treasury and credit customers that are big names in various sectors of the economy.

4.5 Survival Strategies Adopted by NAL Merchant Bank

Strategy is the search for a favourable position in an industry. It aims to establish a profitable and sustainable position against the forces that determine industry competition. This research will apply the concept developed by Michael E. Porter in his book: "*Competitive Strategy*"..., to NAL Merchant Bank.

For a better understand of the application of the framework developed by Mr. Porter, I will recapitulate his core concepts of competitive strategy. The first fundamental determinant of a firm's profitability (long-term) is industry attractiveness. Strategy must grow out of a sophisticated understanding of the rules of competition that determine industry attractiveness with a view to cope with and ideally, to change those rules in favour of the firm. In any industry, the rules of competition are embodied in five competitive forces, namely, the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitutes and the rivalry among existing firms in the industry. The collective strength of these forces determines the ultimate profit potential of an industry and it varies from industry to industry ranging from intense to mild.

The strength of these forces is a function of the industry structure or the underlying economic and technical characteristics of an industry. This research will not however go into this Porter's position and, classify the financial industry a being perfectly competitive etc. I would rather take each of the forces on its own merit and see how NAL was able to counter its threat. A diagram of the five forces is depicted in Appendix 2.

A firm's relative position in an industry determines whether its prifitability is above or below the industry average. I might add here that it also determines its long term sustainable profitability or otherwise. Although a firm may have a myriad of strengths and weaknesses in relation to its competitors, there are two basic types of advantages a firm can possess as opined by Mr. Porter. These are low cost and/or differentiation. These two basic advantages combined with the scope of activities for which the firm seeks to achieve then lead to three generic strategies for achieving above average performance in an industry:

a) Cost leadership

b) Differentiation

c) And Focus

The focus strategy has two variants; the cost focus and the differentiation focus. We shall now look at the strategies adopted by NAL Merchant Bank to survive in spite of the contending forces, given the background above.

4.5 Threat of Entry

It is evident that there is little or no barriers to entry into the banking industry the existing banks can put. The only barriers to entry are specified by the regulatory authorities. The increased number of banks between 1989 and 1998 is enough evidence. See Appendix 3 the number of Banks, both Merchant and Commercial for that period.

The entry barriers which have direct bearing with the existing participants in the industry, are however an exclusive preserve of the regulatory authorities. For example, since 1991, the regulatory authorities suspended the issuance of new licenses to banks. This perhaps is a response as a result of calls by banks executives that what the industry needs at the moment was to stem the rise of distress rather than continue to float new banks. The regulatory authorities therefore started offering some of the acquired banks for sale to interested investors.

The strategy adopted by NAL to survive this particular threat could be grouped into what I call covert and overt strategies.

The covert strategies are those that involve private discussions between NAL officials and those of the regulatory authorities under friendly endeavours. Others include being distinct in the discharge of its services such that investors and clients will see no need for leaving their bank (in this case NAL) for a 'green horn' bank that is just coming into the industry when even those that

have relative experience could not survive the distress not to talk of a complete starter.

The overt strategy include joining the campaign that the country is over banked that is why there is distress in the industry because the banks have over stressed the clientele which resulted in cut-throat competition among the banks. Others include the provision of excellent and customer-oriented service, remaining relatively conservative in its approach to banking, etc. In fact, NAL refused to start offering unit trust services because it considered the Nigerian market as not ripe enough for such services and the fact that it involves managing a large variety of smaller customers with little amount of investment. This they consider as involving in commercial banking that will detract their focus on merchant banking.

This conservative nature of NAL Merchant Bank have made it to comparatively have a lower deposit base than its pears like Continental Merchant Bank, ICON Limited (merchant bank) and the Nigeria Merchant Bank. All these other merchant banks are now history as they have been liquidated as a result of their cronic distress situation. Therefore a comparison of their data on this will not be complete as financial statements for these banks are not available for most of the period under study.

Now let us consider some of Michael Porter's entry barriers as strategies of survival for their competition-reducing abilities and try and see if they are in place in the case of NAL Merchant Bank Plc. Such entry barriers as postulated by Mr. Porter include economies of scale, capital requirements, absolute cost advantage, access to distribution, government policy etc.

NAL Merchant Bank being the pioneer merchant bank in the country have advantage of economies of scale due to its knowledge of merchant banking

business in the country. This knowledge has made it to offer services to a wide range of clientele at a relatively lower cost than the industry average. The special nature of merchant banking services has made it difficult for new entrants into the sub-sector even when there was a risk into the banking business. The minimum capital requirement as stipulated by the regulatory authorities is another mitigant to new entrants into the merchant banking business especially now that it has been made uniform for both commercial and merchant banks. While NAL has already met and surpass the minimum of N500 million, a lot of other banks could not yet meet the deadline given and are now talking of mergers and takeovers not to even talk of new entrants.

Other entry barriers that serve as policy measures to NAL include absolute cost advantage in terms of low overhead cost, access to distribution through its wider branch network of seven area offices strategically located to cover major business areas in the country. Government policies over time have been discouraging for new entrants, as these policies like the stabilization securities, prudential guidelines, interest rate policies, etc. are perceived by many as punitive on the banking sector which perhaps resulted in the distress situation.

On the whole therefore, NAL survival strategies as it relates to new entrants into the industry lies partly on a deft knowledge of the industry that was developed over time, and partly on government policy in its effort to regulate the banking industry.

4.5.2 **The Threat of Substitutes**

The growth of the banking sector is a reflection of the growth of the entire financial services industry. This growth have its opportunities and challenges. Some of these challenges include increased variety of products. This also entails increased competition. Appendix V shows the growth of other non-bank financial institutions that offer a variety of substitute products to bank services.

In spite of these increased array of substitute services, NAL Merchant Bank adopted the policy of being conservative. They were not carried away by the euphoria of up-front interest payments, unit trust etc. They remained a merchant bank and continued to offer services that are traditionally considered to be for merchant banks. This perhaps is the major reason why NAL did not fall into the distress phenomenon. NAL was also able to maintain its traditional customers through the provision of excellent and timely services. Because of its long presence and demonstrated performance in the market, the bank enjoys considerable patronage and trust of its customers. When almost every merchant bank was embracing the idea of up-front payment of interest, which is a response to finance houses competitive aggressiveness, and which is a product of the finance houses, NAL Merchant Bank maintained its traditional payment of interest on deposits at maturity.

This sort of strategy enabled NAL Merchant Bank to keep badly needed monies at a time of great liqudity squeeze. This therefore improved their liquidity position and ability to respond to customer demand as at when due. This kind of strategy also gives NAL an edge in its bargaining power.

4.5.3 Bargaining Power of Suppliers

The main and perhaps the major input of banks is funds. These funds are sourced by banks through many channels. For ease of analysis, we shall group these sources of funds into two; namely, funds sourced from shareholders- here called shareholders' funds, and other funds that could be either deposits from other banks and non-bank sources and other liabilities.

A look at the bank's balance sheet on Appendix VI will show that the bank assets is financed by a mixture of both shareholders' funds and other non-shareholders funds that comprise deposits and other liabilities. Now the

percentage of shareholders funds (comprising called up share capital and reserves) to total funds have been increasing from 15.46% in 1989 to as high as 27.87% in 1998. This is depicted in Table 1 below :-

TABLE ONE

PERCENTAGE OF SHAREHOLDERS FUNDS TO TOTAL FUNDS

YEAR	(1) TOTAL FUNDS ('000)	(2) SHAREHOLDER'S FUND ('000)	PERCENTAGE (%)
1989	1,404,306	216,161	15.40
1990	1,456,450	243,470	16.72
1991	1,628,814	318,858	19.58
1992	2,457,970	463,486	16.55
1993	2,874,422	602,878	21.00
1994	3,263,654	602,640	18.47
1995	8,715,270	1,858,460	21.32
1996	7,668,271	1,931,817	25.20
1997	8,633,169	2,159,110	25.00
1998	7,956,284	2,217,761	27.87

Source: NAL's Annual Report & Accounts 1989-1998

The table then shows that the bank's policy is to make use of shareholders funds as much as possible. This is because of the permanent nature of the fund and the fact that management is by no way obligated to pay any consideration for the use of such funds. An even closer look at the composition of the shareholders' funds will reveal that a greater percentage of it is in terms of reserves that does not entail even the customary payment of dividends.

This strategy have greatly helped the bank in improving its liquidity and at the same time checked the level of run down on its funds when the distress crisis intensified and there was a general loss of confidence on the whole of the

banking industry. This implies that these kinds of suppliers of funds have limited bargaining power as they could only request for dividends on the called-up portion of their funds and which even that management is not under any obligation to pay.

Having analysed the first financing source and their bargaining power, let us now look at the other sources of financing and analyse their bargaining power. Table Two depicts an analysis of the bank's deposits and other accounts by maturity.

TABLE TWO

ANALYSIS OF DEPOSITS BY MATURITY

YEAR	DEPOSITS ('000)	(%) WITHIN 1 MONTH	(%) ABOVE 1-3 MONTHS	(%) ABOVE 3-6 MONTHS	(%) ABOVE 6-12 MONTHS
1989	803,702	43.50	26.32	20.63	9.55
1990	811,528	58.15	16.56	20.20	5.09
1991	805,121	37.00	32.55	20.45	10.00
1992	1,011,044	64.06	24.49	8.36	3.09
1993	1,341,266	28.17	51.43	15.40	5.00
1994	1,311,055	27.41	61.36	9.81	1.42
1995	2,460,558	33.52	60.36	2.05	4.07
1996	3,423,672	41.80	32.93	9.82	15.45
1997	4,258,105	46.40	53.05	0.52	0.03
1998	3,699,101	46.90	8.65	16.81	27.64

Sources: NAL's Annual Report & Accounts 1989-1998

The above table will show that a greater percentage of the bank's deposits mature between one month and three months. This is normal and expected within the industry. Thus, depositors of funds wields a great bargaining power especially when it comes to the maturity of the funds. The pricing is however dependent upon market forces which in turn depends upon such factors as

market awareness of the depositor, negotiating ability of the banker, the level of market confidence on the bank, availability of funds in the market etc.

A point to note on the above table is the bank's ability to scale down its inter-bank Taking composition of deposit base in 1989 and 1990 to as low as about N5 million. This is because of the fluidity of such funds and high capitalisation of the bank that enables it to rely on its own internally generated funds in times of crisis. It should be recalled that it was in 1990 that the government first withdrew public sector funds from the banking industry. It is also the period when distress in the banking industry became manifest.

In addition to the above, NAL Merchant Bank have at its disposal a substantial amount of funds that is very cheap with little or no cost attached. These are funds that are considered free in the banking industry. The ability of a bank to source these kind of funds depends to a large extent on its efficient service delivery system and customer confidence enjoyed. This kind of funds include customer's deposits on account of foreign currency obligations, capital market issues receipts, deposits on account of foreign trade transaction, and other credit and sundry provisions.

These kind of funds run into hundreds of million reaching as high as N3.6 billion in 1995. It is important to note that a greater percentage of these funds are in the form of customer deposits on account of foreign currency obligations.

Table 3 below shows other liabilities considered free funds, and the portion constituting foreign currency obligations.

TABLE THREE

FREE FUNDS AND DEPOSITS ON FOREIGN CURRENT

YEAR	TOTAL FREE FUNDS ('000)	DEPOSIT ON FOREIGN CURRENCY ('000)	PERCENTAGE OF TOTAL
1989	281,894	252,768	90.00
1990	312,646	205,211	66.00
1991	384,208	314,726	82.00
1992	796,272	497,766	62.51
1993	764,673	265,711	38.13
1994	1,133,099	922,092	81.38
1995	3,613,384	2,240,827	62.00
1996	1,653,854	662,680	40.06
1997	1,563,842	1,157,877	74.40
1998	1,515,260	1,021,079	67.39

Source: NAL'S Annual Reports and Accounts 1989-1998

These kind of funds improve the bank's liquidity and enable it to earn fee-based income. This is in addition to their stability and cost-free attributes.

4.5.4 **Bargaining Power of Buyers**

The buyers of a bank's products are the end users of funds. These users of funds vary in terms of what they intend to do with the funds. An analysis of these buyers may not be necessary in this write-up as the focus is on their collective bargaining power in a buyer-seller trade-off.

There are certain things that determine buyer bargaining power. These include buyer concentration, volume, switching cost, product differences, brand identity etc. A buyer group is powerful if it is concentrated or purchases in large quantity. Buyers also tend to be more price sensitive if they are purchasing products that are undifferentiated and of a sort where quality is not particularly important. With the influx of non-bank financial institutions

customers threw caution to the wind and started moving their funds to finance houses. Some banks in an effort to stop the flight of funds, started acting like finance house, offering rates they could not maintain in the long run. This was what resulted in their being distressed.

While finance houses borrow short and lend short, engaging mostly on trade financing, banks on the other hand borrow short and lend long. In this circumstance, the bank's customers agree to these high rates because they really needed the money but know fully well that they could not sustain servcing the loan in the long run.

NAL Merchant Bank Plc did not follow the crowd. They were able to remain traditionally a merchant bank. They maintained their credit customers through lower lending rates than the industry average as they have a cheaper source of funds. Thus, the bargaining power of buyers of its services is limited because they get a better service dealing with NAL than with other banks and financial institutions.

4.5.5 **Rivalry within the Industry**

NAL Merchant Bank Plc. Have the enviable record of being the first merchant bank to be established in the country. With its wealth of experience in merchant banking, the strategy adopted by NAL is to differentiate its products and diversify its market through its strategically located branches.

Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and advertising. Although there is price control in the banking industry in most times through the capping of the prime lending rate, NAL is moderate in its other charges that are not regulated and are left to be determined at the

discretion of the individual banks. NAL therefore adds only a percentage or two above the prime lending rate.

NAL has been in a pioneering position in the innovation of new products in the industry. The introduction of Premium Investment Certificate (PIC) and Precious Earning Paper (PEP) is another milestone in the banking industry. These two products have helped the bank to maintain a comfortable position in the industry in terms of sourcing secure and long term funds. Its prowess in foreign trade and foreign currency transactions which emanate from its own history, have also helped the bank to keep its position of leadership in the industry.

While other banks were scrambling for more and more deposits at a cut-throat rate, NAL was able to even trim down its deposits. This was done through serious trimming of its inter-bank takings. This strategy has therefore made NAL to grapple with less withdrawals at the height of the liquidity crisis.

4.6 Summary of Research Findings

Having gone through this analysis and having assessed the forces affecting competition in relation to NAL Merchant Bank Plc., it is evident that the bank adopted a multi-faceted approach in dealing with these contending forces in its survival efforts. This perhaps is because of the fluid nature of the financial services industry in the country. This therefore means that there are a lot of yardsticks in measuring an industry leader, and as such there is no single bank that can claim absolute leadership of the industry. Some banks may come first in terms of their deposit base or total assets and others in terms of Return on Investment (ROI) or On Return on Assets (ROA). All these have made the researcher to avoid a categorical statement as to the absolute leadership position of NAL Merchant Bank, and by chance, it may be the reason why the bank uses a multiplicity of strategies in its survival efforts.

In some instances, the bank have used cost focus strategy. This can be seen in its resolve to shed-off all inter-bank takings at the peak of the industry's distress. This strategy therefore helped the bank to avoid the attendant high interest charges on inter-bank takings. This helps in lowering its total cost of funds and as such enable it to offer low cost services to its customers. To supplement its deposit base, the bank targeted non-bank customers for its deposit mobilization. This is achieved through its strategically located six branches which is complemented by a selective door-to-door marketing visits to offices of prospective clients to solicit their interest in operating an account with the bank.

This high level personal contact with prospective clients enabled the bank to expand its customer base. Because NAL was able to source funds at a relatively cheaper cost, it is also able to offer products at a relatively cheaper rate than most other merchant banks. Its cost-focused strategy enabled it to shore-off run on deposit that particularly emanates from inter-bank especially during liquidity crisis. It therefore enabled the bank to remain 'sober' at the peak of the liquidity crisis.

NAL also used differentiation strategy as a means of survival during the distress period. This strategy is evident in their resolve not to adopt and follow the band wagon in offering up-front interest on some of their products. They remained resolute not to offer upfront interest on any of their products. This therefore enabled them to make sound forecast in maintaining a comfortable liquidity position. The payment of upfront income is to a large extent responsible for the collapse of most of the banks in this country.

The bank have also differentiated itself by refusing to float a Unit Trust Scheme. In the early 1990s, it became fashionable for financial institutions,

both bank and non-bank, to offer unit trust services. Most of these unit trusts are however another avenue through which deposits are sourced at the lowest level possible without any diversified investment portfolio as is promised. The thinking at NAL is that unit trust involves managing smaller amount of investible funds from a varied clientele. Dealing with these broad spectrum of clients which may involve a substantial cost which may not be off-setted by the income from such ventures.

NAL being a merchant bank, also employs focus strategy. This strategy is quite different from the first two because it rests on the choice of a narrow competitive scope within an industry. Thus, being a merchant bank, providing wholesale banking services to a selected clientele. This strategy has two variants; that of cost and differentiation.

NAL Merchant Bank does not aim to achieve absolute leadership in merchant banking sub-sector of the financial industry. This is because pursuit of leadership for its own sake may not guarantee that a firm achieves a competitive advantage or that it loses the one it has. This is the case of Continental Merchant Bank which sought to achieve leadership in all aspects, but at the end, it lost everything that it has which led to its liquidation. Besides, the financial services industry structure does not reward leadership and as such market leaders do not enjoy the best performance. This is because the drive for leadership leads to making loans that others would not, and to escalating costs. NAL does not intend to be a clear industry leader because market share in itself does not translate into competitive advantage and in fact does not guarantee it, even though it is relevant to competitive position. That is why the bulk of the bank loan portfolio is towards medium and small scale industries - Names that do not easily ring a bell by their mere mention. Such names include Horizon Fibres, Porthacourt , Chelco Industries, Kaduna, Angel Spinning and Dyeing, Kano, etc. spread all over the country. These are companies that are creating a

nitche for themselves and whose products and services are very popular in the Nigerian market. Thus, NAL does not necessarily have to deal with large corporations like UAC Plc that are extremely powerful and price-sensitive buyers of loans. They prefer to deal with such large corporations purely on fee-based transactions.

NAL's market visibility and goodwill, dynamic portfolio of products driven by a proactive product development strategy has made it a force to be reckon with in the financial services industry. This coupled with a thorough and in-depth understanding of the financial environment, and a coherent and robust marketing plan has placed NAL Merchant Bank into a comfortable competitive position.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

In the first chapter of the research work there was a general introduction of the topic in order to put the study into proper perspective. Thus, the statement of the problem was tackled.

The purpose of the study and its significance to a range of interest groups was stated in this chapter. The scope of the study and its limitations was also looked at in this chapter. The chapter ended up with the definitions of terms and concepts that are relevant to the study.

In chapter two of the study, contribution of other authors that are considered relevant to this study was reviewed. This include studies that talked about what strategy is all about. Such studies include the work of Fredrick W. Gluck on an overview of strategic management, professor Michael E. Porter on competitive strategy, on competitive and a host of other works. We have also reviewed literature on the Nigerian economy. We also stuched literature on distress that includes the works of Francesca Cummingham, Alhaji M.I. Yahaya, G.O. Nwonkwo etc. in the course of this review, it was discovered that the causes of bank distress are numerous and its effect disastrous. The chapter ended up with a look at the historical development of merchant banks in Nigeria. Here is where the works of Mr. Wole Adewunmi "25 years of Merchant Banking in Nigeria" comes in handy.

Chapter three is more on theoretical framework which covers method of data collection used and its analysis. It was stated in the chapter that

secondary source of data was used given the nature of the study. Deductive reasoning was used in the analysis of data. The chapter ended with a look at the limitations of the research instrument used.

Chapter four is for the analysis of data and interpretation of research findings. It explores the history, structure and operations of NAL Merchant Bank Plc. It also looked at the services provided by the bank and describes some of the strategies it adopted in relation to the five contending forces that shape strategy in an industry and determine competition. We have earlier stated that the bank adopted a multi-faceted strategies ranging from cost strategy, focus strategy and differentiation strategy. We have, in the chapter, avoided making a categorical statement about the leadership position of the bank. This is because of the fluid nature of the industry which makes it difficult for any single bank to claim absolute leadership.

5.2 Recommendations:

Merchant banking business have been having the most difficult position than any other business in the financial services industry. This is evident from the inception of merchant banking business in Nigeria in 1960s when the two institutions that started it all had to merge in 1969 because there was not enough business. Although the situation has changed over the years, merchant banking business is still bedevilled by a lot of problems which makes survival a harculian task. In view of this, the following recommendations are put forward.

That merchant banks should remain purely what they are- merchant banks. They should engage in purely merchant banking activities rather than trying to compete with finance houses that borrow short and lend

short and mostly are engaged in trade financing. They cannot offer outrageous interest rate like the finance houses.

That the regulatory authorities should always see merchant banks and the banks in general as partners in progress and not as enemies who should be punished through *maradonic* policies. The survival of the banking industry is an indication of a good economy that will give confidence to the international investors. Any contrary position will scare away investors because banks are like the blood stream of the economy.

That the regulatory authorities should always act in a fast manner to save any bank that is perceived to be going toward distress situation rather than to allow it to deteriorate to the point where it cannot be saved.

That there is need for merchant bankers to be creative in order to pull customers to their side and earn customer confidence. This could be achieved through reacting quickly to market trends by continuously innovating and developing new products.

There is also need for both merchant banks and the regulatory authorities to create awareness of merchant banks activities among the general public. This should be done through simple product definition that is customer-oriented.

That in spite of the recent calls for universal banking, there is still room for specialization by banks especially merchant banks that are known to command some respects in certain areas of financial inter-mediation.

Such areas should not be left for all-covers in order to avoid the erosion of the particular confidence people have on merchant banks.

There is also the need for all financial institutions to see distress in the industry as a collective problem and so should work collectively towards eradicating it. The banks not affected by distress should not see distressed banks as a paria but rather should help them in combating it as customer loss of confidence will be general and not particular.

5.3 Conclusion

In conclusion, it is important for the financial industry to continue with the divide between commercial and merchant banking business. The current trend in which a lot of other merchant banks are converting to commercial banking will not augur well for the financial services industry.

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The distress situation that occurred in the financial services industry should be viewed as a collective problem and as such should be tackled by all the players in the industry. The erosion of confidence on the industry affect every body, not only the distressed organisations. It also have a greater repercussion on the economy as a whole. It will make foreign investors shy away from the country. Thus, the Government should have taken a more positive and timely decision in order to avert the distress.

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APPENDIX I

YEAR	COMPANY	NATURE OF ASSIGNMENT	SUCCESS
1991	Guinness Nigeria Plc	100,000,000 offer for subscription of Debenture stock at Par price.	Fully subscribed
1992	Berec Nigeria Plc	73,632,810 Right Issue of Ordinary Shares of 50k each at Par price.	85% subscribed
1992	Co-op & Commerce Bank (Nigeria) Plc	Offer for sub. Of 70,000,000 Ordinary shares of 50k each at 50k per share	Over subscribed
1993	Blackwood Hode (Nig) Plc.	20,000,000 Offer for subscription of Debenture Stock at Par Price	Fully subscribed
1993	Blackwood Hode (Nig) Plc.	10,800,000 Right Issue of Ordinary Shares of 50k each at N1.20k per share	92% subscribed
1993	Nig. Ropes Plc/WASCO Ropes Limited	Merger exercise	Successful
1994	First Bank of Nig. Plc.	Offer for Sale of 120,941,195 ordinary shares of 50k each at N3.30 per share	Heavily over subscribed
1994	Nigerian Wire & Cable Plc.	Offer for subscription of 40 million ordinary shares of 50k each at N1.20k per share.	Over subscribed
1995	Aba Textile Mills Plc.	Rights Issue of 71,141,350 ordinary shares of 50k each at N2.50k per share.	Successful

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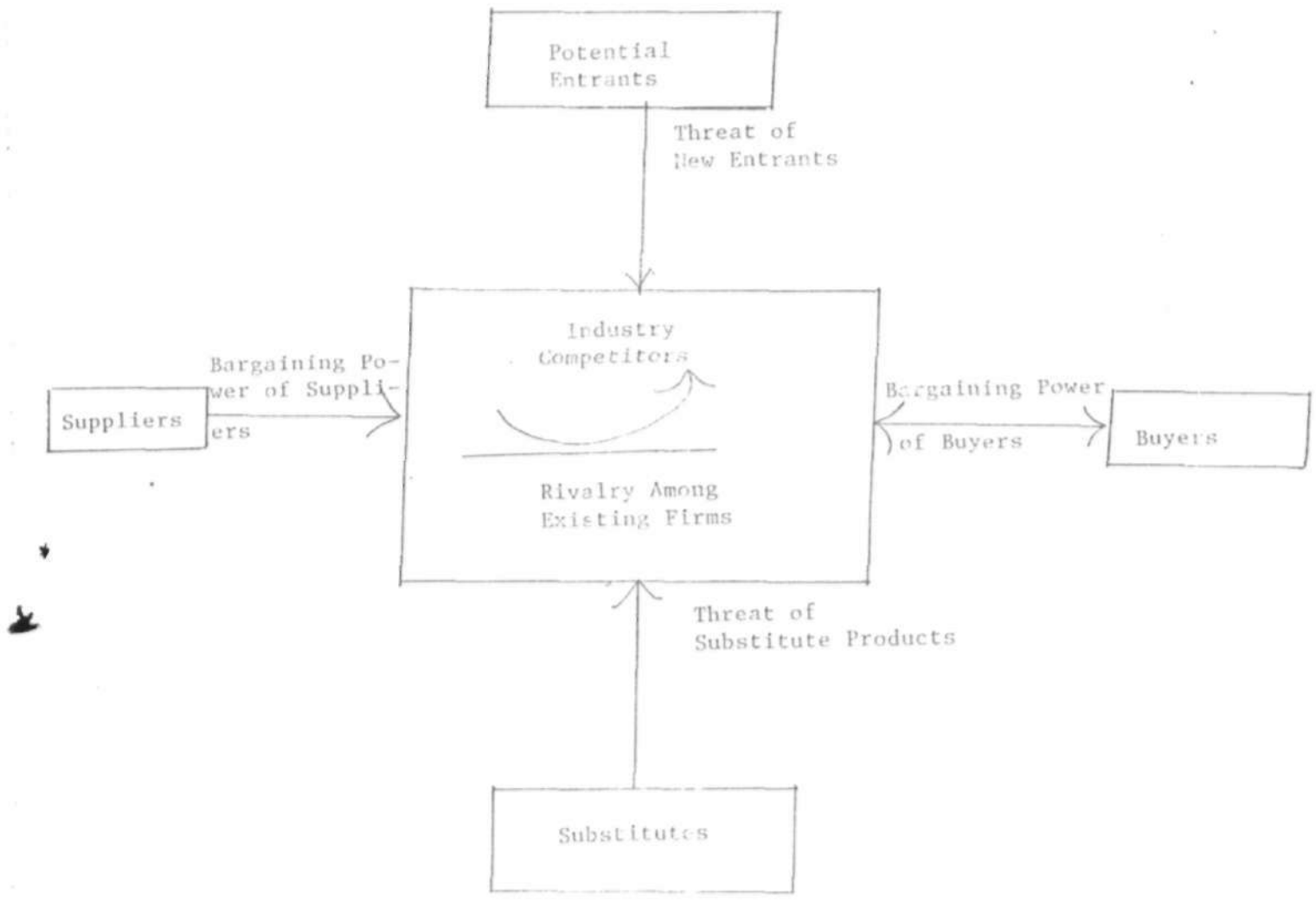
YEAR	COMPANY	NATURE OF ASSIGNMENT	SUCCESS
1995	Afribank Nigria Plc	Offer of subscription of 100,000,000 ordinary shares of 50k each at N5.5k/share	Oversubscribed
1995	Tourist Co. of Nig. Plc.	*400,000,000* offer of subscription of Debenture stock	Successful
1995	Lennards Nig. Plc.	Offer for subscription of 58,343,750 ordinary shares of 50k each at 90k per share	Successful
1995	Costain (W.A.) Plc.	Rights Issue of 58,573,500 ordinary shares of 50k each at N1.20k per share	Fully subscribed
1995	Costain (W.A.) Plc.	Offer for subscription of 42,845,000 ordinary shares of 50k each at N1.20 each.	Fully subscribed
1996	National Salt Company of Nigeria Plc.	Rights Issue of 65,846,667 ordinary shares of 50k each at N3.50 per share	Fully subscribed
1996	International Merchant Bank Plc.	Offer for subcription of 100,000,000 ordinary shares of 50k each at N1.00/share	Over subscribed
1996	Nestle Foods Plc/Nestle Nigeria Limited	Acquisition Exercise	Successful
1997	Royal Exchange Assurance	Right Issue of 151,875,000 ordinary shares of 50k each at N4.50 per share	Fully subscribed
1997	Law Union & Rock Insurance Plc	Rights Issue of 20,000,000 ordinary shares of 50k each at N4.50 per share	Over subscribed
1997	Triumph Merchant Bank Plc	Offer for subscription of 250,000,000 ordinary shares of N1.00 each at N1.60 per share	Successful

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YEAR	COMPANY	NATURE OF ASSIGNMENT	SUCESS
1997	Niger Insurance Plc.	Rights Issue of 60,000,000 ordinary shares of 50k each at N2.00 per share	Fully subscribed
1997	University Press Plc	Offer for subscription of 17,000,000 ordinary shres of 50k each at N1.20 per share	Successful
	University Press Plc	Rights Issue of 7,000,000 ordinary shares of 50k each at N1.20 per share	Successful
1998	Unic Insurance Plc.	Offer for subscription of 58,000,000 ordinary shares of 50k each at N4.00 per share	Successful
1998	Unic Insurance Plc.	Offer for subscription of 42,000,000 ordinary shares of 50k each at N4.00 per share	Successful
1998	Union Bank of Nig. Plc.	Offer for subscription of 200,000,000 ordinary shares of 50k each at N9.50 per share	On course
1998	Nigeria Energy Sector Fund	Offer for subscription of 2.5m Energy Investment of N1.00 each	Successful

The above list does not constitute an exhaustive list but a few examples of some of the issues successfully handled by NAL in the past few years.

APPENDIX II.


Potential
Entrants
Threat of
New Entrants
Industry
Competitors
Bargaining Po-
wer of Suppli-
ers
Suppliers
Bargaining Power
of Buyers
Buyers
Rivalry Among
Existing Firms
Threat of
Substitute Products
Substitutes

APPENDIX III

YEAR	COMMERCIAL BANK	MERCHANT BANK	TOTAL
1989	47	34	81
1990	58	48	106
1991	65	54	119
1992	65	54	119
1993	65	54	119
1994	65	51	116
1995	64	51	115
1996			
1997			
1998			
1999			

APPENDIX IV

DISTRESSED BANKS

1989	NA
1990	NA
1991	NA
1992	16
1993	24
1994	32
1995	42
1996	51
1997	
1998	
1999	

APPENDIX V

Non-Bank Financial Institutions

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
PMIS				145	252	279	280			
Stock Brokers Fees				140	140	140	162			
Discount Houses	-	-	-	-	3	3	4			
Insurance Companies				132	132					
Finance Houses						292	279			
Bureaux De Change				132	144	191	223			

APPENDIX VI

Financial Summary of NAL Merchant Bank Plc.

	1999 '000	1998 '000	1997 '000	1996 '000	1995 '000	1994 '000	1993 '000	1992 '000	1991 '000	1990 '000	1989 '000
ASSETS EMPLOYED											
	4,006,421	3,220,096	3,610,603	3,893,285	3,723,143	1,623,202	1,742,081	1,368,393	981,464	832,637	686,644
Cash & Short Term Funds	1,286,472	711,364	343,868	397,665	330,000	90,264	125,770	0	0	0	0
Placements	1,365,350	969,135	644,194	599,215	426,827	310,897	23,492	26,043	2,250	2,750	88,000
Investments	2,096,140	1,824,666	1,831,892	1,398,514	825,962	632,830	359,401	378,116	355,348	296,422	366,109
Loans & Advances	463,780	516,130	611,894	266,964	109,430	114,891	123,382	79,888	86,775	90,481	83,113
Advances under Finance Lease	397,006	330,188	1,369,591	960,730	3,171,923	400,240	422,630	542,687	134,351	169,425	122,195
Other Assets	482,199	384,705	221,127	151,898	127,985	91,330	77,666	62,843	68,626	64,735	58,245
Fixed Assets							-	-	-	-	-
	10,097,368	**7,956,284**	**8,633,169**	**7,668,271**	**8,715,270**	**3,263,654**	**2,874,422**	**2,457,970**	**1,628,814**	**1,456,450**	**1,404,3306**
FINANCE BY											
Share Capital (Called-up)	531,563	354,375	141,750	141,750	94,500	94,500	63,000	63,000	31,500	31,500	15,750
Reserves	1,825,727	1,863,386	2,017,360	1,790,067	1,763,960	508,140	539,878	400,486	287,358	211,970	200,411
Deposits	5,098,688	3,699,101	4,258,105	3,423,672	2,460,558	1,311,055	1,341,163	1,011,044	805,121	811,528	803,702
Other Liabilities	2,114,340	1,515,260	1,563,842	1,653,854	3,613,384	1,133,099	697,053	796,272	384,208	312,646	281,894
Deferred Taxation	527,050	524,162	652,112	658,928	782,868	216,860	233,328	187,168	120,627	83,948	92,256
	-	-	-	-	-	-	-	-	-	4,858	10,293
	10,097,368	**7,956,284**	**8,633,169**	**7,668,271**	**8,715,270**	**3,263,654**	**2,874,422**	**2,457,970**	**1,628,814**	**1,456,450**	**1,404,306**
Contingent Liabilities	2,401,418	779,749	1,889,259	583,928	286,124	336,619	172,056	79,049	43,084	106,588	129,549