DOES HORIZONTALLY INTEGRATED FIRMS ENJOY COMPETITIVE ADVANTAGE IN THE VALUE-CHAIN? EVIDENCE FROM THE NIGERIAN FINANCIAL SECTOR

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ABSTRACT
The financial sector of Nigeria has become more heightened and this has lead many financial institutions rival firms pursing complementary alliances and strategic mergers. This study investigated the competitive advantage of utilizing horizontal integration strategies in the Nigeria financial industry. By adopting cross-sectional survey, data was collected through a self-administered structured questionnaire. The target population of the study comprised of 2553 management staff of 12 selected financial institutions in South-West, Nigeria. Sample size of 753 was derived. The hypotheses were tested at 0.05 level of significance. The findings revealed that competitive absorption have a positive effect (enhanced) on the market coverage of financial institutions in Nigeria. Strategic alliances impacted positively on the economies of scale of Nigeria’s financial institutions. The results informed the study conclusion which shows that merger, acquisition and strategic alliance among financial companies were the major integration strategies utilized by financial firms in Nigeria. It was recommended that the management of financial organizations and companies in Nigeria need to strive harder to manage their companies effectively and not to dive into competitive merger and acquisition as the only survival strategy option available to them. It was also advised that financial firms must consider full ownership as the most viable method of integrating their services in a way that allows them to get instant access to industry- or operations-specific knowledge and keep abreast with the pace of technological change

Keywords: Strategic Alliances; Competitive Absorption; Market Scope; Competitive Edge
1.0. INTRODUCTION

In the contemporary business times, fierce competition and increasing customer expectations have encouraged suppliers, manufacturers and intermediaries to increasingly focus on delivery speed, reliability, and flexibility (Boyer & Lewis, 2002; Flynn & Flynn, 2004). As the scope to enhance these capabilities within the single organization is decreasing, many companies have implemented strategies of integrating the business activities beyond the organization's boundary (Bowersox, Closs & Stank, 1999). Firms are trying to align and coordinate the business processes and activities of the vertical and horizontal networks to improve the overall performance (Musso, 2009).

Every business has complex involvement with people, groups, and organizations in the society. Some are intended and desired; others are unintentional and not desired. The people and organizations, with which a business is involved, according to Post, Lawrence and Werber (1999), have an interest in the decisions, actions, and practices of the firm. Customers, suppliers, employees, owners, creditors and local communities are among those affected by the profitability and economic success of the business. These they added, are critical to a firm’s success or failure.

Generally, organizations are set up by entrepreneurs to render services and deliver product output to satisfy societal needs and to make profit (Nwidobie, 2013). In all human activities, there are usually successes and failures. Businesses are no exception (Anyanwu & Agwor, 2015). In periods of boom, businesses and individuals usually thrived in abundance and squad a mania, as Nigeria experienced in the mid-seventies (Utomi, 2000). At such times, employment, production, income and business generally were at peak levels (Adetona, 2004). During the peak period, businesses do not think of means of survival and sustenance. Economic planners make unrealistic projections and assumptions and business sector has access to cheap credits and investment funds. Many Nigeria’s organizations including financial institutions were highly exceeding. However, when the boom days were over and recession took over, their doom days came and business failure became inevitable as a result of adverse macroeconomic conditions.
The bottom line is that things and time had become bad for everyone and every organization. Consequently, expansion is hindered; profits and operating earnings shrink and so on. Ogunbanjo (2000), suggests that Nigeria situation in the late seventies was precarious because of economic malaise, fueled by unfortunate political environment and inconsistent economic policies over the years, thus, the economy started to experience a recession, which is a starting point of economic downturn technically referred to as depression.

To survive in a hyper-competitive and downturn industry, companies have growth of sales and profit as one of their major objectives. They don’t want to stand still. Lack of growth drains the company of new challenge, leads to loss of its entrepreneurial managers, and exposes it to possible technological obsolescence (Kotler & Keller, 2014). In wanting growth, companies need a growth strategy. They need to select from a whole set of possible investment directions those that are most likely to produce the desired growth. Assessing growth opportunities involves planning new businesses, downsizing, or terminating older businesses. Kotler and Armstrong (2009) explain that the company’s plans for existing businesses allow it to project total sales and profits. If there is a gap between future desired sales and projected sales, corporate management will have to develop or acquire new businesses to fill it (Brassington & Pettit, 2003). Murray (2003) states that different types of growth strategies are available to a firm. Each firm has to develop its own growth strategy according to its own characteristics and environment. According to Ansoff (1965), the main growth strategies available to a firm include many a possibility among which is the integration strategy.

Integration may be either vertical or horizontal. Perrault and McCarthy (2005) explain that vertical integration may be backward or forward. Backward integration involves moving toward the input of the present product and is aimed at moving lower on the production processes so that the firm is able to supply its own raw materials or basic components. Thomas (2010), opines that backward integration refers to the firm diversifying closer to the sources of raw materials in the stages of production allowing a firm to control the quality of the supplies being purchased. Forward integration, on the other hand, refers to the firm entering into the business of distributing or selling of present product and moving upwards in the production/distribution process towards the consumer (Hunger & Wheelen, 2009). It occurs when a firm moves closer to
the consumer in terms of production stages allowing a firm more control over how its products are sold. The firm may also set up its own retail outlets for the sale of its own product. Horizontal integration occurs when a firm adds parallel new products to the existing product line or enters a parallel product market in addition to the existing product line. It may also occur when a firm combines with a competing firm (Mugo, Minja & Njanja, 2015).

Within the economic and business management literature, there is a confusing profusion of overlapping terminology and meanings related to supply chain, marketing channels, vertical relationships and, more generally, business networks. Many contributions can be found referring to an upstream (supply chain) perspective or a downstream (marketing channel) perspective. In the case of marketing channel, the key contributions referred to the participating subjects and their functions (Vaile, Grether & Cox, 1952; Alderson, 1957), the types of relationships and flows (McCammon & Little, 1965; Rosenbloom, 1995), the boundaries of marketing channels, including the final consumer (Bucklin, 1966), the various levels of interaction among channel members, from single transactions to vertical integration (Webster, 1992), the different types of channels based on the grade of integration among members (conventional, administered, contractual, corporate) (McCammon, 1970), up to the concept of Vertical Marketing Systems (McCammon, 1970). There are several points of view by which vertical networks (supply chains/marketing channels) can be observed.

In spite of their anticipated benefits, horizontal integration strategies still remain as an untrammeled aspects of Nigerian corporate practices as the number of financial institutions and businesses that have resorted to this form of reorganization for competitive advantage are much fewer than the trend in the industrialized free market economies, where the concept dates back to 1880. It is against the backdrop of these challenges that prompted the crucial need to embark on this study. Specifically, this study investigated the two following issues: (a) investigate the effect of competitive absorption on the market coverage of financial institutions in Nigeria; and (b) assess the impact of strategic alliances on the economies of scale of Nigeria’s financial institutions.
2.0. LITERATURE REVIEW ON HORIZONTAL INTEGRATION

Sudarsanam (2010) underlines that a number of firms in wide-ranging sectors such as utility, electricity, banking, pharmaceuticals, insurance, oil and gas, automobiles, food and drinks, steel and healthcare have merged with one another, in the recent years. Such mergers are defined as horizontally related mergers. Where the firms selling the identical product merge, it is described as a pure horizontal merger. “Where firms selling products that are not identical in terms of end use but nevertheless share certain commonalities, such as technology, markets, marketing channels, branding or knowledge base, merge, we refer to such mergers as related mergers.

For simplicity, Sudarsanam (2010) refers to the term horizontal merger as to both pure horizontal mergers and related mergers of firms selling a range of similar products. Horizontal mergers often qualify industries and markets whose products are generally in the mature or declining stages of the production life cycle. These markets have a low overall growth rate, and firms have accumulated production capacity that far exceeds the demand. This combination of low market growth and excess capacity engenders difficulties on firms to attain cost efficiencies through consolidating mergers. Such efficiencies may be achieved from scale, scope and learning economies.

Besanko et al. (2007) indicate that a firm’s horizontal boundaries determine the quantities and varieties of products and services that it produces. It refers to a merger of two or more firms producing the same good under one consolidated firm (Chakravarty, 1998). Horizontal boundaries vary obviously across industries and across the firms within them. The optimal horizontal boundaries of the firms are appertaining crucially to economies of scale and scope. Economies of scale and scope exist whenever large-scale production, distribution, or retail operations have a cost advantage over smaller operations. “Economies of scale and scope not only affect the sizes of the firms and the structure of markets, but they are also central to many issues in business strategy” (Besanko et al., 2007). Economies of scale and scope are the essence for merger and diversification strategies. They have an effect on entry and exit, pricing, and the capability of the firm to protect its long-term sustainable advantage.
Horizontal integration strategies of take the dimensions of merger and acquisition (Anyanwu & Agnor, 2015). Basically, mergers and acquisitions simply refer to the coming together of two or more enterprises into a single entity. According to Ernest and Young (1994) mergers is defined as the fusing of two or more companies whether voluntary or enforced. Mergers and acquisition also refer to the aspect of corporate strategy, corporate finance management dealing with the buying and selling, dividing and combining different companies and similar entities that can aid, finance or help an enterprise to grow rapidly in its sector or location of origin or a new location without creating a subsidiary. As a result of mergers and acquisition, two firms cooperate for the purpose of achieving certain objectives which may be called a strategic alliance. Alashi (2003) suggest that alliances are more flexible unions of which, two or more organization combined by treaty agreement, memorandum of understanding (MOU) for a specific period or purpose.

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

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

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

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

Golbe and White (1993) stated the following, as the types of Horizontal Strategies:

i. **Direct Merger and Acquisitions:** This occurs when firm takes over or merges with the company in the same industry, and at the same level in that industry. This is a merger with a direct completion. For example, if a retail food chain, bought retail food chain the merger would be classified as horizontal integrated. (Okonkwo, 2004).

ii. **Conglomerate Merger:** In a conglomerate merger, two companies in unrelated fields of business are combined. For example, an automobile parts manufacturer might acquire a major producer of motion pictures. This is no increase concentration in any one field, as
would occur in horizontal merger and not new control of raw material, or outlets as would in the vertical merger. (Okonkwo, 2004; Someye, 2008; Suddersanam, 2012).

iii. **Concentric Merger:** This involves firms which have different business operation patterns, through divergent but highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation or technologies of the acquiring. (Ayadi, 2007; Alao, 2010).

iv. **Strategic Mergers:** This form of the merger is a more recent development in the world of business. It refers to a long-term strategic holding of the target firm. The purpose of this is to create synergies in the long-run by increased market stone, broad customer base, and corporate strength of the organization.

Frear (2001) says that it is probable that merger, acquisition and strategic alliances will change the risk and return characteristic of the investment held by existing debt and equity holders in each company. Supporting his argument, he had earlier argued that, provided that less than perfect positive correlation is assumed between the net operating earnings of the merged companies, merging can reduce the probability or bankruptcy or liquidation, and this led. He thus stated the following as the advantages of Horizontal integration.

i. **Operating Economics:** This is the elimination of competition or duplication of facilities, consolidation of marketing, purchase, financing and research efforts.

ii. **Setter Management:** To acquire an aggressive result oriented management, with a view to contributing to company’s overall progress.

iii. **Gain Access to Liquidity/Finance:** To gain access to the financial market, to improve earnings per share, to improve the liquidity position of the company and entrance listing on the stock exchange.

iv. **Diversification:** To enable the company to penetrate other markets, other than its traditional catchment area with other goods. In addition, there is the inherent advantage of spreading risk through diversification.

v. **Product standardization:** To enable the company to standardize products that can effectively compete with others in the market.
vi. **Assets Booster:** To enable the enlarged company have increased level of total assets that could be used as collateral for credit and also support the company’s operations.

vii. **Taxation:** A company that has a lot of loss carry forward may want to acquire a profitable company in order to be able to utilize its carry forward before it expires. Also, to derive tax benefits, such as cessation and commencement of business.

viii. **Personal Reasons:** A closely held company (born by close associate or family). Might have shareholders who want their company acquired by another that is quoted in the stock exchanged. This to them may be an opportunity to dispose of part of, all of their stock if the need arises for them to diversify their investment sometimes in the future.

ix. **Expansion:** A company may be having difficulties in internal expansion or growth, it may thus, find that merging or acquiring another company is the sure means of achieving the desired growth rate.

**Horizontal Strategy and Competitive Advantage**

Frear (2001) states that the need to survive in a competitive business environment and at the same time creates growth and development in this time of hard economic realities might also be informed by:

i. The need to maximize the opportunities available to a company by replacing its inefficient incompetent management.

ii. The need to achieve economies of scale, resulting in the combined output of both enterprises.

iii. The need to select the production or market range of the company.

iv. The need to reduce competition, by acquiring a competitor as opportunity opens up new market, heavy fixed cost and operating expenses

v. Sheer ambition on the part of management to achieve growth and market power of the company.

In the area of the hard economy situation, as we have seen today, a company which faces a threat of business failure has a possibility of been liquidated i.e. liquidation, Merger as an investment decision can serve as an effective means of reducing this possibility. Here, Frear (2001) argues
along the line that it is probable that merger will change the risk and existing debt and equity holders in each company.

The Concept of Competitive Absorption

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

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Mergers and acquisitions can be express in the form of vertical/horizontal integrated and conglomerate merger/take over. Vertical integration refers to the combination of two firms, which are in the same industry but at different stages in the process of producing and selling of products. This form of integration occurs when a manufacturing firm merged with another
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Mergers and acquisition is one of the survival strategies of a business. As a result of mergers and acquisition so many businesses in Nigeria has been expanded (Omole, 2004). Moreover, the history of merger and acquisition activities in Nigeria can be traced to 1885-1905. However, Nigeria recorded the first merger in 1982, when United Nigeria Company Limited made a bid for united Nigeria Life Assurance Company Limited. Between 1950s and early 1960s the economy and political instability in Nigeria and the oil exploration of 1970 brought about the need for merger and acquisition. According to Syng (2007), the history of merger and acquisition activities in Nigeria cannot be separated from oil boom era. The oil boom crested wide spread imbalance in the economy, instead of making the economy self-reliant it resulted to external control.

Omole (2004) stated that the first mergers proposal in Nigeria came before the Securities and Exchange Commission (SEC). He also observed that majority of the mergers and acquisitions in Nigeria involve foreign companies although before 1968, there were no statutory rules specifically regulating mergers and acquisition activities Nigeria. However, procedures and modalities of achieving mergers and acquisitions were defined in section 1997 to 1999 of the companies Act of 1968. Presently mergers and acquisitions have assumed an increasing dimension in Nigeria. Mergers and acquisition also lead to vibrant and market competition. Therefore mergers and acquisitions occur as a reaction to unexpected shocks to industries.

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

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The Concept of Strategic Alliances
Over the years, organizations have formed alliances with other parties in order to gain a better position in local and global markets and create competitive ad- vantages (Kossyva & Georgopoulos, 2011). As Drucker (1996) stated, “The greatest change in corporate culture, and the way business is being conducted, may be accelerating growth of relationships based not on ownership, but on partner-ship”.

As uncertainty increases, the ability of firms to adapt in their external environment and to remain competitive is closely related to their capacity to innovate. Hence, it is crucial for firms to continuously develop innovations in order to create value for their buyers and of course value for their stakeholders. Furthermore, they have to be able to identify and explore business opportunities, so as to exploit future competitive advantages (Kossyva, 2014). In order to
succeed in that, they need to accelerate the innovation process through more flexible forms of collaboration such as alliance (Acharya 1999; Bengtsson & Kock, 2000).

Alliance is a dynamic process in which organizations seek competitive advantages arising from both cooperation. Through this process organizations look for complementary partners, as a way of promoting their own resources; transferring and creating knowledge; exploring entrepreneurial opportunities, without losing sight of their own interests (Kossyva 2014). Therefore, firms are called on to initiate collective actions with their competitors to create value in a market and at the same time they compete to capture the created value individually (Bengtsson & Kock, 2000).

Zamir, Sahar and Zafar (2014) explains that the global competition is increasing day by day, so to improve productivity and market share strategic alliances are made which benefit firms. As a result of global competition and the constantly growing demand for new technologies, strategic alliances are becoming popular and important as its goal is to support the competitiveness of the activities concerned. This is achieved through the utilization of each other’s core competence and specialization. The most common reasons why strategic alliances are formed are often market related or technology related, or a combination of the two.

Strategic alliances are created to gain many benefits for the corporation and for many different purposes. Some of them according to Elmuti and Kathawala, (2001) are listed below:

i. An alliance helps to enter new international markets by overcoming political, economic and social barriers. Due to government policies and rules, it is difficult to enter new international markets. Powerful motive to create alliances is to decrease entry barriers by joining forces with other organizations.

ii. Home market competitive position is protected by alliances. Entering international markets may affect domestic market but in international market, organization force foreign competitors at home divert their resources away from expansion which protects the home market.

iii. Alliances help in increasing distribution networks by acquiring new means of distribution.
iv. Alliances decrease the manufacturing costs, other costs and risks of the project, product or services by sharing between the alliance partners.

v. Alliances in business helps to gain access to intangible assets like brand name, expertise etc.

vi. Due to alliances potential rivals also cooperate which helps to decrease internal and external uncertainties in environment.

vii. Strategic alliances help to broaden product line, services processes and fill product line gaps in the current products. High cost and lack of technology may force a firm to seek a foreign partner to fill their product lines.

viii. Strategic alliances allow companies to enter new markets and to attract many potential customers which expand their market share. Organizations working in stagnant industries enter alliances to grow its presence in emerging industries.

Theoretical Underpinnings

Theory of Economic of Scale and Scope

The origin of costs may have crucial inferences for industry structure and the behavior of the companies. Besanko et al. (2007) denote that “the production process for specific good or service exhibits economies of scale over a range of output when average cost declines over that range.” Moreover, economies of scale exist if the firm attains unit-cost savings as it raises the production of a given good or service. In order to achieve these scale economies, the associated costs, risks and the extent of cost savings have to be taken into notice (Sudarsanam, 2010). Therefore, firms should be conscious about diseconomies of scale, which arise from complexities of monitoring, diffusion of control, the ineffectiveness of communication, and numerous layers of management. In addition to these disadvantages, it also underlines the limits to economies of scale, in which beyond a certain size, bigger is no longer better and may even lead to worse outcomes. The most important reasons for these limits are; labor cost and firm size, conflicting out, spreading specialized resources too thin, and incentive and bureaucracy effects. Moreover, economies of scale may be more crucial for the manufacturing organizations, “since the high capital costs of the plant need to be recovered over a high volume of output” (Johnson, Scholes, & Whittington. 2008).
The manufacturing sectors that have been generally important have been motor vehicles, chemicals, and metals. In terms of distribution and marketing other industries such as drinks, tobacco, and food, the scale economies would be crucial (Johnson et al. 2008). Economies of scope exist, if an increase of production in the variety of goods and services saves the firm from the costs it bears.’ Whereas economies of scale are usually defined in terms of declining average cost functions, economies of scope are usually defined in terms of the relative total cost of producing a variety of goods and services together in one firm versus separately in two or more firms.” In other words, Panzar and Willig (1981) point out to the existence of economies of scope where it is less costly to merge two or more product lines in one firm compared to supplying them separately.

Based on the definitions above, scope economies are available only for multi-product firms. Certainly, both economies may be recognized by the increase in the output of individual products as well as the total output of all the firm’s products. The research on the extent of scope economies is scarce, in contrast to the literature on scale economies. One possible explanation is that until recently product costing did not allocate costs to the different products correctly, based on the related activities. Activity-based costing (ABC) mitigates this issue; however, the problem of how to compare these product costs in the merged firm with the costs on the similar products produced separately by different companies still exists (Sudarsanam, 2010).

Learning Curve Model
The learning curve refers to advantages that flow from accumulating experience and know-how. Sudarsanam (2010) specifies that the economy of learning comes to light when workers and managers become more experienced and effective over time in using the available resources of the firm and help decrease the cost of production. “The time required to do a job will decrease each time the job is done, that the time per unit will decrease at a decreasing rate, and that the time reduction will be predictable.” (Lindsey & Neeley, 2010) It is a function of cumulative output over several periods, and increasing cumulative output raises the motivation to learn more efficient and effective ways of producing each unit of the output for the managers and workers.

Horizontal mergers lead to the consequence of a sudden increase in the quantity of output when the output of each merging firm is combined. While each firm has the opportunity to learn from the
experience of the other firm, this learning may not engender the cumulative output of the merged entity to increase more. In the period subsequent the merger this output may increase, hence creating an opportunity for further learning. However, if the output of the merged company is already large, it is expected to have passed the minimum efficient learning scale (MELS) of cumulative output (Sudarsanam, 2010)

**METHODOLOGY**

Cross-sectional survey method was adopted to see the opinion of the management staff of financial institutions in the south-western zone concerning horizontal integrative strategies. A multi-stage method was used in drawing the required population and this involves choosing the well known highly performing deposit-money banks and insurance firms from the population frame. Out of a population frame of twenty-two (22) number of registered deposit-money banks under CBN as at year 2016 (i.e. Access Bank, CitiBank, Diamond Bank, EcoBank, Enterprise Bank, Fidelity Bank, First Bank, FCMB, GTBank, Heritage Bank, Keystone Bank, Mainstreet Bank, SkyeBank, Stanbic IBTC Bank, Standard Chartered Bank, Sterling Bank, SunTrust Bank, Union Bank, UBA, Unity Bank, Wema Bank, Zenith Bank) and out of the population frame of fifteen (15) number registered composite insurance firms under NAICOM as at year 2016 (i.e. AIICO Insurance, Cornerstone Insurance, Axa Mansard Insurance, IGI, Leadway Insurance, Niger Insurance, Ensure Insurance, NICON Insurance, Goldlink Insurance, NSIA Insurance, Great Nigeria Insurance, LASACO Assurance, Standard Alliaince Insurance, Royal Exchange Insurance) a total number of seven (7) deposit-money banks and five (5) insurance institutions was selected. These institutions were Fidelity Bank, GTBank, Access Bank, Diamond Bank, First Bank, Zenith Bank, United Bank, AIICO Insurance, Leadway Assurance, Royal Exchange General Assurance, Cornerstone Insurance and Niger Insurance. The total populations of management staff of the selected firms were 2553. Sample size estimation was drawn with the use of Trek (2012) formula which gives a size of 753. Convenience sampling technique was adopted to select the respondents from the population. The rationale for this is that respondents at the level of management share equal access to the information being looked for. A well-structured questionnaire was used for the data collection.
4.0. RESULTS AND DISCUSSION

A total of seven hundred and fifty three copies of questionnaire were administered to the management staff of twelve selected financial institutions. Six hundred and ninety-nine copies of the questionnaire were retrieved, which amounted to a 92.8% response rate. Six hundred and ninety-nine copies of the questionnaire retrieved were found useable and a total of fifty four copies of the questionnaire were not retrievable, which amounted to 7.2%. Based on the copies of questionnaire retrieved, below is the demographic information showing the distribution based on age, gender and educational qualification.

The age distribution of the respondents are as follows: 18-24y (201-28.8%); 25-34y (227-325%); 35-44y (134-19.2%); 45-54y (77-11.0%); 55-64y (49-7.0%); while 65y and above (11-1.5%). The result indicates that most of the respondents were between the ages 25-34 years (227) representing 32.5% of the total number of respondents. However, respondents within the age bracket above 65 years were the minority. This implies that most respondents in the Nigeria financial institutions are mostly between the ages 25 to 34 years. This also shows that most of the respondents are young adults who can independently give informed responses.

Data reveals fair sex distribution of the respondents: male (336-48.1%) and female (363-51.9%). Despite the 3.8% difference between the two sex categories, data obtained represents a rich and balanced opinion of both genders.

Information provided by respondents on educational qualification is as follows: PhD holders (3-0.4%); MBA/MSc (231-33.1%); BSc/HND holders (305-43.6%); and ND/NCE holders (160-22.9%). The degree programme results revealed that more of the respondents were BSc/HND holders (305) followed by MBA/MSc holders 231 and the least were PhD holders with 3 numbers of respondents.

The distribution of marital status reveals that married respondents were 221(31.6%) and single respondents were 374 (53.5%). 81 (11.6%) of the respondents were separated while 23 (3.3%) were divorcee. The implication of this is that most of the respondents were still unmarried while the least were those that have divorced their spouses.
Testing of Hypotheses

Hypothesis One

In order to test the hypothesis on the whether competitive absorption affect the market coverage of financial institutions in Nigeria, least square regression analysis was carried out and the results are as presented in Table 4.1 below

**HO₁**: Competitive absorption would affect negatively on the market coverage of financial institutions in Nigeria

**HA₂**: Competitive absorption would affect positively on the market coverage of financial institutions in Nigeria.

Regression model: \( Y = \alpha = \beta X + \mu \ldots \) (For all observations \( i = 1, 2 \ldots n \))

Where \( Y = \) Market coverage

\( X = \) Competitive absorption

\( \mu = \) error term of random variable

\( \alpha = \) a constant amount

\( \beta = \) effect of \( X \) hypothesized to be positive

Hence, the regression (predict) equation will be \( Y = 108.011 + 1.212X \)

### Table 4.1a: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.511^a</td>
<td>.511</td>
<td>.663</td>
<td>29.15133</td>
</tr>
</tbody>
</table>

^a Predictors: (Constant), competitive absorption

### Table 4.1b: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>20171.151</td>
<td>1</td>
<td>20171.151</td>
<td>17.211</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2712.049</td>
<td>668</td>
<td>928.350</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>22883.200</td>
<td>669</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

^a Predictors: (Constant), competitive absorption
Table 4.1.1b: ANOVA\textsuperscript{b}

| Model     | Sum of Squares | Df | Mean Square | F         | Sig.  
|-----------|----------------|----|-------------|-----------|-------
| Regression| 20171.151      | 1  | 20171.151   | 17.211    | .002  
| Residual  | 2712.049       | 668| 928.350     |           |       
| Total     | 22883.200      | 669|             |           |       

\textsuperscript{a} Predictors: (Constant), competitive absorption  
\textsuperscript{b} Dependent Variable: market coverage

Table 4.1.1c: Coefficients\textsuperscript{a}

| Model     | Unstandardized Coefficients | Standardized Coefficients | T     | Sig.  
|-----------|-------------------------------|---------------------------|-------|-------
| (Constant)| 108.011                       | .939                      | 3.113 | .031   
|           | 1.212                         | .416                      | 3.118 | .045   

\textsuperscript{a} Dependent Variable: market coverage

Table 4.1.1a, b & c above shows the results of the hypothesis two. The test shows the effect of competitive absorption on the market coverage of financial institutions. The F-value is calculated as the Mean Square Regression (20171.151) divided by the Mean Square Residual (928.350), yielding F=17.211. From this results in the table is statistically significant (Sig =0.002). The analysis revealed that competitive absorption accounted for 51.1% increased in the market coverage ($R = .0511$, $F (1, 698) = 17.211, p < .05$).

Since the results of the ANOVA in table 4.1.1b show a significant level of 0.002, and F value of 17.211 being high, the alternate hypothesis which states that ‘competitive absorption would affect positively on the market coverage of financial institutions in Nigeria’ is therefore accepted, while the null hypothesis which states competitive absorption would affect negatively on the market coverage of financial institutions in Nigeria is rejected. Table 4.1.1 above shows the contributions of the independent and mediating variables to the variance in the dependent variable and their levels of significance.
Hypothesis Two
In order to test the hypothesis on the impact of strategic alliances on the economies of scale of Nigeria’s financial institutions, Z-test statistic analysis was carried out and the results are as presented in Table 4.1.2 below.

**H0₂:** Strategic alliances will have a negative impact on the economies of scale of Nigeria’s financial institutions

**HA₂:** Strategic alliances will have a positive impact on the economies of scale of Nigeria’s financial institutions

### Table 4.1.2a: One-Sample Statistics

<table>
<thead>
<tr>
<th>Decisions on Alliances &amp; Economies of Scale</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>699</td>
<td>33.310</td>
<td>28.34231</td>
<td>5.41121</td>
</tr>
</tbody>
</table>

### Table 4.1.2b: One-Sample Z-Test

<table>
<thead>
<tr>
<th></th>
<th>Test Value = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>z</td>
</tr>
<tr>
<td>Decisions on Alliances &amp; Economies of Scale</td>
<td>32.190</td>
</tr>
</tbody>
</table>

**Source:** SPSS Analysis of Field Data 2018

The information of the responses on the table 4.1.2 was used to test this hypothesis. The test was to examine the impact of strategic alliances on the economies of scale of Nigeria’s financial institutions. In the first table, the mean value, S.D of respondent responses was given. The Z-test statistic value is the degree of variation of the dependent variable which can be predicted by the independent variable. The analysis revealed that a grand mean score of 33.31 and standard deviation of 28.34. In the second
table, the z-value was given as 32.190 with a significant value of 0.004. The significance of the Z change was assessed and it was significant (0.004) as shown in table 4.1.2b. The significance levels of the variables are less than 0.05 and the Z-value (32.190) is high and significant (0.004). Based on the results revealed above it was justified that the alternative hypothesis should be accepted while the null hypothesis should be rejected. It can therefore be concluded that strategic alliances impacted positively on the economies of scale of Nigeria’s financial institutions.

**Discussion of Findings**

*Finding one* revealed that competitors absorption positively affected (i.e. increased) the market coverage of financial institutions in Nigeria. The finding outcome from the descriptive statistics revealed that most respondents were of the opinion that the financial organization enjoys increased market share when it absorbs rival companies than when it’s operating solely. The findings from the descriptive statistics also showed that most respondents agreed by acquiring rival firms through horizontal mergers, financial organization builds competencies and technology know-how in the target markets. In addition, most of the respondents agreed that organizations continuing survival in a hyper competitive environment are enhanced by absorbing its non-performing firms. Furthermore, findings from the descriptive statistics indicated that most respondents agreed that the financial organizations mitigate risks and expand business horizons through merger with rivals.

The result of this finding is in line with the work of Misund, Osmundsen, and Sikveland (2012), Nwidobie (2013), Anyanwu and Agwor (2015) who recommended that the appropriate rival firms acquisition have effect on the market position and size of firm. It is to be noted that all the three studies were conducted within Nigeria environment. This justifies the similarities in the results. This also extends the results of the study of Loertscher and Reisinger (2014), which indicated that the competitive merger and absorption is very effective in becoming a market leader in a highly volatile industry.

Although, the findings of some studies such as Lipczynski, Wilson & Goddard, (2005) supported by Hamidi, Wennberg, and Berglund (2008) suggests that absorbing or taking ownership of
competing firms is averse to the development of the initiating organizations due to some of the hidden problems. Hence, the outcomes of our results deviate from these findings. This study results also dissociate from Colangelo (1995) finding who argued that mergers and acquisition have brought nothing than issues and post-merger challenges. This study countered this stance based on the findings from this research which suggests that using strategic competitive absorption is very effective in stimulating on the market coverage of financial institutions in Nigeria. Though, Colangelo (1995) reason may have been due to the fact that he used sophisticated methods and domicile the work in western economies.

The result of finding two shows that strategic alliances impacted positively on the economies of scale of Nigeria’s financial institutions. The findings from the descriptive statistics showed that most respondents agreed that the horizontal merger leads to coordinated effects by facilitating information exchanges between financial firms at the same level of production. Similarly, the findings from the descriptive statistics revealed that that most respondents agreed technological transfers among financial firms facilitate the provision of more complex service packages by financial organizations. Most respondents from the descriptive statistics were also of the negative opinion that pricing collaboration by financial organizations promotes the efficiency of operations. Furthermore, most of the respondents agreed that strategic partnership in the areas of knowledge and expertise exchange enhances business innovativeness and information among financial firms.

This shows that the there is high positive impact of strategic alliances on the economy of scale of firms. This result agrees with the study of Gulati (1998) who was of the opinion that strategic partnering does not only enhance the scale of economies of operation but also on the economies of scope. The study is also consonant with the work of Cosh, Hughes, and Singh (1980) who asserts that merger, alliances and coopetition in competitive industry facilitates technological transfers and knowledge sharing. This study also aligns with the findings of the study of Leiblein & Miller (2003) who reported that a business alliance in organizations is paramount in enjoying efficiency of operations. This finding is also in agreement with the result of Nwidobie (2013), who opined that alliances in terms of product encourage service delivery dependability and reliability. Generally, the overall opinion is that merger and acquisition have a veritable role in building sustenance of business.
On the contrary, studies such as Arikan and Stulz (2011) have questioned the credibility of strategic alliances and joint ventures arguing that new scenarios are constantly evolving and uncertainties may be difficult to ascertain. The finding differs from that of Cai and Obara (2008) and Bhide (2001) who criticized the alliances and cooperating methods asserting that the use of them has received much challenges on the basis that it is highly volatile and more risky. However, despite the pitfalls allured to strategic alliances, Mutura, Nyairo, Mwangi and Wambugu (2016) argued that alliances are still a popular option for promoting healthy rivalry, because they are a tool for conceptualization and sharing of synergies. The study is conducted in a developing economy similar to Nigeria, hence one need not to question the match of the result when compared to that of Arikan and Stulz (2011) which was done in a developed country.

5.0. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that there were limited numbers of integration among most of the Nigerian financial institutions. Banks and insurance companies in Nigeria have not fully exploited the benefits of integration. Furthermore, the study concluded that merger, acquisition and strategic alliances among companies as growth strategy in the Nigeria financial sector has yielded very positive result. These were the only integration strategy utilized by financial firms in Nigeria. Nigeria’s financial organizations have seldom initiated other types of integration. This is because of risks involved as well as the costliness. After a critical consideration of the findings and discussions so far, the following recommendations are offered:

i. Though Nigeria financial companies are resorting to competitive mergers and acquisition as the last hope for growth for market position, they should as well look at the negative effects of merger and acquisition before using it as an option for growth. More so, the firms need to take an-in-depth exploitation of other integration strategies which also offers long-run cost and economies of scale benefits. It is necessary for the management of financial organizations and companies in Nigeria to strive harder to manage their companies effectively and not to dive into competitive merger and acquisition as the only survival strategy option available to them. Other integration strategies need to be effectively exploited as well.
ii. During the next decade, the financial sector in Nigeria may certainly be marked by disaggregation and reaggregation due to the described shifts in the sector’s value chain. In order to keep their status quo, financial firms must consider full ownership as the most viable method of vertically integrating their services in a way that allows them to get instant access to industry- or operations-specific knowledge and keep abreast with the pace of technological change. Partial vertical integration through partnerships, alliances, and joint ventures provide benefits to such firms only in the short term; the current partnerships among banks, internet technology and broadband distribution firms are transitory steps meant to test business viability in the newly industry segment. Therefore, in the long-term a shared asset ownership will hinder the implementation of a consistent corporate strategy and full integration remains the sole means of creating a future sustainable and non-imitable competitive advantage.

REFERENCES


