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The impact of Mergers and Acquisitions on the Financial Performance of Ecobank Ghana Limited

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Abstract

Purpose: The focus of the study was to investigate whether acquisition and merger as a tool of recapitalization improves Ecobank Ghana limited performance in the long run. This study precisely examined the effect of acquisition and merger on return on assets, return on capital employed, shareholders equity to total assets, debt to equity and total liabilities to total assets.

Methodology: The study adopted a descriptive research model with quantitative analysis. Financial ratios over a 12-year period (2006-2018, excluding 2012) were extracted from financial statements of the bank. The inferential and descriptive statistics were employed for the data analysis. The hypothesis of the study was tested by employing the independent sample test. Also, the Levene's test was employed to test for the variance homogeneity.

Findings: Results from the t-test for equality of means revealed that acquisition and merger had an insignificant relation with the return on equity, return on capital employed, shareholders equity to total assets, debt to equity and total liabilities to total asset.

Originality/Value: This paper seeks to add up to the existing empirical evidence on the impact of mergers and acquisitions on the financial performance of Ecobank Ghana Limited. The study further recommend that the processes involve in mergers should be strategically planned and executed not ignoring the valuation process.

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Introduction

Ghana's economy can be labelled as an emergent economy consisting of numerous sections. Out of these sections, the banking section plays a very vibrant role. There has been tremendous growth and development in Ghana's banking sector from the colonial days through to independence in 1957 to date. Ghana has for the past twenty (20) years undergone economic liberalization, most especially financial reforms and therefore corporate Ghana is faced with intense competition and now seeks merger and acquisition to be a master plan for growing internally. This development has resulted in the increased occurrence of acquisition and merger of banks in Ghana (Oduro & Agyei, 2013).

Ghana has for the past two decades witnessed merger and acquisition between firms within and outside the same industry. On the 30th of December 2019, Pulse Ghana published a list of seven (7) mergers and acquisitions that have taken wave in Ghana during the last decade. These merger and acquisition occurred in the banking, telecommunication and insurance firms. Notable within the telecommunication firm was the merger between Bharti Airtel and Millicom's Tigo in the year 2017. The merged firm assumed the name Airtel Tigo (Business-Inside-by-Pulse, 2019).

Ecobank Transnational Incorporated in 2011, acquired The Trust Bank Ghana Limited. The aim of this acquisition was for Ecobank to meet the one hundred and twenty million cedis (GH¢120million) recapitalization threshold. This was the second time the Bank of Ghana had set a recapitalization threshold. In the year 2018, the Consolidated Bank of Ghana Limited emerged as a result of the merger between five banks. These banks included Royal Bank, Construction Bank, Beige Bank, Sovereign Bank and Unibank. At present, the Heritage and Premium Bank are part of the Consolidated Bank of Ghana. Their addition followed their inability to meet the new GHC400 million recapitalization requirement. The Republic Bank in the year 2017 took over HFC Bank. Bank Sahel Sahara merged with Omni Bank, and so did First National Bank and GHL Bank merge. Resulting from the merger and acquisition that took place within the banking sectors, Ghana now has twenty three (23) universal banks in operation (gbcghanaonline, 2019).

According to (Ahern & Weston, 2007), acquisition is defined as a situation where a company purchases more than fifty percent (50%) or majority shares of another company whereas a merger result in an entirely different firm whereby the firms that have merged assume some form of evenly distributed ownership right. The term consolidation could also be used when the companies have equal market power or have same size (Block et al., 2017). Merger involves absorption which develops into maintenance of the acquiring company's identity whereas the acquired company seize to operate as a separate company. (Jordan et al., 2001).

Synergy is widely and mostly talked of as the major reason behind any merger and acquisition deal of which (Bolouppremo & Ogege, 2019) assert to. Synergy results in the newly combined firm obtaining a much greater value than the combined value of the merging firms. Pandy (Pandy, 2008) describes synergy as "two plus two equals five". Synergy broadly comprise financial synergy and operating synergy. The bottom line of operating synergy is attributed to decrease in operational cost whereas the former also is associated with increase in revenue. Financial service firms merge in order to save cost, reduce risk and increase revenue as earlier said.

Merger and acquisition are gaining ground in the banking industry of Ghana. This paper examines the effect of acquisition and merger on Ecobank Ghana Limited' financial performance. It is motivated by government initiative to approve merger agreements deal to enable most collapsed and insolvent banks recapitalize to the current minimum capital requirement as a strategy for alleviating the banking crisis. Researchers have empirically drawn conclusions that merger and acquisition also have their associated challenges. (Jensen, 1986) is of the opinion that merger and acquisition leads to agency problems. (Martynova, Oosting, & Renneboog, 2006), concluded that merger and acquisition significantly lead to a reduction in the merged firms' profitability in the post-acquisition period. In an examination of industry aspects on takeover in the UK, (Powell & Yawson, 2005) concluded that majority of firms that merged increased their rate of return more than firms that depended on natural growth. This examination nonetheless failed to point out any constructive relationship that existed between mergers and profit. On the contrary, (Altunbas &

Ibáñez, 2004) report that on average, mergers lead to an improvement in the accounting profitability of firms. (Adebayo & Olalekan, 2012), also posits that merger and acquisition have to a larger extent increased the growth of the Nigerian banking sector.

Findings from a number of researches conducted on merger and acquisition involving Ghanaian banks have been inconsistence. Again, some studies done focused on survey and also limited time period (Adu-Darko & Bruce-Twum, 2014; Irayanti & Edi, 2019; Kwabla-King, 2017; Mardianto, Christian, & Edi, 2018). The use of survey often leads to a hidden complementary effect as banks differ in primary functions whiles the shorter duration distorts the merger process. This study therefore fills the gap in literature by conducting a bank specific analysis and also using a longer time period. This research will confirm if acquisition and merger have a favorable significant effect on the bank's performance by answering the following questions: What impact does acquisition and merger have on the profitability ratio of Ecobank Ghana Limited? What impact does acquisition and merger have on the capital adequacy ratio of Ecobank Ghana limited? What impact does acquisition and merger have on the long term solvency ratio of Ecobank Ghana Limited? What impact does merger and acquisition have on the leverage ratio of Ecobank Ghana limited? The research findings will be of help to policy makers such as the central bank of Ghana since it will aid in clearing doubt as to whether mergers positively impacts commercial banks in Ghana. It will also be an enlightenment for investors; helping them to weigh the chances of success of any merger deal they wish to undertake.

Literature Review and Hypothesis Development

Synergistic theory

This theory is also known as the value increasing theory. As per the submissions of (Hitt, Harrison, & Ireland, 2001), mergers do occur because synergy is generated between the merging firms (acquirer and target). When the combined performance as well as the worth of the merging firms 'surpasses the sum of their individual performance and worth, synergy is created. This theory is of the view that mergers will only occur when both the acquirer and the target finds the deal profitable. The synergy that mergers generate will cause a rise in the worth and size of the merged firm. This is made evident when merged firms benefit from economies of scope and scale. Economies of scope is brought about when a firm renders services at a rather lower cost resulting from its experience in dealing with existing product (Romano, 1992; Weston, Mitchell, Mulherin, & Salwan, 2010).

(Pilloff, 1996), states primarily that the motive for acquisition and merger synergy is to improve performance. Synergy can be in the form of financial, managerial and operational (Gaughan, 2015). This theory is of the implication that mergers as a growth strategy make the target firms perform much better that they used to be.

Returns on Assets (ROA)

Returns on assets is one of the profitability ratios that indicates how well a firm makes effective use of its assets. This ratio clearly channels our focus to how profitable a firm is, in relation to its combined assets. Whenever synergy is achieved after any merger and acquisition deal, the returns on assets of a firm will increase than it used to be. A firms' returns on assets is set to witness a significant rise after acquisition and merger (Kumara & Satyanarayana, 2013; Omoye & Aniefor, 2016).

H_{01}: Merger and acquisition have no significant improvement on the returns on asset of Ecobank Ghana Limited.

Returns on Capital Employed (ROCE)

ROCE is a profitability financial ratio. This ratio assesses the correlation that exist between profit before tax and interest and a firm's working capital. It measures how well a firm is able to generate adequate returns from its working capital. Synergy which leads to increase value of firms will automatically lead to increase ROCE of the respective firms. Firms ROCE will experience a remarkable improvement after acquisition and merger (Ahmed & Ahmed, 2014; Neethu & Viswanathan, 2015).

H_{02}: Merger and acquisition have no significant improvement on the returns on capital employed of Ecobank Ghana Limited.

Shareholders Equity to Total Assets (SE/TA)

This ratio shows percentage of equity that an organization has in comparison with the total assets it owns. The higher this ratio is, the lesser debts are being used to pay off assets purchased by an organization. Merger is believe to generate adequate returns hence the degree with which a firm will use debt to finance its assets is reduced. After acquisition and mergers, firms are expected to increase their shareholders equity to total assets ratio (Muita, 2011).

H03: Merger and acquisition have no significant improvement on shareholders equity to total assets of Ecobank Ghana Limited.

Debt to Equity (D/E)

This leverage ratio measures clearly the percentage of equity and debt that an organization uses to finance its business. A higher ratio means an organization is financing its business more with debt than equity. On the part of shareholders, higher ratio implies an increase in their returns on equity. Most often, the industry location also play a crucial role in interpreting this ratio. Synergistically, merger and acquisition will increase the debt to equity ratio of a firm in the post-acquisition period (Appiah, 2019; Kwakye, 2019).

H04: Merger and acquisition have no significant improvement on debt to equity of Ecobank Ghana.

Total Liabilities to Total Assets (TL/TA)

This is a solvency ratio and it indicates the percentage of an organization's asset which is financed by liabilities. Firms that are fast expanding often have their TL/TA ratio being high. A high total liabilities to total assets ratio indicates the shareholders equity is low and there may occur urgent solvency issues. Nonetheless, synergy resulting from acquisition and merger lead to a significant positive improvement on the total liabilities to total assets ratio (Abbas, Hunjra, Saeed, Ehsan-Ul-Hassan, & Ijaz, 2014).

H05: Merger and acquisition have no significant improvement on total liability to total assets of Ecobank Ghana Limited.

Empirical Review

The Ghanaian banking system has witnessed a good number of acquisition and several studies providing mixed results have been conducted on how these mergers impacted the financial performance of the respective banks.

(Agyeman-Budu, 2016), studied the effects of acquisition on Ghanaian banks' performance taking Ecobank and Trust Bank as a case study. The study employed the descriptive research design by making use of closed ended questionnaire and annual reports. The questionnaires were administered to 100 respondents who comprised customers and workers of Ecobank, Kumasi branch as well as management. Data analysis was done with the aid of SPSS and the outcome showed that Ecobank's share of industries advances, share of industry deposits and share of industry total assets all increased after Ecobank Ghana acquired the Trust Bank. To also prove the assertion that merger and acquisition improve banks' performance in the Ghanaian banking system and using the same banks as sample, (Barnor & Adu-Twumwaah, 2015) used a panel regression model to regress the acquirers performance on the independent variables. Secondary data for the first three post-acquisition years and the last three pre-acquisition years were collected from the banks' financial reports. Valuation decisions and financing method of the acquiring bank were among other factors that comprise the focus of the study. Banks' post-acquisition performance was measured by Returns on Assets. The results from the study concluded that the takeover was successful, hence post-acquisition performance improved. This resulted from the fact that the acquirer adopted proper models of financing as with valuation.

(Maama, Poku, & Frimpong, 2017), conducted a research to evaluate the effect of consolidation on Access bank and Ecobank's financial performance by employing both correlational and descriptive research design. Secondary data was extracted from annual financial statement of the two banks for an interval of six (6) years, beginning 2009 to 2015 (3 years for pre and 3 years for post period). Comparative ratio and the ordinary least square regression were used for analyzing the data. The comparative ratio analysis showed that total revenue and net assets experienced a higher growth right after acquisition and increased at a decreasing rate thereafter. The ROCE and NPM also saw a sharp decline during the acquisition period. From the OLS regression, it was revealed that merger and acquisition significantly enhanced both ROCE and NPM. In general the study concluded that acquisition and merger positively and significantly influence performance of banks. (Kwabla-King, 2017), investigated the synergistic influence of acquisition and merger on banks performance using the Trust bank and Ecobank as a case study. Results from the study revealed that Ecobank Ghana Limited achieved both financial and operational synergies after its acquisition. This was seen in the increase in the profit and dividends payment of Ecobank after it acquired the Trust bank. Also, the net assets as well as profit after tax all witnessed a tremendous growth during the post-acquisition period.

(Salami, 2015), used a mixed research approach to examine the influence of acquisition and merger on the Ghanaian banking sector. By using Societe General Bank as a case study, the research results showed that merger and acquisition did not lead to cost reductions. The study therefore concluded that acquisition and merger improved the bank's financial performance only halfway. (Adoma, 2016), examined the influence of acquisition and merger on Ghanaian manufacturing firm's performance. By taking Guinness Brewery Ghana Limited as sample, a mixed research approach was used to collect both qualitative and quantitative data in the quest of trying to answer the research question. The research gathered secondary data for a seven (7) year duration (2 years-pre and 5-years post) from the annual financial statement. The study concluded that acquisition and merger positively impacted the GBGL's performance.

(Musah, Abdulai, & Baffour, 2020), in their research studied the effect of acquisition and merger on commercial banks performance in Ghana. The study made use of data extracted from audited report of all the eight (8) banks for a ten (10) year duration, (2009-2018). Analysis of the data included a descriptive, regression and correlation. The results revealed that acquisition and merger has a remarkably negative relation with the net profit margin. On the contrary, an insignificant but favorable relations with returns on assets. The study generally concludes that acquisition and mergers will not necessarily improve bank performance. (Yeboah, Asirifi, & Ampadu, 2015) also studied the effect of acquisition and merger and service quality that merged banks provide. The study adopted both explanatory and descriptive research design in explaining how customers see the quality of service and again existing relation between quality of service and acquisition and merger. Both secondary and primary data were analyze with ANOVA and t-test. The study concluded that merger and acquisition positively improves service delivery through economic efficiency.

Finally, (Obuobi, Nketiah, Awuah, & Amadi, 2020), examined the effect of recapitalization on the Ghanaian banking system using the 2012 recapitalization exercise as a bench mark. The study employed the ex-post factor research design. Variables from the camel rating were used over a 12 year period. The t-test for equality of mean was employed in testing the hypothesis. Their study concludes that recapitalization will promote performance of banks in Ghana.

Research Methodology

This research employed a descriptive research method where a description of the effect of acquisition and merger on banks performance was done in order to ascertain whether acquisition and merger has any favorable significant effect on financial performance of banks. The population of the study comprised banks that undergone acquisition and merger in Ghana between the year 2010 and 2017. This period saw the bank of Ghana initiating the second (2^{nd}) and third (3^{rd}) recapitalization policy. The convenient and purposive sampling technique was used in this study. Ecobank Ghana Limited was selected as sample because it was the only bank that had data available for the longest time period. The study made use of secondary data which was collected from Ecobank's website, Ghana stock exchange website as well as annual reports website. Financial data from the audited income statement, balance sheet and cash flows statement were extracted and used to compute the accounting ratios. Data collected was from the year 2006 to 2018. Inferential and comparative descriptive statistics for both pre and post period were employed to determine if mergers results to enhanced financial performance of

Ecobank. Likewise (Anthony, 2017; Muhammad Rehan, 2018; Obuobi et al., 2020), this study employs an independent sample test to test for the statistical significant difference in the bank's financial performance. The confident level for the mean difference is set at 95%. The use of the independent test is justification of its ability to compare significantly, the pre and post-merger and acquisition means. This will allow us to arrive at a conclusion on how acquisition and merger impact banks' performance.

Research Limitations

The study was limited to only Ecobank Ghana Limited taking into consideration financial ratios from audited financial statement. However, only five (5) financial ratios were used as variables but there exist a large pool of financial ratios that are proxy as indicators for banks financial performance. Lack of data for the time period chosen, led to the selection of only Ecobank Ghana Limited as a sample.

Findings and Discussion

Table1: Descriptive statistics results

variables	period	Mean	Std. Deviation	Std. Error mean
ROA	pre	3.6067	0.38599	0.15758
	post	4.0867	1.00325	0.40957
ROCE	pre	5.0967	0.64840	0.26471
	post	5.8050	1.36365	0.55671
SE/TA	pre	11.3950	3.15177	1.28670
	post	12.5250	0.92318	0.37689
D/E	pre	8.3950	2.74566	1.12091
	post	7.0200	0.58484	0.23876
TL/TA	pre	88.5550	3.07237	1.25429
	post	87.5450	0.92409	0.37726

Table 1 shows the combine descriptive statistics in relation to the pre and post-acquisition period for all the variables used for this study. The mean value for Returns on Assets increased from 3.6067 during the pre-period to 4.0867 after acquisition. This is an expression of a positive performance. Nonetheless the analysis of the t-test results will prove if this increase is significant. For the Returns on Capital Employed, the descriptive statistics revealed a slight rise in the mean values from 5.0967 during the pre-period to 5.8050 in the post period, also signifying a positive performance.

For the SE/TA, the mean value prior to acquisition and merger is 11.3950, whereas the post-acquisition mean value is 12.5250. This indicates that Ecobank increased it financial leverage. For Debt to Equity, the descriptive statistics table revealed a decrease in the mean values from 8.3950 to 7.0200 for the pre and post period respectively. This decrease indicates a negative performance. Again, the descriptive statistics for the TL/TA shows a decrease in the mean values from 88.5550 to 87.5450 for the pre and post-acquisition period respectively. This decrease implies a positive performance.

Table 2: independent sample test

				T-test for Equality of Means						
		F	Sig.	t	df	Sig.(2 tailed	Mean difference	Std. error Difference	Confidence level of the interval 95% lower	upper
ROA	Equal variances assumed	2.657	.134	−1.094	10	.300	−4800	.43884	−1.45780	.49780
	Equal variances not assumed			-1.094	6.448	.313	-.48000	.43884	−1.53596	.57596
ROCE	Equal variances assumed	1.926	.195	-1.149	10	.277	-.70833	.61644	-2.08184	.66518
	Equal variances not assumed			-1.149	7.151	.288	-.70833	.61644	-2.15976	.74310
SE/TA	Equal variances assumed	11.800	.006	-.843	10	.419	-1.13000	1.34076	-4.11741	1.85741
	Equal variances not assumed			-.843	5.852	.432	-1.13000	1.34076	-4.43099	2.17099
D/TE	Equal variances assumed	9.950	.010	1.200	10	.258	1.37500	1.14606	-1.17858	3.92858
	Equal variances not assumed			1.200	5.453	.280	1.37500	1.14606	-1.49896	4.24896
TL/TA	Equal variances assumed	12.422	.005	.771	10	.458	1.01000	1.30980	-1.90841	3.92841
	Equal variances not assumed			.771	5.897	.470	1.01000	1.30980	-2.20853	4.22853

Table 2 shows the independent sample test for the variables of the study. The test for equality of variance which is an obligatory assumption of the independent sample test disclosed that the variance for the pre and post period for ROA and ROCE having a p-value of 0.134 and 0.195 respectively were significant at 5% level, indicating that the variance between both groups are the same. This is justified by the rule of thumb for the equality of variance which states that we rejected the null hypothesis when the resulting significance value is higher that the set criteria value of 0.05. On the other hand, TL/TA, SE/TA and D/E showed a p-value of 0.006, 0.010 and 0.005 respectively at 5% level, also signifying that the variance between both groups are unequal.

Following a slight rise and fall in mean values in Table 1, the t-test for equality of means is conducted to test the null hypothesis that acquisition and merger has no significant improvement on the five variables. The level of basic significance is set at value p of 0.05. From table 2, the p-value for the t-test for ROA was 0.300, which is greater than the significant level of 0.05. This implied the mean difference in the descriptive statistics of table 1 was insignificant. The null hypothesis of no significant improvement of returns on asset after merger is therefore accepted. This is justified by the rule of thumb for the t-test, which states that there is not enough evidence to reject the null hypothesis if the resultant significant value is greater than the set criteria value of 0.05. This is consistent with the study of (Sujud & Hachem, 2018) which reveals that merger and acquisition has no significant improvement on return on assets.

For the ROCE, the significant value of the t-test which is 0.277, exceeded 0.05, hence the acceptance of the null hypothesis. This implies there was no significant difference in the pre and post means of ROCE; mergers did not improve the ROCE of the bank. Also for the SE/TA, the significant value of the t-test for equality of means is read from the bottom row because the assumption of homogeneity of variance is violated. The p-value of 0.432 from the t-test is greater than 0.05 which means the difference in the mean value as seen in table 2 was insignificant. The null hypothesis of the t-test is therefore accepted, proving that merger and acquisition did not improve SE/TA ratio of the bank.

The t-test for equality of means results for the null hypothesis that acquisition and merger has no significant improvement on the D/E ratio of Ecobank is also presented in Table 2. The p-value of 0.280 implied we accept the null hypothesis of the t-test. This is because the significant value is greater than 0.05 indicating the difference in the means for the pre and post period was insignificant. This result is in line with the study of (Abbas et al., 2014) which states that merger and acquisition has no significant improvement on debt to equity.

Finally, the results from the t-test for TL/TA also shows a significant value 0.470, greater than 0.05. The null hypothesis of the test for mean equality is therefore accepted and translates that the difference in pre and post means of the descriptive statistics of TL/TA was insignificant. This is inconsistent with the findings of (Anthony, 2017) who suggests that merger and acquisition has significant improvement on total liabilities to total asset.

Conclusions

This study is focused on examining whether acquisition and merger as a tool of recapitalization improves the long-term financial performance of banks in Ghana. This study researched on the relation between merger and acquisition and returns on capital employed, shareholders equity to total assets, returns on asset, debt to equity and total liabilities to total assets. Thus, the study relied on five (5) formulated hypothesis to achieve the research objectives. It is very vital to note that data of the remaining banks in the population was not readily available, which is a major limitation of this study.

The test for equality of variance which is a necessary assumption of the independent sample test reveals that the variance for the pre and post period for ROA and ROCE are significant at 5% level, signifying that the variance between both groups are the same. On the contrary, SE/TA, D/E and TL/TA show a p-value of 0.006, 0.010 and 0.005 respectively at 5% level, signifying that the variance between both groups are unequal.

The test for equality of means for the five (5) null hypotheses produced a uniform result. There is an insignificant rise in mean values of ROA, ROCE and SE/TA likewise an insignificant decrease in the mean values of D/E and TL/TA. The t-test shows that the p-values for each of the five hypothesis is greater that the established probability of 0.05. The study therefore concludes that acquisition and merger have no significant improvement on the returns on capital employed, debt to equity, and shareholders liabilities to total assets, return on assets and total liabilities to total assets of Ecobank Ghana limited.

The finding from this study draws attention to the fact that recapitalization through acquisition and merger does not automatically lead to an improvement in post-acquisition financial performance. This study therefore does not provide enough evidence to support the financial synergy theory. It must be noted that firms sometimes merge or become acquired for some qualitative motive as well. It is therefore inappropriate to suggest and conclude on the basis of this study that merger and acquisition activities are wholly detrimental to firms that get involve. For this reason, merger and acquisition activities need to be well planned, while taken in consideration the motive behind the deal. The government through the central bank must ensure the enforcement of necessary regulatory measures to ensure the merger process does not produce banks that will become overly monotonous to be supervised. It also recommended that during merger and acquisition, competent and skilled staffs should be retained so that they merge company benefits from their intelligence and leadership prowess.

Recommendations

The finding from this study draws attention to the fact that recapitalization through acquisition and merger does not automatically lead to an improvement in post-acquisition financial performance. This study therefore does not provide enough evidence to support the financial synergy theory. It must be noted that firms sometimes merge or become acquired for some qualitative motive as well. It is therefore inappropriate to suggest and conclude on the basis of this study that merger and acquisition activities are wholly detrimental to firms that get involve. For this reason, merger and acquisition activities need to be well planned, while taken in consideration the motive behind the deal. The government through the central bank

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